

HUFVUDSTADEN

ANNUAL REPORT



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Reference to the statutory annual report and sustainability report. The statutory annual report comprises pages 8–11, 36–48, 53–88 and 92–95. Comparative figures in brackets refer to the corresponding figures for the preceding year. The statutory sustainability report as required under the Swedish Annual Accounts act is provided on pages 8–11 and 36–48.



”
*Value-add
redevelopment
and development
of Hufvudstaden’s
properties
intensified during
the year.*

Cover picture: The classic Birger Jarlspassagen arcade in the Bibliotekstan district in central Stockholm offers exciting dining concepts.

←

Our office tenants enjoy working in centrally located office premises that are close to everything the city has to offer.

→

Skären 9 at Normalmstorg in Stockholm, where 2,600 square metre of office space is being refurbished and extended, was one of the major projects of the year.



Hufvudstaden in brief



Our office customers in Gothenburg appreciate centrally located and high-quality premises in Nordstan.

Hufvudstaden offers office and retail premises in prime locations in the two largest cities in Sweden: Stockholm and Gothenburg. The property company has about 135 employees and owns 29 properties that were valued at SEK 47.7 billion at the end of 2019.

We are long-term property owners whose main focus is outstanding service, enduring customer relationships and high-quality property management and development. Our objective is to contribute to strengthening the competitiveness and brands of our customers by providing the best possible settings. We offer businesses central locations, sustainable adaption of the premises and the potential to expand in our properties.

Sustainability is a cornerstone in everything we do. We take economic and social responsibility and develop long-term, green and climate-smart solutions. We are working with our tenants and partners to promote sustainable urban development in Stockholm and Gothenburg.

Hufvudstaden was founded in 1915 and our Class A shares have been listed on what is now Nasdaq Stockholm since 1938. We have been doing business for over 100 years in Stockholm and over 60 years in Gothenburg. AB Nordiska Kompaniet, which owns the NK brand and has department stores in Stockholm and Gothenburg, is a wholly owned subsidiary of the Group.

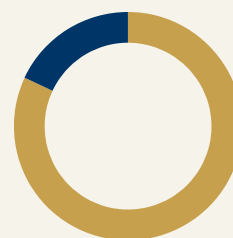
BUSINESS MODEL

The Hufvudstaden business model is to be a long-term property owner focused on the customer and high-quality management and development of the property holdings. The company seeks property acquisitions that complement the portfolio.

SEK 47.7bn

Total fair value of properties

FAIR VALUE



■ Stockholm, 82% (SEK 39,107m)
■ Gothenburg, 18% (SEK 8,574m)

INO

VALI



New luxury brands were established in the NK department store in Stockholm during the year.

A successful year

OVERVIEW

Gross profit from property management rose 5 per cent to SEK 1,373 million (1,302), attributable mainly to higher rental income.

Net revenue from property management was up by 6 per cent to SEK 1,896 million (1,797).

Profit after tax for the year amounted to SEK 3,146 m (4,320), corresponding to earnings per share of SEK 15.25 (20.94). The decrease is explained by lower unrealised changes in value in the property holdings and the recalculation of deferred tax last year following a reduction in corporation tax.

The board of directors is proposing an increase in the dividend for the 19th consecutive year to SEK 3.90 per share (3.70).

The fair value of the property holdings was SEK 47.7 bn (44.1), resulting in net asset value of SEK 185 per share (171). Unrealised changes in the value of the property holdings amounted to SEK 2,727 million (3,621).

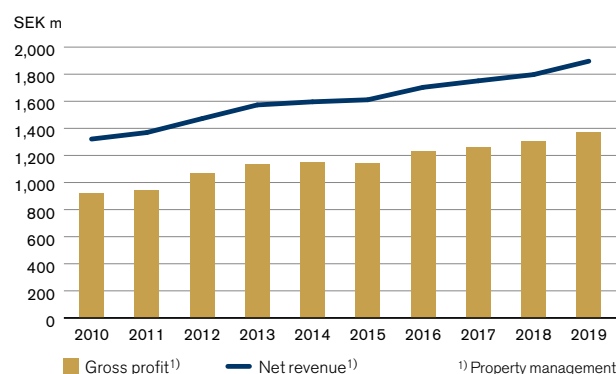
The equity ratio was 62 per cent (64), net loan-to-value (LTV) ratio was 16 per cent (14) and the interest coverage ratio was a multiple of 11.4 (10.5).

The rental vacancy rate was 5.0 per cent (2.6) at year-end. Excluding ongoing development projects, the vacancy rate was 1.7 per cent (1.3).

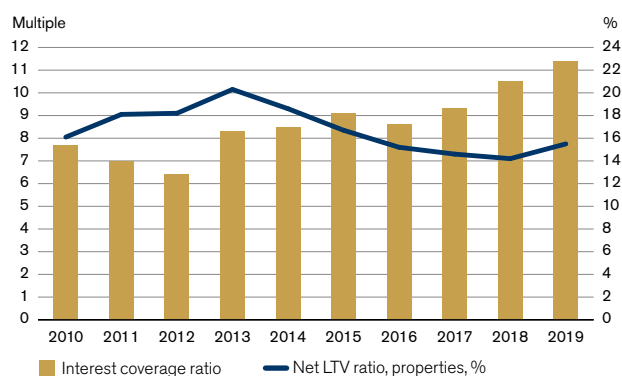
FINANCIAL SUMMARY

SEK m	2019	2018
Net revenue, property management	1,896	1,797
Gross profit, property management	1,373	1,302
Changes in value, investment properties	2,727	3,621
Operating profit	4,087	4,940
Profit for the year	3,146	4,320
Net profit from operating activities	973	915
Fair value of properties, SEK bn	47.7	44.1
Rental vacancy rate, %	5.0	2.6
Net loan-to-value ratio, properties, %	15.5	14.2
Interest coverage ratio, multiple	11.4	10.5

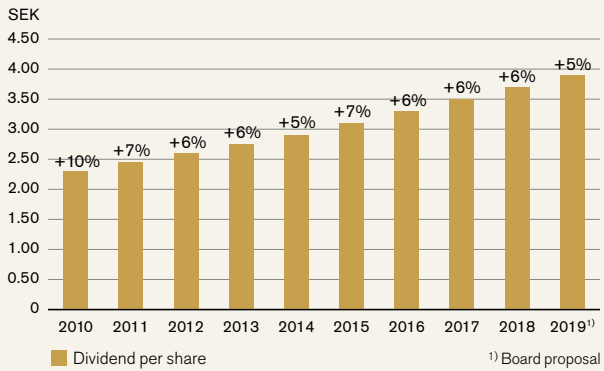
GROSS PROFIT AND NET REVENUE



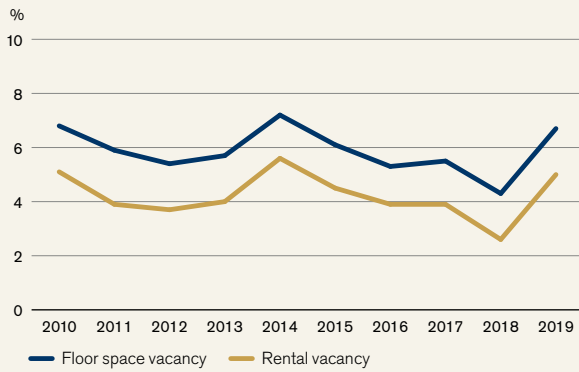
INTEREST COVERAGE RATIO AND NET LTV RATIO



DIVIDEND GROWTH



VACANCY



The Nordstan district of Gothenburg is popular among office tenants for its central location and proximity to public transport links and local amenities.



A favourable year for Hufvudstaden



“
A clear focus on our customers, and attentiveness to their needs and preferences is one of our most important principles.

The global economy cooled down slightly in 2019, due in part to the muted industrial economy in Europe and the strained trade relationship between the US and China.

The Federal Reserve cut interest rates several times, and growth in the US economy continued. Concern about the US/China trade war subsided in the autumn, which, along with clarity concerning an orderly UK withdrawal from the EU, contributed to rising share prices.

Following the economic boom in recent years, Sweden went into a cooldown phase with GDP growth of just over 1 per cent. The Swedish Central Bank nevertheless raised the repo rate to 0 per cent in December, but also forecast that the rate would remain unchanged for a couple of years.

Economic growth, low interest rates, and good access to capital have benefited the property sector in recent years. This has had a positive impact on Hufvudstaden's operations and contributed to a further increase in earnings from property management and rising property values in 2019.

Very strong property market

The Swedish property market was very strong, with net revenue of around SEK 235 billion in 2019. Good financing opportunities, accompanied by low interest rates, rental growth, and a weak Swedish krona, further intensified interest among Swedish and international investors.

At the year-end, Hufvudstaden's property holdings were valued at SEK 477 billion (44.1), up by approximately 8 per cent. The increase can be attributed to the effect of rising rents, lower yield requirements, and investments of SEK 865 million. The net asset value at the year-end was SEK 185 per share (171) and the share price was SEK 185.10 per share.

Positive office market in Stockholm and Gothenburg

Demand for modern office space in prime locations in central Stockholm and central Gothenburg remained high. This is due to office tenants looking to expand in the city centre, com-

panies seeking more central locations, and growth in co-working facilities. Combined with a limited supply and a vacancy rate of 2–3 per cent in both cities, this resulted in a rise in market rents for offices of around 5 per cent in central Stockholm and around 10 per cent in central Gothenburg. Top rents remained unchanged at SEK 9,000–9,500 per square metre in Stockholm and about SEK 4,000 per square metre in Gothenburg.

The proportion of co-working space in central Stockholm was around 7 per cent. These facilities have proved effective in meeting demand from office tenants for greater flexibility and a higher level of service.

Hufvudstaden's rent renegotiations for office premises produced an increase of almost 30 per cent. Including retail space, the increase for the year was 13 per cent.

The retail sector is changing

Sales of durable goods rose by some 3 per cent during the year. The increase was generated by e-commerce, which now accounts for about 10 per cent of total retail trade. Growth in e-commerce combined with lower sales in physical stores has led to profitability problems for many traditional retailers, particularly in the mid-price segment. Retail properties in less attractive locations are thus at risk of a rise in vacant space and falling rents. However, profitability remains good for strong and unique retail brands with a distinct image in strong market locations.

New consumer purchasing patterns is imposing increasingly higher demands on property owners and retailers with regards to the development of physical and digital market-places.

Hufvudstaden's properties are situated in prime city centre locations that are well-positioned to continue offering consumers attractive places to meet and shop while enjoying unique shopping experiences.

The NK department store in Stockholm is undergoing a comprehensive upgrade. Along with the renovations, NK Stockholm has acquired a more unique range of products, a higher service level, a more distinctive image, and a higher

proportion of premium and luxury brands. A project was initiated during the year to further develop NK's digital presence, including plans for e-commerce.

Demand from international premium and luxury brands as well as Swedish fashion brands remained good for retail premises in the Bibliotekstan shopping district and at NK.

Intensified focus on projects

Enhanced refurbishment and development of Hufvudstaden's properties intensified during the year. Hufvudstaden's portfolio of major current and planned projects amounts to around SEK 4 billion.

The total investment volume for projects and property acquisitions is estimated at SEK 7–9 billion for the next 5–10 years, all within the framework of the company's financial objectives.

We have received new local plans for the Inom Vallgraven 12 block in Gothenburg and the Vildmannen 7 property in Bibliotekstan. A prestudy has begun for a comprehensive extension and redevelopment project for the Inom Vallgraven 12 block. The new local plan allows for additional development rights of about 15,000 square metres of gross floor space.

For the Vildmannen 7 property, which was destroyed by fire in autumn 2017, the new local plan includes development right covering approximately 6,900 square metres gross floor space, of which approximately 800 square metre is additional space. The new building inside the preserved street facade is expected to be completed in 2022.

An intensive expansion and redevelopment project is ongoing at the Skären 9 property at Norrmalmstorg, where the majority of office space is leased to a law firm, Advokatfirman Vinge. The expansion covers approximately 2,600 square metres of office space. The project will be completed in late 2020.

A comprehensive development project is ongoing at the NK department store in Stockholm. Around 35 new departments have been opened to date. NK Saluhall (the indoor food hall) has been updated, a new sports department has been established on the third floor, the second floor has been dedicated entirely to men's fashion and several new luxury brands have opened on the ground floor. The project is expected to continue throughout 2020.

Sustainable business

Hufvudstaden is committed to working in the longterm towards achieving economic, environmental and social sustainability. One of Hufvudstaden's sustainability goals is to reduce climate emissions and we have achieved a reduction of more than 85 per cent since 2010.

A geothermal heating project on the Kåkenhusen block in Stockholm was completed in 2019, which will reduce energy consumption and climate emissions. Environmental certification of the properties has continued, and half of the property holdings had been certified by the end of the year.

In the 2019 Customer Satisfaction Survey among office tenants, Hufvudstaden was once again ranked first in the

Large Company category and showed continued improvement in the Environmental Consideration category. The company also received high scores in this year's Employee Satisfaction Survey, although there is scope for improvement in certain areas.

We were awarded 5 Stars in the international GRESB ESG survey for real estate companies – recognition of Hufvudstaden as an industry leader in sustainability.

Earnings for the year

Hufvudstaden's current operations developed positively during the year. Earnings from property management increased by 5 per cent to SEK 1,373 million. The increase can be attributed mainly to higher rents in conjunction with new and renegotiated leases, but was reduced slightly by loss of revenue due to current projects.

Profit after tax amounted to SEK 3,146 million. The decrease is due to lower unrealized changes in the value of the property holdings and the positive effect of the recalculation of deferred tax last year following a reduction in corporation tax.

2020 and the future

Our business concept has been tried and tested over many years, focusing on ownership of high-quality commercial properties in unique marketplaces in the most central parts of the two strongest growth regions in Sweden and this is set to continue. We continuously adapt the business to changes in society. A clear focus on our customers, and attentiveness to their needs and preferences is one of our most important principles.

We will be taking measures to meet changing demands in the office market including the start-up of a co-working business under our own management in the Skären 9 property in Bibliotekstan.

Moving forward, we will maintain a strong focus on our marketplaces and particularly on developments within the NK business area. The physical environments, service, product range, and digital presence will be continuously improved.

The business development initiative started up a few years ago is continuing. Several projects are in progress and others are at the planning stage, all aimed at strengthening cash flow and earnings in the future. In addition, Hufvudstaden is seeking property acquisitions that complement our existing portfolio and strengthen our market position.

Finally, I would like to thank all employees at Hufvudstaden who carried out their work during the past year in an exemplary fashion and with outstanding commitment and customer focus, creating good conditions for consistent growth in earnings in the years to come.

Stockholm, February 2020



Bo Wikare
Acting President

High quality, outstanding service and a long-term approach



Hufvudstaden was founded in 1915 and rapidly became one of the leading-property companies in Sweden. Today, it is one of the country's strongest brands in the property sector. The brand is well-known and represents high quality, good service and a long-term approach to management and development of our own commercial properties in prime business locations in Stockholm and Gothenburg.

Vision

Hufvudstaden will be consistently perceived as, and prove to be, the most interesting and vibrant property company in Sweden.

Business concept

With properties in central Stockholm and central Gothenburg, Hufvudstaden will offer successful companies high-quality office and retail premises in attractive marketplaces.

We are contributing to sustainable urban development by creating green roofs, roof terraces and courtyards at most of our properties. This is appreciated by our office tenants.

STRATEGIES TO ACHIEVE THE OBJECTIVES

Customer focus

Hufvudstaden will work in close collaboration with its customers and contribute continuously to improving their business potential and competitiveness.

Quality

Systematic quality improvement will ensure the highest possible quality in all of the company's products and services.

Skills development

Employee skills development will be systematically assured with focus on professional knowledge and values.

Business development

Active business development and adaptation to digital advances in society will create added value in the property holdings.

Sustainability

Hufvudstaden is committed to working actively and long-term towards economic, environmental and social sustainability.

FINANCIAL OBJECTIVES

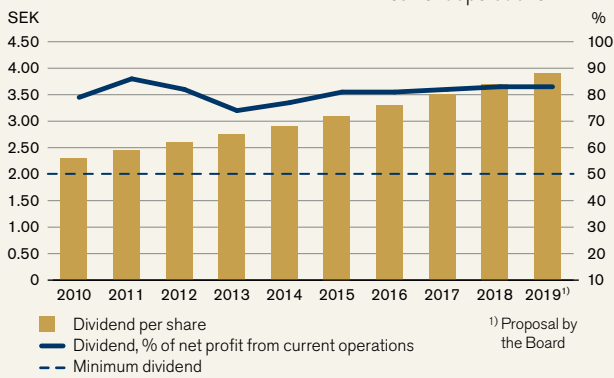
DIVIDENDS AND DIVIDEND SHARE

OBJECTIVE

Hufvudstaden shares will have good dividend growth over time, and the dividend will amount to more than half the net profit from current operations.

OUTCOME

The Board proposes an increase in the dividend to SEK 3.90 per share, or a total of SEK 804.4 million. The proposal means that the ordinary dividend will be raised for the 19th year in succession. The dividend is equivalent to 83 per cent of the net profit from current operations.



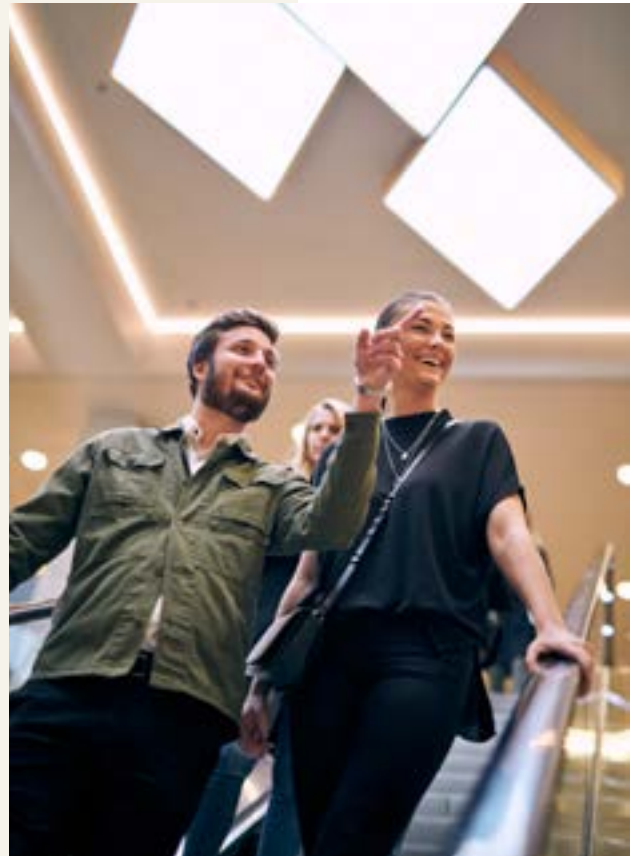
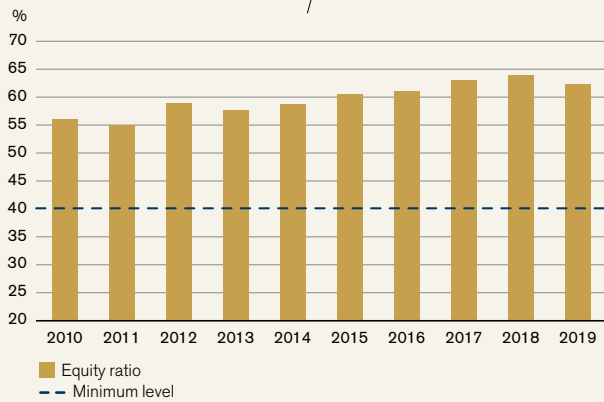
EQUITY RATIO

OBJECTIVE

Equity ratio of at least 40 per cent over time.

OUTCOME

The equity ratio was 62 per cent at year-end 2019.



Visitor experiences in the stores and restaurants at the Femman Galleria in Gothenburg.

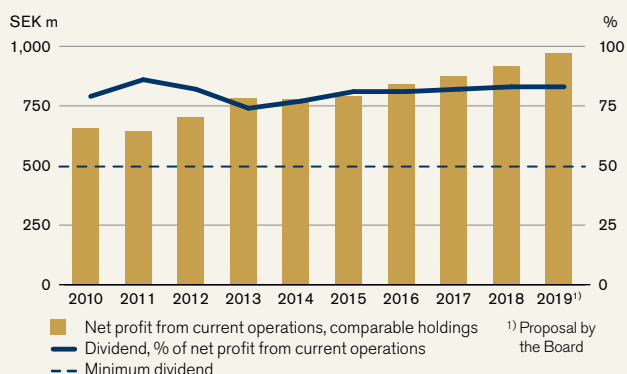
The NK Saluhall is a well known market-hall in Stockholm that has recently reopened after an extensive renovations.

OPERATING AND SUSTAINABILITY OBJECTIVES

NET PROFIT AND DIVIDEND SHARE

OBJECTIVE
Hufvudstaden will gradually increase profit from current operations.

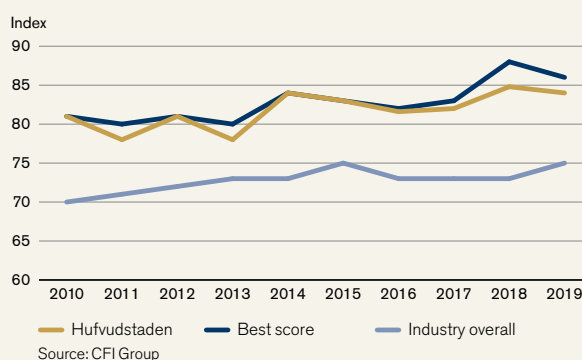
OUTCOME
Net profit from current operations increased by 6 per cent during the year.



CUSTOMER SATISFACTION INDEX

OBJECTIVE
Hufvudstaden will have the most satisfied customers in the industry.

OUTCOME
Hufvudstaden participates in the annual customer satisfaction survey (*Fastighetsbarometern*) among office tenants conducted by CFI Group and the Swedish Property Federation. In this year's survey, we were ranked first in the Large Company category and second overall.



WELL-DEVELOPED PROPERTY HOLDINGS

OBJECTIVE
Hufvudstaden will have the most well-developed property holdings in the industry.

OUTCOME
Several major projects continued during 2019 and a total of 30,000 square metres of floor space were adapted. The Customer Satisfaction Survey asks questions about how office tenants perceive our properties.

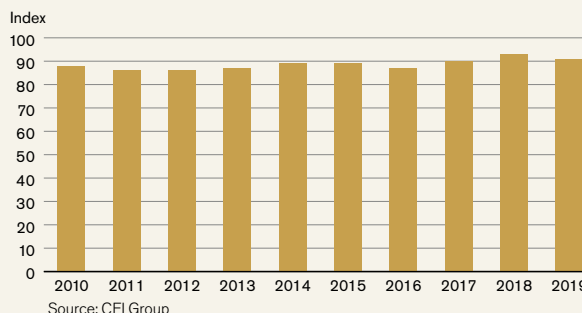
Subject	Hufvudstaden	Sector average	Maximum
Location	90	81	100
Property	83	71	100
Premises	82	76	100
Environmental consideration	80	67	100

Source: CFI Group

PROFESSIONAL EMPLOYEES

OBJECTIVE
Hufvudstaden will have the most professional employees in the industry, with firm commitment to the customer, good business acumen and professional know-how.

OUTCOME
Hufvudstaden asks our office tenants every year how they perceive our employees based on set objectives. The outcome this year remained at a high level.

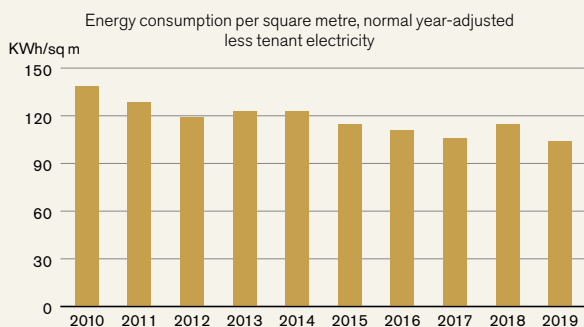


OPERATING AND SUSTAINABILITY OBJECTIVES

ENERGY CONSUMPTION

GOAL
By 2020, energy consumption will be reduced by 30 per cent compared to 2010.

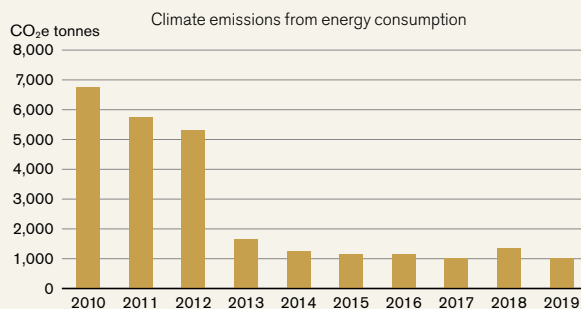
OUTCOME
Energy use was reduced by 9 per cent in 2019 compared to the previous year. Compared to 2010, energy usage has been reduced by 25 per cent.



CLIMATE IMPACT

GOAL
By 2020, climate emissions from property operations will be reduced by 90 per cent compared to 2010.

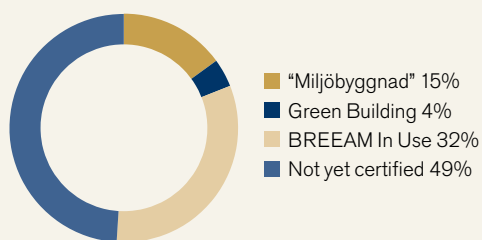
OUTCOME
Climate emissions from property operations were reduced in 2019 by 24 per cent compared to the previous year. In total, climate emissions have been reduced by 85 per cent since 2010.



ENVIRONMENTALLY CERTIFIED PROPERTIES

GOAL
Hufvudstaden's ambition is to environmentally certify the entire property holdings, with emphasis on major redevelopment and new construction projects.

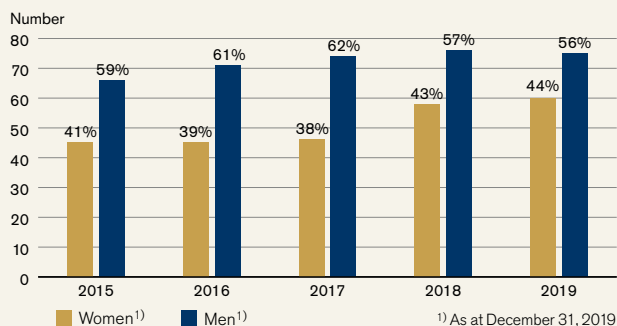
OUTCOME
Femman, Fyran and NK Stockholm were environmentally certified according to BREEAM In Use in 2019.



EQUALITY

GOAL
Hufvudstaden will seek to achieve equality within the Company.

OUTCOME
The percentage of women increased both in the managerial group and in total for the company.





“

We are adding green spaces on roofs and in courtyards to contribute to greater urban biodiversity.

←

We develop offices and surroundings in which employees are happy and thriving.

→

Fredstan is the area surrounding Fredsgatan, in Gothenburg. Most retail stores and restaurants can be found here, along with an abundance of arts and culture and modern offices.



Record turnover in a strong property market

The property market remained strong in spite of signs of a slowdown in the global economy. Stockholm and Gothenburg are growing and developing and property turnover reached record volumes in 2019. Demand for offices and retail premises in good locations was positive during the year and market rents rose.

Economic conditions

Global economic growth decelerated slightly in 2019 to approximately 3 per cent. The cooldown was due to natural economic fluctuations and greater political uncertainty. It was primarily connected to strained trade relationships, especially between the US and China, as well as fears of a hard Brexit. Domestic structural factors contributed to the deceleration in the Chinese economy and growth fell to about 6 per cent. The US Federal Reserve cut interest rates several times. Combined with progress in trade negotiations, this resulted in a somewhat better economic outlook at the end of the year and persistent stock market growth.

Swedish GDP rose by about 1 per cent, compared to about 2 per cent in 2018. The downturn was attributable mainly to declining fixed gross investments in machinery and housing. The poorer sentiment was reflected clearly in several indicators, but the statistics showed a more mixed picture. The labour market was cooled off by slower growth in employment and unemployment that rose to about 7 per cent, although the labour market remained good for people with higher education. Household consumption recovered somewhat after a slow start and house prices rose by 5 per cent. Inflation was slightly below the target of 2 per cent. Following about five years of negative interest rates, the Riksbank (Central Bank of Sweden) raised the repo rate to 0 per cent in December. The forecast was that the repo rate would thereafter remain unchanged for the next two years. Overall, the economy in 2019 had positive impact on Hufvudstaden's sub-markets for both the investor and rental markets.

Hufvudstaden's sub-markets

Hufvudstaden owns and manages 24 properties in Stockholm. The population of Greater Stockholm was 2.4 million at the end of 2019 and population growth in the 2010s was approximately

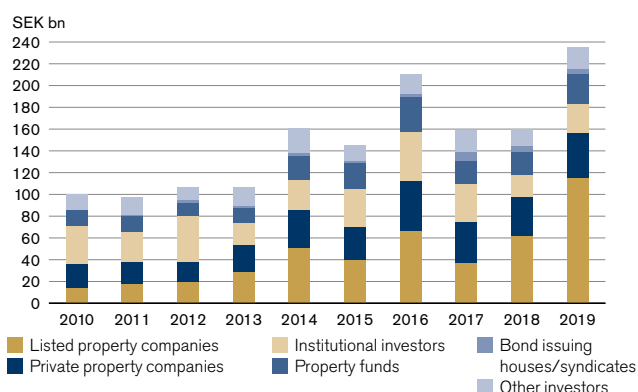
18 per cent. Economic activity is high in Greater Stockholm. Average annual growth was 3.1 per cent between 2001 and 2018 according to preliminary statistics published by Statistics Sweden (SCB). The corresponding figure for the entire country was 2.2 per cent. Tourism is a vital industry in the Swedish economy. Turnover in the tourism industry in Sweden increased by 6 per cent in 2018 to SEK 337 billion according to the Swedish Agency for Economic and Regional Growth and SCB. Greater Stockholm also demonstrated growth and the number of nights spent at tourist accommodation rose preliminary by 4 per cent in 2019.

Hufvudstaden owns five properties in the Gothenburg sub-market. The population of Greater Gothenburg was 1.0 million, having increased by about 13 per cent in the past ten years. Economic growth in the Västra Götaland region, an area slightly larger than that usually referred to as Greater Gothenburg, grew by an average of 2.5 per cent per year between 2001 and 2018. Tourism is a key business sector in Gothenburg and the number of nights spent in tourist accommodation grew preliminary by 4 per cent in 2019.

Several major infrastructure projects are ongoing in pace with growth in both Stockholm and Gothenburg. Two major projects in Stockholm are the Förbifart Stockholm and extension of the underground rail system. The largest investment in Gothenburg is the West Swedish Agreement, which includes the Marieholm Tunnel, a new bridge over the Göta River (Hisingen Bridge) and the West Link rail tunnel.

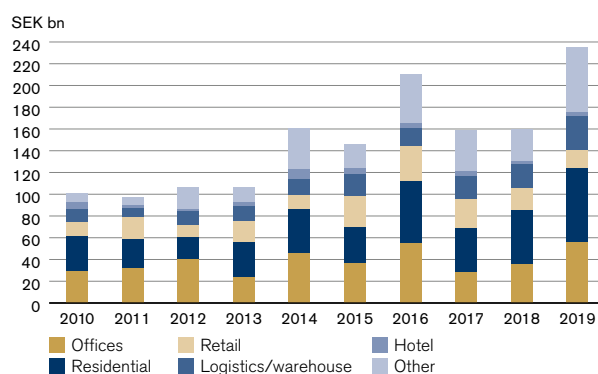
The central business district (CBD) in Stockholm covers an area surrounding the Central Station, Norra Bantorget, Hötorget, Stureplan, Norrmalmstorg, Kungsträdgården and Sergels Torg. In total, there is about 1.8 million square metres of office space in

TRANSACTION VOLUME PER INVESTOR CATEGORY



Source: Nordanö

TRANSACTION VOLUME PER PROPERTY TYPE



Source: Nordanö

the CBD. Total office space in the Gothenburg CBD is about 0.9 million square metres.

Investor market

Notwithstanding the moderate economic slowdown, the property market was strong in 2019. Good financing opportunities in an efficient capital market combined with low interest rate levels, rising rents, especially for office space, and attractive returns compared to other investment opportunities generated record-high interest in property acquisitions. Total turnover in the property market was about SEK 235 billion in 2019, the highest volume ever. Interest from international investors increased and they accounted for about 30 per cent of turnover. The property types that most frequently changed hands were residential, office and logistics/warehouse properties.

Competition was great among properties for sale in the central parts of Stockholm and Gothenburg. This resulted in some of the highest prices per square metre recorded to date and falling yield requirements. At year-end 2019, the yield requirement for office and retail properties in the Stockholm CBD varied between 3.20 and 3.75 per cent and in Gothenburg CBD between 3.80 and 4.40 per cent.

Rental market

Offices

The office rental market in Hufvudstaden's sub-markets remained positive in 2019. Towards the summer, the vacancy rate rose to about 3 per cent in the Stockholm CBD, but returned to a range of 2–3 per cent in the autumn following a couple of large new leases. The limited supply of vacant office premises combined with persistent demand for modern and space-efficient offices, primarily in attractive locations like the CBD, resulted in a further modest increase in market rents. Market rents at year-end 2019 ranged from SEK 6,300 to 8,700 per square metre and year, excluding the property tax supplement. This corresponded to average annual growth of 5 per cent. Previous records were confirmed by a couple of new leases and top rents were

unchanged in the range of SEK 9,000–9,500 per square metre and year, excluding the property tax supplement.

The areas assessed as prime locations for offices in central Gothenburg are the city districts Inom Vallgraven, especially the blocks around the “harbour streets” of Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan, Kungsporsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Demand for offices in the Gothenburg CBD remained positive and vacancy was unchanged in the range of 2–3 per cent. Demand was highest for modern and space-efficient offices in prime locations. The limited supply of these office premises generated an increase in market rents by approximately 10 per cent in 2019. Towards the end of the year, market rents ranged from SEK 2,900 to 3,800 per square metre and year, excluding the property tax supplement.

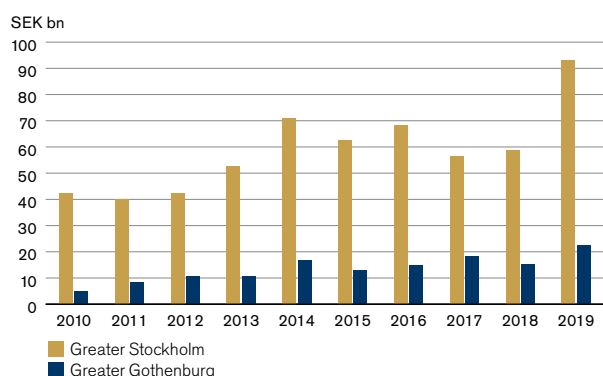
There are major plans for Gothenburg ahead of the city's quadricentennial in 2021. Several of the plans concern the creation of new office properties in city centre locations. A number of projects have been postponed in recent years, however, and are not expected to be completed until a year or two after the quadricentennial.

Social change is accelerating in pace with new digital solutions and trends. This is evident, for example in the increase in co-working facilities in the office rental market, which have in recent years leased several of the vacant premises available in the market, primarily in Stockholm. The co-working concept is a good fit for start-ups, freelance consultants and high-growth companies. In recent years, established and traditional companies have also embraced the concept. Growth of co-working facilities in the Gothenburg CBD has not been as strong as in the Stockholm CBD, where they lease about 7 per cent of total rentable office space.

Retail

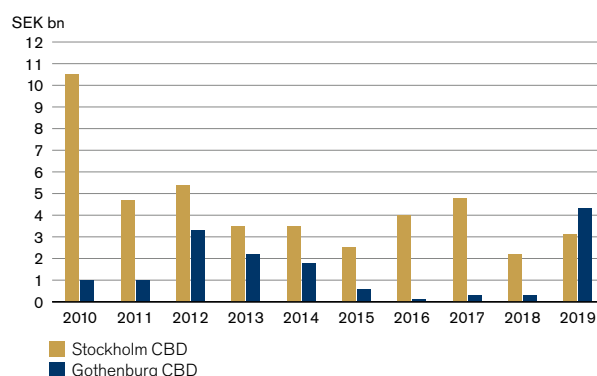
Changed consumer behaviour has transformed retail trade. Sales in physical stores have been gradually and increasingly impacted by greater competition from e-commerce. It is generally believed

TRANSACTION VOLUME IN GREATER STOCKHOLM AND GREATER GOTHENBURG



Source: Nordanö

TRANSACTION VOLUME IN THE STOCKHOLM CBD AND GOTHENBURG CBD



Source: Nordanö

that when e-commerce sales exceed 15 per cent of a trading segment's total sales, there is negative impact on physical stores and the e-commerce share accelerates. This has occurred in several segments in durable goods in recent years. One trend coming out of the transformation is that demand has shifted towards slightly smaller retail premises.

All or the majority of growth in durable goods was linked to e-commerce between 2017 and 2019. The segments of durable goods that have had positive impact on sales trends in physical stores in recent years are found mainly in the discount, premium and luxury segments. The retail trade index (DHI) rose in 2019 by 3.5 per cent compared to 2018. Retail sales in durable goods rose by 3.4 per cent and clothing sales by 1.2 per cent.

As a property owner and retail entrepreneur, the response to changed consumer behaviour is important. The world is changing at an accelerating rate and demands on both physical and digital marketplaces are rising. Marketplaces must be continuously developed and property management demands increased

presence and new knowledge. Properties that can offer consumers attractive places to meet and shop with unique shopping experiences enjoy optimal conditions for responding to changes in retail trade.

During the year there has been continued interest in prime retail premises in the most central sub-markets in Stockholm, particularly Bibliotekstan, Hamngatan, Kungsgatan and Drottninggatan. The NK department store and Bibliotekstan enjoy special status as the most exclusive retail locations. Market rents for prime retail space in these areas range from SEK 14,000 to 26,000 per square metre and year, excluding the property tax supplement.

Östra Nordstan, Fredstan and Kungsgatan between Östra Hamngatan and Västra Hamngatan are considered prime retail locations in central Gothenburg. Market rents for prime retail space in these locations ranged from SEK 6,000 to 15,000 per square metre and year, excluding the property tax supplement.

LARGEST PROPERTY OWNERS IN THE STOCKHOLM CBD

	Rentable floor space, sq m
Vasakronan	367,000
AMF Pension	294,000
Hufvudstaden	263,000
Skandia Fastigheter	119,000
Pembroke Property	112,000
SEB Trygg Liv	103,000

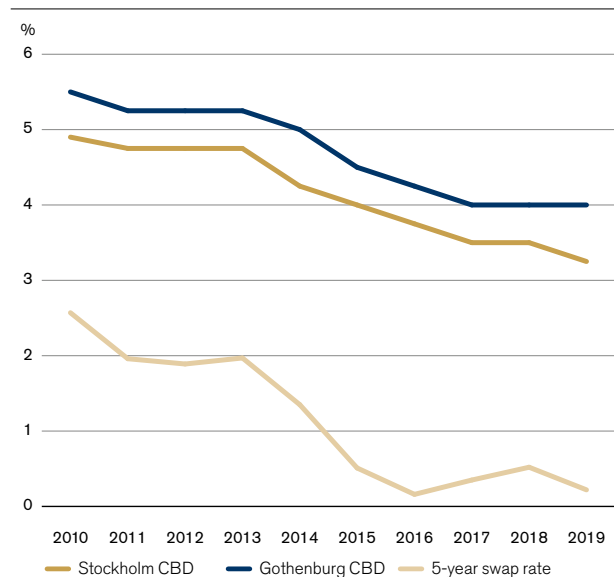
Source: Nordanö

LARGEST PROPERTY OWNERS IN THE GOTHENBURG CBD

	Rentable floor space, sq m
Vasakronan	266,000
Wallenstam	224,000
Balder	151,000
Hufvudstaden	105,000
Bygg-Göta Göteborg	91,000
Platzer	70,000

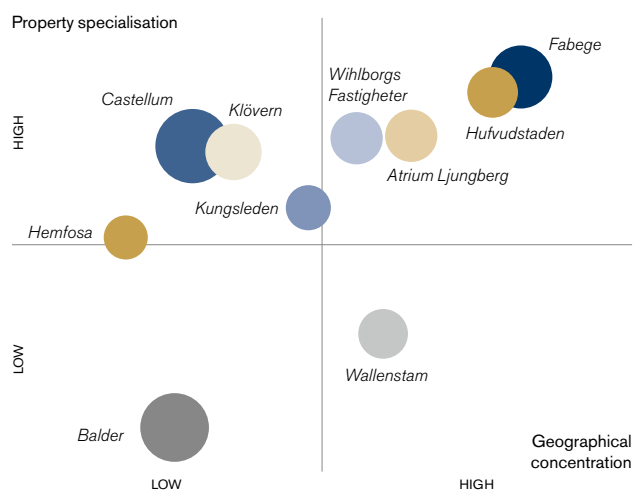
Source: Nordanö

YIELD REQUIREMENTS IN THE STOCKHOLM CBD AND GOTHENBURG CBD



Source: Nordanö









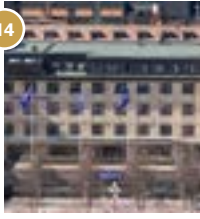















POSITIONING AMONG LARGER PROPERTY COMPANIES



The size of the circles reflects the standard calculated property value per Q4 2019. Source: Nordanö



Bibliotekstan in Stockholm offers a wide array of retail stores featuring high-end brands.



Property	Address/ Construction year/ Rentable Space	Property	Address/ Construction year/ Rentable Space	Property	Address/ Construction year/ Rentable Space
	Hästhuvudet 13 Construction year: 1919 Rentable space: 7,081 sq m		Kvasten 9 Construction year: 1978 Rentable space: 3,437 sq m		Orgelpipan 7 Construction year: 1964 Rentable space: 30,463 sq m
	Grönlandet Södra 11 Construction year: 1911 Rentable space: 9,125 sq m		Svärdfisken 2 Construction year: 1851 Rentable space: 7,465 sq m		Hästen 19 (NK) Construction year: 1915 Rentable space: 39,588 sq m
	Oxhuvudet 18 Construction year: 1931 Rentable space: 29,531 sq m		Pumpstocken 10 Construction year: 1865 Rentable space: 12,458 sq m		Kungliga Trädgården 5 Construction year: 1984 Rentable space: 2,764 sq m
	Hästskon 10 Construction year: 1964 Rentable space: 35,697 sq m		Järnplåten 28 Construction year: 1958 Rentable space: 9,245 sq m		Packarhuset 4 Construction year: 1932 Rentable space: 15,387 sq m
	Kåkenhusen 40 Construction year: 1926 Rentable space: 22,561 sq m		Rännilen 8 Construction year: 1900 Rentable space: 2,775 sq m		Skären 9 Construction year: 1984 Rentable space: 11,003 sq m
	Vildmannen 7 Construction year: 1897 Rentable space: 0 sq m		Rännilen 11 Construction year: 1902 Rentable space: 2,915 sq m		Normalm 2:63 Construction year: 1993 Rentable space: 194 sq m
	Kvasten 2 Construction year: 1987 Rentable space: 4,671 sq m		Rännilen 18 Construction year: 1888 Rentable space: 6,963 sq m		Medusa 1 Construction year: 1878 Rentable space: 2,203 sq m
	Kvasten 6 Construction year: 1917 Rentable space: 7,047 sq m		Rännilen 19 Construction year: 1902 Rentable space: 11,284 sq m		Achilles 1 Construction year: 17th century Rentable space: 4,958 sq m



The map shows the Hufvudstaden property holdings in Stockholm including year of construction and rentable space. See the property list on pages 106–107 for more information.

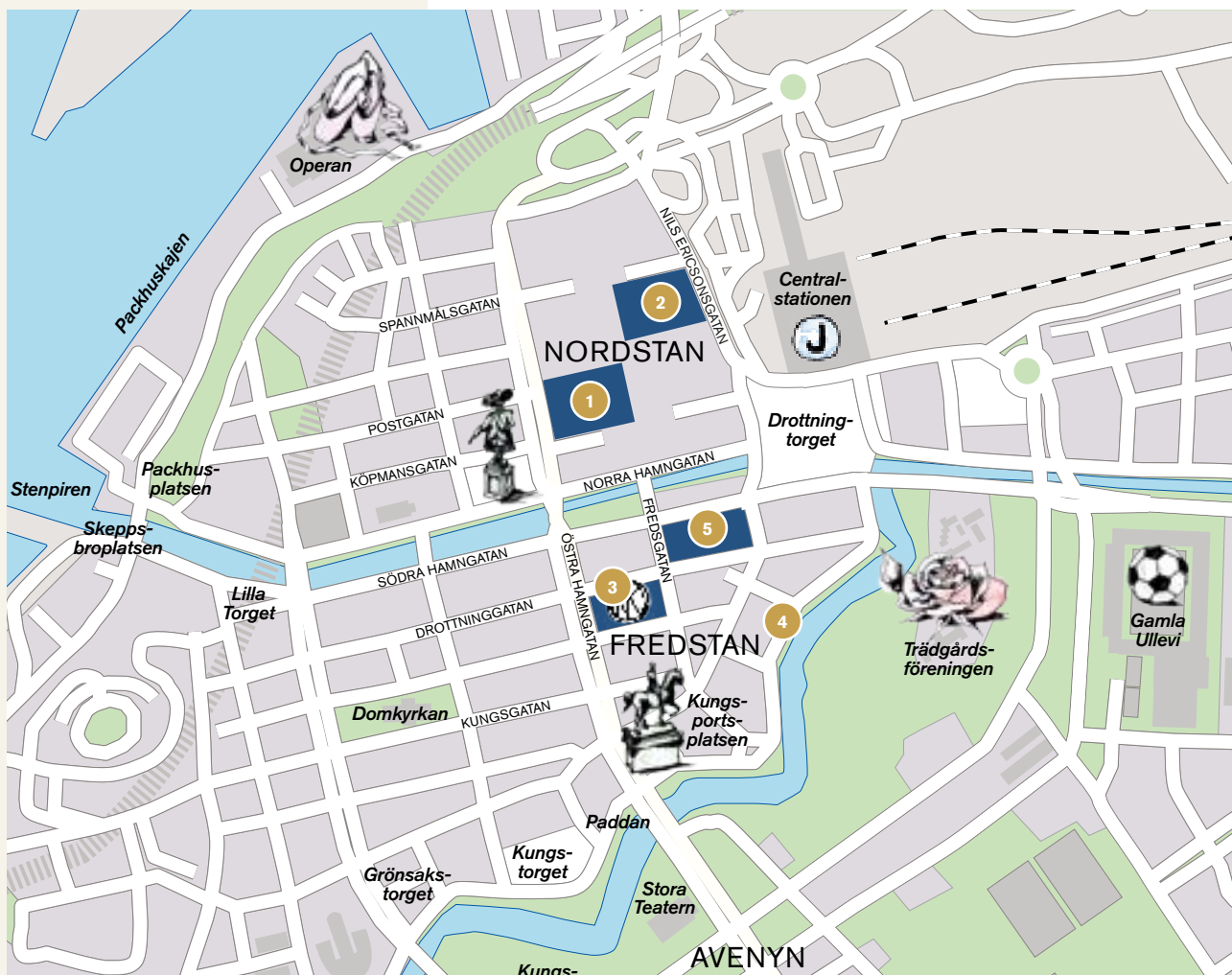


The map shows the Hufvudstaden property holdings in Gothenburg including year of construction and rentable space. See the property list on pages 106–107 for more information.

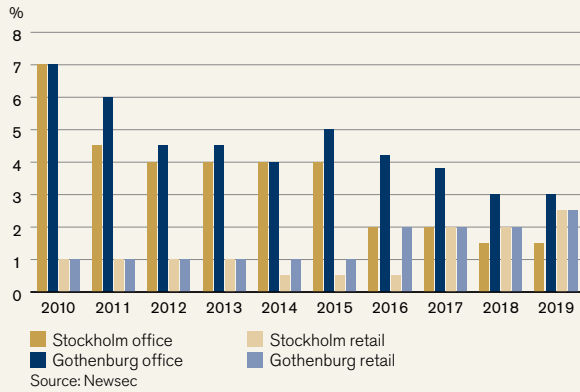
Property	Address/ Construction year/ Rentable Space
	Nordstaden 8:24 (Fyran) Construction year: 1972 Rentable space: 21,201 sq m
	Nordstaden 8:24 (Femman) Construction year: 1972/2011 Rentable space: 44,774 sq m

Property	Address/ Construction year/ Rentable Space
	Inom Vallgraven 10:9 (NK) Construction year: 1964 Rentable space: 16,715 sq m
	Inom Vallgraven 3:2 Construction year: 1856 Rentable space: 1,564 sq m

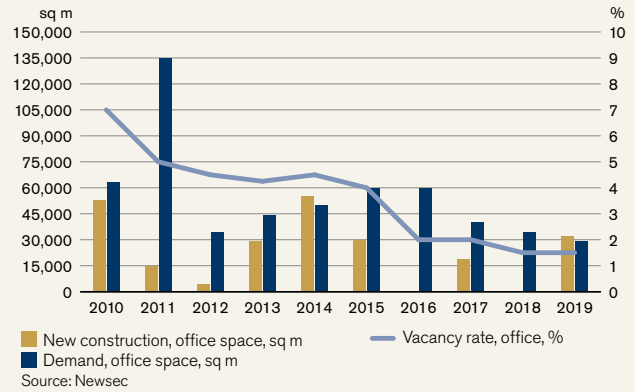
Property	Address/ Construction year/ Rentable Space
	Inom Vallgraven 12:11 Construction year: 1875/1929-30 Rentable space: 4,704 sq m
	Inom Vallgraven 12:10 Construction year: 1975 Rentable space: 16,454 sq m



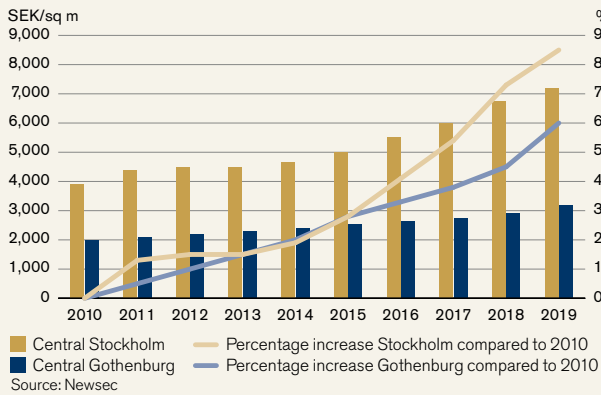
VACANCY RATE, OFFICE AND RETAIL SPACE IN PRIME LOCATIONS



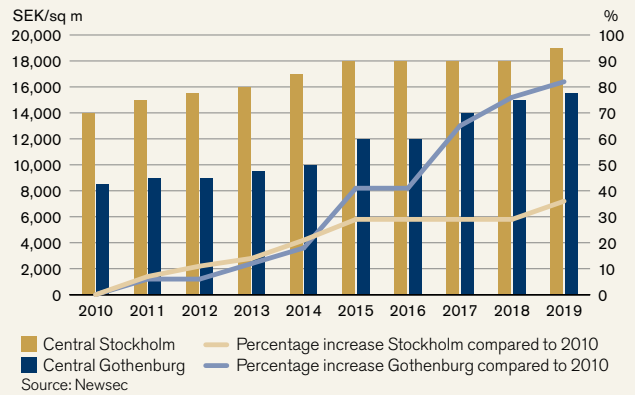
NEW CONSTRUCTION, DEMAND AND VACANCY RATE FOR CENTRALLY LOCATED OFFICE SPACE IN STOCKHOLM



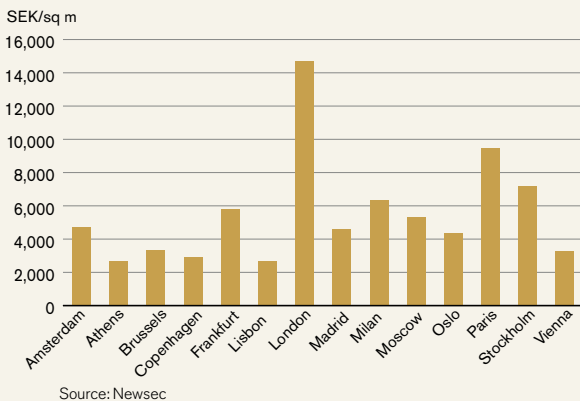
MARKET RENT TREND, PRIME LOCATION, NOMINAL (excluding the property tax supplement)



MARKET RENT TREND, PRIME LOCATION RETAIL SPACE, NOMINAL (excluding the property tax supplement)



PRIME LOCATION OFFICE RENTS IN EUROPEAN CITIES, DECEMBER 2019



MARKET RENTS, DECEMBER 2019 (excluding the property tax supplement)

Stockholm	Office, SEK/sq m and year	Retail, SEK/sq m and year
Bibliotekstan/NK	7,300–8,700	14,000–26,000
Other CBD	6,300–8,700	4,000–14,000
Östermalm	3,500–7,500	3,000–11,000
Gamla stan	3,200–4,800	2,500–5,000
Södermalm	3,000–4,900	2,500–6,000
Kungsholmen	3,500–6,100	2,000–8,000
Liljeholmen	2,200–3,200	2,000–6,000
Globen	2,200–3,200	3,500–6,000
Arenastaden	2,500–3,500	3,000–11,000
Kista	2,000–2,800	4,000–10,000
Gothenburg	Office, SEK/sq m and year	Retail, SEK/sq m and year
Inom Vallgraven	2,900–3,800	6,000–15,000

Strong brands are opening in Stockholm

The Stockholm Business Area comprises 22 office and retail properties in three management areas: Norrmalmstorg, Kungsgatan and West. Norrmalmstorg includes the properties in Bibliotekstan. Kungsgatan includes properties in the eastern part of Kungsgatan and at the junction of Kungsgatan and Sveavägen. West comprises properties located on Drottninggatan and Klarabergsgatan, in Gamla Stan (Old Town Stockholm) and at Kungsträdgården.

Portfolio development

We continued to develop Bibliotekstan in 2019 as the number one destination in Scandinavia for Swedish and international fashion in the premium and luxury segments. Although the retail trade is in a state of transition, we are seeing keen interest in the district from both Swedish and international brands. High demand combined with stable revenues contributed to positive rent growth for retail stores. New and strong brands that opened in the district during the year include the French brand Maje and Swedish fashion brand Totême. Luxury brand Chanel has expanded and created a two-storey boutique on Birger Jarlsgatan. Synsam opened an innovative flagship store on Norrmalmstorg offering a wide range of high-fashion eyewear and personalised service. Two new dining concepts have opened restaurants in Bibliotekstan. The first, Missumasshu, is Asian and is located in Birger Jarlspassagen. The restaurant has been well-received and has again increased the customer flows in the arcade. The other is Pas D'Art, which focuses on creative cuisine from the French kitchen, interpreted with Swedish ingredients.

Events held during the year include Fashion Night in August and Christmas activities in the district.

The office rental market has remained positive. We have renegotiated with several existing customers and entered into leases with a number of new tenants. The low rental vacancy rate persisted and was 1.9 per cent excluding current development projects. The law firm of Vinge, a tenant of Skären 9, was evacuated for the duration of the project, which affected rental losses in the business area during the year. Larger office tenants that moved in during the year include Anyfin, Simon Kucher & Partners and Wiraya Solutions. The law firm of Alrutz has moved to a new address within the business area. Several current tenants have expanded their floor space, including Quartz, White & Case and Zington.

Tenants are increasingly seeking greater flexibility and a higher level of service. Hufvudstaden offers turnkey office space in our REDO concept, where everything is ready for rapid move-in. Two new REDO offices were completed during the year for our tenants Inverto and Outpoint.

The expansion and redevelopment project on the Skären 9 property is one of the major projects that were ongoing during the year. The demolition work began early in the year in preparation for creating about 2,600 square metre of office premises. The roof was completed and the new façade had been installed by the end of the year. The premises will be finished in their entirety by the end of 2020.

The local planning process for Vildmannen 7, which had been destroyed by fire, continued in 2019 and the new plan was approved at the end of the year. The unique original façade of Roslagen sandstone will be preserved, but the demolition of the otherwise totally destroyed building has begun behind the façade.

Rental market

Market rents for office space showed a positive trend during the year. There was avid interest in all premises within the business area. At the end of the year, market rents for office space in the Stockholm CBD were between SEK 6,300 and 8,700 per year and square metre, excluding the property tax supplement. Top rents ranged from SEK 9,000 to 9,500 per square metre.

The rent trend for retail space was stable or moderately positive. Market rents in prime locations ranged from SEK 14,000 to 26,000 per square metre and year, excluding the property tax supplement.

Customers

Our office tenants in Stockholm are companies that require high-quality and centrally located office premises. The predominant businesses are banking and finance, law firms and consultancies in the fields of recruitment, IT, management and media. Long term office tenants include Brummer & Partners, Danske Bank, Erik Penser Bank, Exportkreditnämnden, Finansinspektionen, JKL and the law firms of Alrutz, Vinge and White & Case. The business area has 356 customers. The ten largest customers lease 47,000 square metre (50,000) and generate total annual rent of SEK 292 million (276).

Retail tenants include Swedish and international companies with high standards for store design and location. The tenants often represent famous brands that are located only in a few selected places. Retail tenants in Bibliotekstan include Scandinavian high-fashion brands like Byredo, Hope, Our Legacy, Rodebjer and Totême combined with large international fashion houses like By Marlene Birger, Chanel, Céline, Filippa K, Gant, Maje, Michael Kors, Prada, Ralph Lauren, Sandro and Zara. The larger retail tenants along Kungsgatan comprise mainly chain retailers such as Adidas, Alewalds, Cervera, Haglöfs, Naturkompaniet, Stadium, Ströms, Telenor and Telia.

Some of the most famous restaurants and cafés in Stockholm are found in the business area, including Bianchi Café, Eataly, Misshumasshu, Pas D'Art, Prinsen, Sempre and Vau De Ville. The restaurants create places for people to meet, contribute to a vibrant cityscape and elevate the attractiveness of the district.

Brands in the business area

Bibliotekstan. The area between Norrmalmstorg, Birger Jarlsgatan, Stureplan and Norrlandsgatan which contains of retail stores with high-class brands, restaurants and cafés.

Birger Jarlspassagen. The historic arcade, which is located between Birger Jarlsgatan and Smålandsgatan, is a famous meeting place that offers exciting dining concepts.

Norrmalmstorg 1. The building is an iconic property and a commercial hub in central Stockholm.

PROPERTY HOLDINGS

	31 December 2019	31 December 2018
Number of properties	22	22
Rentable space, sq m	203,530	203,860
– Of which offices	129,615	129,543
– Of which retail and restaurants	42,483	42,715
Annual rent, SEK m	1,144	1,058
Rental vacancy level, %	5.5	1.3
Floor space vacancy level, %	7.8	3.1

LARGEST TENANTS

Offices	sq m
Danske Bank	10,800
Finansinspektionen	7,200
Advokatfirman Vinge	5,600
KG10	4,800
Knowit	3,700
Retail & Restaurant	sq m
Zara	2,900
Eataly	2,700
Alewalds	1,300
McDonald's	1,200
Adidas	1,200

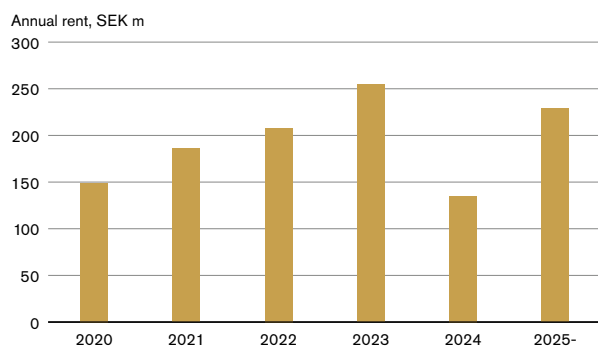
PROFIT FROM PROPERTY MANAGEMENT

SEK m	2019	2018
Net revenue	1,056.4	1,003.5
Maintenance	-16.8	-15.9
Operations and administration	-109.3	-107.5
Other costs	-118.8	-108.3
Total costs	-244.9	-231.7
Gross profit	811.5	771.8

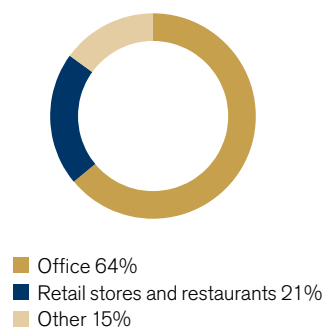
NEW LEASES & RENEGOTIATIONS

	2019	2018
New leases, sq m	7,200	8,600
New leases, annual rent, SEK m	51	60
Renegotiated leases, sq m	21,700	30,500
Renegotiated annual rent, SEK m	122	177

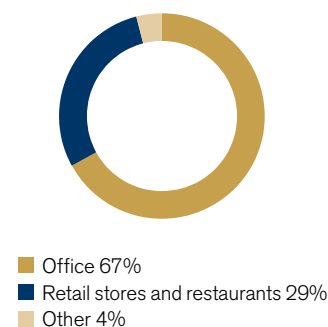
LEASE TERM ANALYSIS



RENTABLE SPACE BY USE



ANNUAL RENT BY USE





“

The restaurants create meeting places, contribute to a vibrant cityscape and enhance the attractiveness of the area.

←
Shoppers are drawn to attractive retail stores in the heart of Stockholm.

→
Interested diners explore the menu in a recently renovated restaurant in Bibliotekstan, Stockholm.



Setting the stage for the future of retail

The NK Business Area comprises the NK properties in Stockholm and Gothenburg and the Hästskon 10 property in Stockholm. In addition to the NK department stores, the NK Business Area includes modern and space-efficient office premises in the NK properties and parking operations in Parkaden AB.

Portfolio development

A comprehensive development project is ongoing at the NK department store in Stockholm, including linking of the department store with the neighbouring property, Hästskon 10, also known as NK Parkaden.

Numerous new concepts were launched during the year. In food and beverage, for example, the indoor market hall NK Saluhall, Haga Schweizeri and the aperitif bar Positano have all opened. Luxury brands like Valentino, Balenciaga and Loewe have also opened their own departments. An entirely new and unique sports destination on floor 3, which includes seven different concepts, was also opened during the autumn.

Existing departments have also been updated and redistributed. The NK Menswear department has moved to a new and larger space and has updated its concept for example, as has NK Men's Shoes & Accessories. Both are located on the men's floor. The NK Bookstore has moved and is now located on floor 4 between the restaurants and new customer toilets.

Further launches are planned during 2020. These will include several new luxury brands on the ground floor, continued improvement of the men's floor and a fitness centre on the roof of NK Parkaden. The project is proceeding as planned and entails a renewal of half of the department store's floor space, which will affect earnings capacity for the entire business area for the duration of the project. The objective is that upon completion in 2020, the project will meet the changes in retail and the needs and preferences of NK customers.

The redevelopment project on the lower ground floor of the NK department store in Gothenburg is complete. It has resulted in new departments, including NK Interiors, NK Travel Essentials and the restaurant Swedish Taste. The new floor plan has increased accessibility and improved customer areas on the lower ground and ground floors.

A new luxury concept, NK Runway Access, has opened next to the renovated entrance towards Fredsgatan.

Rental market

The rental market for retail premises remained good during the year and there was great interest in opening a business at NK. Market rents for renegotiated and new leases at NK Stockholm were between SEK 14,000 and 26,000 per square metre and year, excluding the turnover-based supplement and property tax supplement. The corresponding rent levels for NK Gothenburg were between SEK 6,000 and 15,000 per square metre.

There was positive development of market rents for office space in the Stockholm CBD, which were between SEK 6,300 and 8,700 per year and square metre at year-end, excluding the property tax supplement. The corresponding levels in Gothenburg were SEK 2,900–3,800 per square metre.

Customers

The ten largest customers of the business area lease 30,000 square metre (31,000), representing total annual rent of

SEK 272 million (247). The business area has 116 customers. These mainly consist of Swedish and international companies with high demands for store design and marketplace.

AB Nordiska Kompaniet

The NK properties in Stockholm and Gothenburg and the NK brand are owned by the wholly owned subsidiary AB Nordiska Kompaniet, which is part of the NK business area.

The company continued its substantial business development initiatives during the year. Additional resources have been allocated to project management, retail and digital development. The aim is to strengthen the brand and the department stores in response to changed consumer behaviour and to increase presence in digital channels.

The NK Gala was held for the fourth consecutive year. The Gala has become established as one of the most important events on the Swedish fashion calendar, reinforcing NK's status in the fashion industry.

The year ended with an initiative involving NK's traditional Christmas display windows. The theme this year was the "Magical Universe of Christmas," which was partly inspired by the 50th anniversary of the moon landing in 1969. Window Unveiling Sunday was a popular event and generated a tangible increase in visitors and turnover for both department stores compared to the previous year.

The NK brand

NK is one of the strongest and most recognisable brands in Sweden among both Swedish and foreign consumers. NK's ability to support shopping in the department stores and thus generate higher rental income and increased property values depend on nurturing the brand and engaging in long-term brand-building. Success is based, for example, on close partnership between property owners and proprietors through an Proprietors' association. This partnership is being further developed through the right mix of proprietors, a vibrant and attractive marketplace and continuous marketing initiatives aimed at NK's target groups.

Parking operations

The wholly owned subsidiary Parkaden AB runs parking operations in two Hufvudstaden properties in Stockholm. NK Parkering at the Hästskon 10 property has 800 parking spaces, and Continentalgaraget at the Orgelpipan 7 property, included in the Stockholm business area, offers 435 parking spaces.

It was another challenging year for car traffic in the city. Both parking facilities have had fewer short-term customers, while the number of contract customers has increased. At both NK Parkering and Continentalgaraget, the number of electric cars continued to increase, resulting in a greater need to charge cars while they are parked. To meet this demand, the number of charging points has been increased to 107 at NK Parkering and 42 at Continentalgaraget. With that accomplished, NK Parkering now has the most charging points in central Stockholm.

NK BUSINESS AREA

PROPERTY HOLDINGS

	31 December, 2019	31 December, 2018
Number of properties	3	3
Rentable space, sq m	92,000	91,898
– Of which offices	16,200	16,751
– Of which retail and restaurants	37,865	37,526
Annual rent, SEK m	521	461
Rental vacancy level, %	4.7	4.3
Floor space vacancy level, %	4.9	5.2

LARGEST TENANTS

Offices	sq m
Starbreeze	2,800
AG Advokat	2,500
STS	2,000
Forsman & Bodenfors	1,600
Bain & Co	1,400
Retail & Restaurant	sq m
Departments & Stores Europe	12,800
North Retail Sport	1,600
Rizzo	1,600
Cervera	1,600
Harjak & Månsson	1,300

PROFIT FROM PROPERTY MANAGEMENT

SEK m	2019	2018
Net revenue	487.9	465.6
Maintenance	-6.3	-5.4
Operations and administration	-116.6	-116.5
Other costs	-51.6	-49.0
Total costs	-174.5	-170.9
Gross profit	313.4	294.7

NEW LEASES & RENEGOTIATIONS

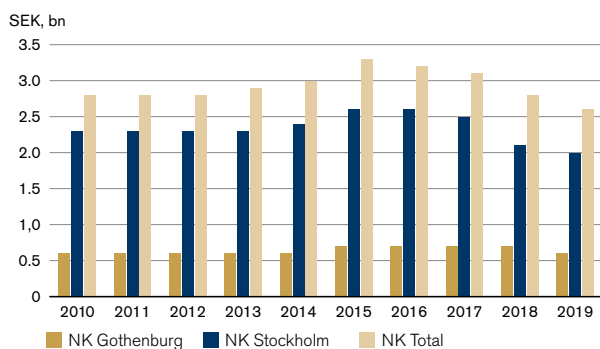
	2019	2018
New leases, sq m	4,900	11,600
New leases, annual rent, SEK m	43	98
Renegotiated leases, sq m	7,800	10,200
Renegotiated annual rent, SEK m	48	69

NK DEPARTMENT STORES

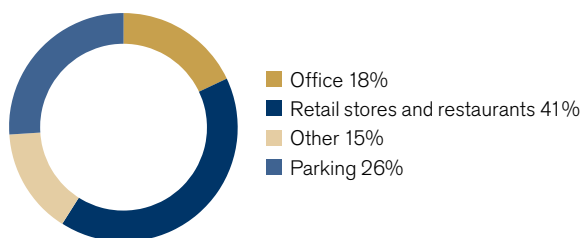
Stockholm ¹⁾	2019	2018
Rentable retail space, sq m	25,448	25,180
Rentable storage space, sq m	6,248	5,886
Total	31,696	31,066
Number of departments	109	104
Number of restaurants	11	9
Sales including VAT, SEK m	1,992	2,136
Gothenburg	2019	2018
Rentable retail space, sq m	10,542	10,542
Rentable storage space, sq m	1,012	1,093
Total	11,554	11,635
Number of departments	48	48
Number of restaurants	4	3
Sales including VAT, SEK m	613	667

¹⁾ As of autumn 2018 new NK departments are included in NK Parkaden.

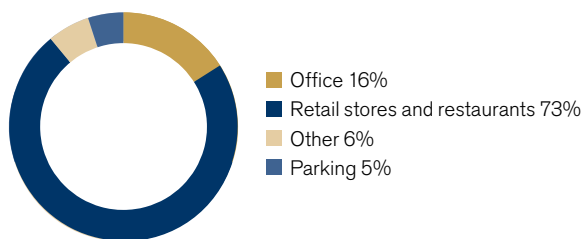
SALES NK DEPARTMENT STORES



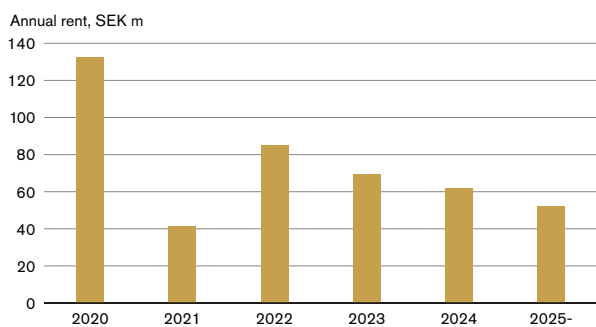
RENTABLE SPACE BY USE



ANNUAL RENT BY USE



LEASE TERM ANALYSIS



The new aperitif bar at NK Stockholm is a popular stop for NK customers.





New tenants are delighted to be at the heart of Gothenburg

Hufvudstaden properties in the Gothenburg Business Area are located in the CBD and are divided into two areas, Fredstan and Nordstan. The portfolio in Fredstan comprises the Inom Vallgraven 12 block and the development property Inom Vallgraven 3:2. The property in Nordstan comprises two units: Fyran, a shopping centre opposite Östra Hamngatan, and Femman, a shopping centre opposite the Central Station.

Portfolio development

Hufvudstaden is one of the largest individual partners in the Nordstan Cooperative Association, which owns and manages the Nordstan multi-storey parking facility as well as the adjoining stores, squares and pedestrianised streets. Nordstan is one of the largest and busiest shopping centres in Sweden, with a wide variety of stores, restaurants and parking facilities, as well as modern offices in the best location in Gothenburg. Around 13 million people visited the Femman shopping centre in 2019. Retail turnover in Nordstan was more than SEK 4 billion, of which Femman accounted for approximately SEK 950 million and Fyran for almost SEK 350 million.

Hufvudstaden has partnered with the City of Gothenburg and other property owners to establish the name Fredstan for the area surrounding the Fredsgatan shopping district. The ambition is for the area to offer unique stores and restaurants, attractive meeting places, arts and culture, and modern offices. Activities during the year included beautification of the street scene with plants and flowers, while several new businesses have opened in the area.

Gant opened a large store on two levels next to Hugo Boss and Chanel on Fredsgatan during the summer of 2019. 88 Market and Poh-Keh have added to the selection of restaurants on Drottninggatan.

Planning for the development of the Inom Vallgraven 12 block in Fredstan continued and a new local plan for the block gained legal force in the autumn. The local plan comprise of expanded building permissions within the block of approximately 15,000 square metre in gross area.

The Femman shopping centre comprises approximately 16,000 square metre of retail space on three floors. Several new stores opened in Femman during the year, including the fashion concepts Change and Intemissimi on the ground floor. Synsam and the Japanese brand Usupso have opened stores on the upper level. The selection of restaurants was enhanced through the establishment of Bao Kitchen and Diné Burgers.

In Nordstan, the Cooperative Association and property owners continued joint planning for how the shopping centre and parking structure can be developed to incorporate the planned West Link entrance at Central Station. The work also includes a long-term plan to revitalise the existing marketplace. Nordstan's new entrance towards Brunnsparken was opened in November.

Premises were adapted for several office tenants in 2019 in conjunction with new and renegotiated leases. The premises have thus been adapted in accordance with the needs and preferences of customers. Two of the tenants that have moved into new or refurbished premises are Folksam and the Sixth Swedish National Pension Fund.

The rental vacancy rate excluding current projects was 2.2 per cent at the end of the year.



Rental market

The rental market for office premises developed in a positive direction during the year. Vacancies were low and rent levels rose. Market rents for office space in prime locations ranged from SEK 2,900 to 3,800 per square metre and year, excluding the property tax supplement. The rent trend for retail premises was stable. Market rents in prime locations ranged from SEK 6,000 to 15,000 per square metre and year, excluding the property tax supplement.

Customers

Gothenburg is a market with customers who work locally, across Sweden and internationally. The business area's office customers appreciate centrally located, high-quality premises. The predominant sectors are law firms, accountancy firms and finance companies, as well as public authorities and organisations. Retail customers value attractive, centrally located marketplaces and commercial locations. The retail industry is changing, which is putting increasingly high demands on property owners and retailers. Strong and unique marketplaces like Femman, Nordstan and Fredstan are expected to remain attractive in the future. The business area has 161 customers. The ten largest customers lease 33,000 square metre (34,000) and generate total annual rent of SEK 128 million (116).

Brands in the business area

Femman. The Femman galleria is one of the most popular marketplaces in Gothenburg for shopping, food and social interaction, as well as centrally located, high-quality offices.

Fredstan. Fredstan comprises the blocks surrounding Fredsgatan between Brunnsparken and Trädgårdsföreningen. Hufvudstaden, Vasakronan and Balder have partnered with the City of Gothenburg to prepare a plan for creating a vibrant and attractive city district.

Nordstan. Nordstan is one of Sweden's largest shopping centres in terms of visitors. Hufvudstaden is one of the two largest individual owners in the Nordstan Cooperative Association, with a share of approximately 40 per cent.

GOTHENBURG BUSINESS AREA

PROPERTY HOLDINGS

	31 December, 2019	31 December, 2018
Number of properties	4	4
Rentable space, sq m	88,697	88,733
– Of which offices	50,599	50,669
– Of which retail and restaurants	31,178	31,143
Annual rent, SEK m	359	327
Rental vacancy level, %	4.0	4.4
Floor space vacancy level, %	6.0	5.8

LARGEST TENANTS

Offices	sq m
Swedish Customs	7,900
Alektum Group	5,100
Folksam	3,800
Advokatfirman Vinge	3,600
Grant Thornton	2,800
Retail & Restaurant	sq m
H&M	2,100
Lager 157	1,800
KappAhl	1,800
Lidl	1,600
Nilson Group	1,500

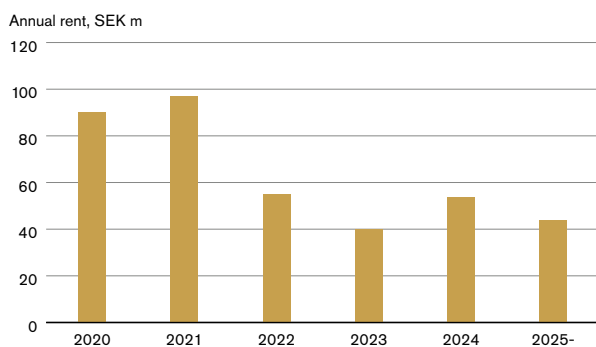
PROFIT FROM PROPERTY MANAGEMENT

SEK m	2019	2018
Net revenue	352.1	328.0
Maintenance	-5.8	-3.2
Operations and administration	-61.1	-59.1
Other costs	-37.1	-30.4
Total costs	-104.0	-92.7
Gross profit	248.1	235.3

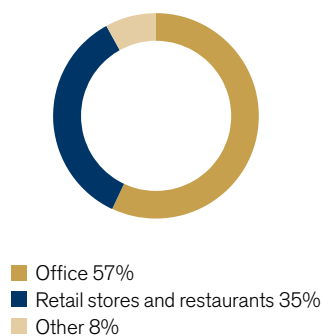
NEW LEASES & RENEGOTIATIONS

	2019	2018
New leases, sq m	4,100	10,900
New leases, annual rent, SEK m	13	33
Renegotiated leases, sq m	8,200	16,500
Renegotiated annual rent, SEK m	41	49

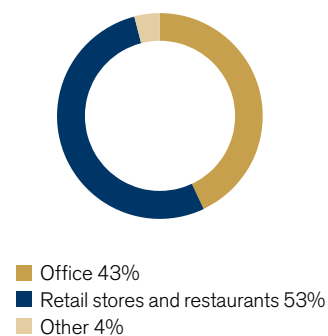
LEASE TERM ANALYSIS



RENTABLE SPACE BY USE



ANNUAL RENT BY USE





→
Hufvudstaden has partnered with the City of Gothenburg and other property owners to establish the name Fredstan for the area surrounding the Fredsgatan shopping district.



We are developing for a vibrant city

The markets in Stockholm and Gothenburg are characterised by persistent positive growth. There is continuous demand for modern, flexible, high-quality office and retail space in attractive locations. Hufvudstaden is working actively to develop its properties and increase rentable space. We are also working to improve the areas around our properties to create vibrant and attractive trade and meeting places, often in partnership with other property owners and local authorities. Development lays the foundation for a good value growth for the company over time.

Business development

The Business Development Department identifies, develops and runs commercial projects. The department has managed about 20 projects, small and large, within office, retail and digital development. Several of the projects are at the pre-study or implementation stage and some were completed during the year.

There is growing demand among office tenants for a higher level of service and greater flexibility, which led to a continued increase in the number of co-working facilities. At the end of the year, the share of co-working space was approximately 7 per cent of total office space in central Stockholm. In response to this trend, Hufvudstaden has for several years been offering the REDO concept: turnkey office premises with flexible leases.

Rapid advances in digitalisation in all areas of society are continuing and customer needs, behaviour and expectations are changing at an accelerating rate. Hufvudstaden's transformational efforts aimed at raising the company's capacity to adapt its methods, operations and business processes are ongoing. To follow new trends and new customer requirements we continuously work with external monitoring. The insights gained from this work are taken further in a change management group, which evaluates new thoughts and ideas. Thereafter, prioritised change and development projects are carried out to respond to social changes and the needs of our tenants. In response to the changing needs of office tenants, Hufvudstaden has decided to open a co-working facility under its own management. Several commercial development projects are being run within NK, including one aimed at increasing NK's digital presence.

Property development

The Property Development Department runs redevelopment and development projects in Hufvudstaden's properties. Operations are divided into maintenance projects, adaption of premises and major development projects based on existing or new building permissions. Several adaption projects were carried out during the year to meet customer needs and preferences.

Development projects are carried out in close cooperation with the business development and property management organisation. Sustainability is a priority in all aspects of the development process. There is strong emphasis on improved environmental performance, higher technical standards and efficient, flexible floor plans. Hufvudstaden is committed to reducing environmental impact over time, inspecting built-in materials, recycling waste and selecting technical solutions to reduce energy consumption. Focus is also on creating a product that is easy to maintain from a long-term management perspective. As a whole, this produces the high-quality that will ensure that the properties are perceived as attractive now and well into the future. Hufvudstaden's own project managers procure and manage development project implementation jointly with our partners. The project managers are involved in all phases of the project and, on a daily basis, in issues related to project management, coordination with tenants and work environment. This is a prerequisite for meeting Hufvudstaden's strict demands for quality, flexibility and long-term approach.

Hufvudstaden has invested approximately SEK 650 million per year in projects for the past five years. Investments in projects in 2019 amounted to about SEK 900 million (750). Large-scale development projects account for

more than half of the total, with adaption of premises for about 30 per cent and maintenance projects about 10 per cent.

Current major projects

NK department stores

At the NK department store in Stockholm, the development project continued during the year with the aim of meeting the needs of the customer of tomorrow and reinforcing NK's position as a world-class department store. Floor space has been extended, service to NK customers has been even further improved and additional premium and luxury brands have been launched. Work on the new NK Saluhall (market hall) was completed in early 2019. The entire NK project, which is expected to continue throughout 2020, will enhance the customer experience and boost trade.

An extensive development project at the NK department store in Gothenburg was completed during the year. The floor plan was altered and developed to increase accessibility and improve customer areas on the lower ground and ground floors.

Inom Vallgraven 12 block

The local planning process for the Inom Vallgraven 12 block continued in successful collaboration with the City of Gothenburg. As the local plan took legal force at the end of the year, a comprehensive pre-study process has commenced. The plan allows for an extended building permission covering 15,000 square metre in gross area.

Inom Vallgraven 3:2

Design and planning began during the year for the conversion of the property from office space to residential. The conversion is being implemented to prepare for the opportunity to move

existing residential units from the Inom Vallgraven 12 block.

Bibliotekstan

An extensive redevelopment and expansion project is in progress at the Skären 9 property. Existing parts of the property are undergoing comprehensive redevelopment and the extension comprises approximately 2,600 square metre of office space. With the completion of the roof and installation of the façade, the project has reached the midway point. There is a considerable focus on sustainability and the property's energy performance will be improved significantly.

Vildmannen 7 was heavily damaged by fire in late 2017 and large parts of the building were totally destroyed. The local plan from the 1930s differed from the building that was actually constructed. In close consultation with the City of Stockholm, work continued in 2019 to produce a new local plan. The local plan took legal force in January 2020. A demolition permit was also granted during the year and the demolition began in the autumn. The new building, with the original façade facing the street preserved, is expected to be completed in 2022.

Kungsgatan

A comprehensive geothermal heating and energy project was carried out at

“
Development lays the foundation for a good value growth for the company over time.

Kåkenhusen 40 during the year, which will significantly reduce energy consumption.

Adaption of premises

Hufvudstaden adapts premises for new and existing tenants. When premises become vacant, they are assessed to determine whether renovations are needed. Following initial renovation, premises are adapted to meet the needs of new tenants. Tenants are increasingly demanding open floor plans for more efficient use of space, which increases the need for ventilation and cooling. Older technical systems often need to be replaced with the latest technology to achieve an optimal indoor climate. Hufvudstaden owns many properties that are adjacent to each other. This facilitates the integration of premises with adjoining floor space to create the

greatest possible flexibility. In all redevelopment projects, there is considerable emphasis on preserving the character and architectural value of the building. Hufvudstaden takes responsibility for building and developing in a sustainable, long-term and eco-friendly way.

About 30,000 square metre of floor space was redeveloped and adapted during the year. The adaptations of the premises were carried out for both new and existing tenants.

Qvartz, a current tenant of Rännilen 18 in Stockholm, has extended its floor space. The premises of approximately 1,800 sq m have been adapted for the tenant at a high level of architectural quality.

Folksam, an insurance company, has established an office of about 3,800 square metre in the Fyran property in Gothenburg. The former 1970s standard has been converted to a modern office. A large internal staircase was built between the tenant's floors. Ventilation was reinforced in the entire property in conjunction with the project to ensure that it will be able to meet higher needs in the future.

Other tenants for whom we have adapted premises include the law firm Alrutz, the Sixth Swedish National Pension Fund and the Misshumasshu restaurant.

MAJOR CURRENT AND PLANNED PROJECTS AT THE END OF THE YEAR

City	Property	Status	Type of premises	Project floor space (sq m)	Of which added floor space (sq m)	Estimated investment ¹⁾ (SEK m)	Estimated completion
Stockholm	NK Stockholm, Hästskon 10	Current	Retail, restaurant & parking	50% of the department store floor space & 20% increase	–	700	2020/2021
Stockholm	Skären 9	Current	Office	10,700	2,600	750	2020/2021
Stockholm	Orgelpipan 7	Local planning	Office	–	–	–	–
Stockholm	Vildmannen 7	Demolition work, planning	Office & retail	–	–	–	–
Gothenburg	Inom Vallgraven 3:2	Planning	Residential	1,300	–	85	2021/2022
Gothenburg	Inom Vallgraven 12 block	Planning	Office, retail & restaurant	–	–	–	–

¹⁾ Includes estimated costs for rent losses and financing that are continuously charged to the income statement as well as costs for evacuation.

A values-governed company culture

Hufvudstaden's company culture is one of deep employee commitment and support for our distinct values and philosophy, which are reflected in everything we do. The values are our most important tool for leading and guiding the business towards the company's vision and objectives. They are also a prerequisite for driving operations towards responsible business. Our core values are: quality, honesty, attentiveness and commitment.

QUALITY

“We think long-term”

The right quality is important to us. That means providing the quality our customers expect within the framework of our business concept. It applies equally to our property holdings and service offering, customer relationships and in-house cooperation. We nurture a long-term perspective to promote quality. Aimed at developing the business and preventing problems, we act rather than react. We work to exceed expectations by means of sustainable solutions in every aspect of operations.

HONESTY

“We build long-term trust by keeping our word”

We always act professionally and reliably. That means we keep our word and abide by our agreements. As we see it, honest intent is the foundation of successful business and long-term relationships. We are honest and straightforward with our colleagues and we believe everyone should be able to express their opinions and stand by their thoughts and ideas.

ATTENTIVENESS

“We listen and learn”

We are attentive and open to impressions from outside the company and from our colleagues, and we actively embrace and evaluate new ideas. We endeavour to recognise our colleagues' needs for support and concern and we stand up for each other. We are attentive to the needs of our customers and always strive to be one step ahead. Our stakeholders inspire us to nurture and develop our business and our relationships.

COMMITMENT

“We are passionate about the business”

We are proud of our history and our success and are committed to the business as a whole. We regard ourselves as a key partner for our customers, and we show an active interest in their businesses and their success. We are interested in our colleagues, celebrate their progress and help each other develop and succeed. Pride, a willing attitude and keen interest are the foundations of our organisation.

Employees who are happy and thriving

Skilled and committed employees are the key to Hufvudstaden's strong company culture. The ambition is to attract, develop and retain employees who contribute to the continued development of the company with their high level of skill, sense of service and focus on the customer.



To attain our objective of having the most skilled and professional employees in the industry, we work actively with issues related to skills development, health and well-being and leadership and culture. Our values – quality, honesty, attentiveness and commitment – guide us in our endeavours and are integrated in everything we do.

Recruitment and induction

Hufvudstaden focuses on building long-term relationships when we recruit new employees. Diversity and equal opportunities are an aspect that must always be included in our recruitment processes. All new employees are offered a thorough, individualised induction programme adapted to their role, as well as a company-wide induction day. We have a digital tool that allows new employees to access

general information that is important to getting to know the company.

In the main, recruitment takes place in-house. This gives us control over the process and ensures that our recruitment processes are based on skills and governed by our values. In doing so, we build up a candidate base of the people who are interested in our company.

Hufvudstaden also builds relationships with university students in order to meet future recruitment needs. Wherever possible, we offer work experience placements and consider students a key resource in filling vacant positions. Marketing to students is one of the strategies we employ to find the most professional employees in the industry while simultaneously building our brand.

This year, we further developed the effort to market Hufvudstaden via digital channels, such as digital screens at the Swedish Royal Institute of Technology

Hufvudstaden is committed to being an attractive employer. We want our employees to be happy, motivated and proud of working for us.

“

Hufvudstaden builds relationships with university students in order to meet future recruitment needs.

(KTH) and on social media platforms like LinkedIn. This gives us the opportunity to showcase our employees and build interest in us as a company and a prospective employer. We customise our website during the year to strengthen our employer brand and facilitate the recruitment of young talents.

Leadership

Leadership within the company is based on four leadership criteria, which act as watchwords in the day-to-day work of our managers. We strive for leadership that is courageous, inspirational, forward-thinking and exemplary. These criteria also act as a starting point for managerial development and performance. Hufvudstaden focuses deliberately on giving young employees the opportunity to grow into the role of manager. Continuously identifying and developing employees who demonstrate leadership qualities is a priority and we provide ongoing leadership training.

At Hufvudstaden, we have invested in further developing situational leadership throughout the organisation. The

aim is to enhance self-management and drive, which create the right conditions for succeeding in a rapidly changing world. The initiative was wrapped up in the spring with a certification of our managers.

A management conference is arranged every year, where we share lessons learnt and discuss leadership issues. The theme of this year's management conference was the purpose-driven organisation. This work will continue throughout the company in 2020.

Skills development

Hufvudstaden's objective is to have the most professional and highly skilled employees in the industry. Internal recruitment is a key aspect of our company culture. We make every effort to fill as many open positions as possible by developing our employees and encouraging them to assume greater responsibility. This applies at the staff and managerial level. To succeed at this, we work continuously to monitor the skills requirement within the company. As part of this strategic effort, we continued

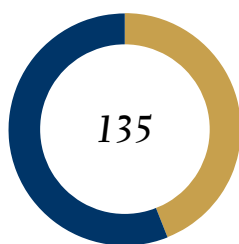
to work with developing project management skills during the year. New challenges give employees opportunities to grow within the company while gaining wider understanding and knowledge of our various areas of operations.

We completed the work during the year to develop leadership and employeeship towards a more situational approach. This is reflected in employee performance and career development reviews where we discuss goals, goal attainment, values and skills development. An individual action plan is drawn up for each employee thereafter. Hufvudstaden met its target for all employees to have performance and career development reviews during the year.

A pleasant work environment

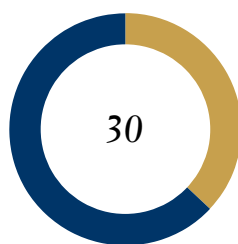
Promoting a good work environment where employees are happy and enjoy themselves is important to us at Hufvudstaden. Without the skills, commitment and involvement of our employees, we would not be able to run our business in a long-term and

EMPLOYEES



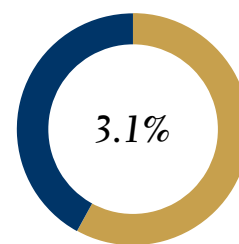
■ Percentage women, 44%
■ Percentage men, 56%

MANAGERS



■ Percentage women, 37%
■ Percentage men, 63%

ABSENTEEISM DUE TO ILLNESS



■ Percentage women, 58%
■ Percentage men, 42%

AGE



■ <30 years 14%
■ 30-39 years 24%
■ 40-49 years 27%
■ >50 years 35%

DURATION OF EMPLOYMENT



■ <1 year 12%
■ 1-3 years 33%
■ 4-6 years 22%
■ 7-10 years 9%
■ >10 years 24%

As of 31 December 2019. Absenteeism due to illness refers to the full year of 2019.

high-quality manner. That is why we invest so heavily in health, wellness and workplace satisfaction. These efforts include taking a preventative approach to health by offering massage and access to chiropractic care in the workplace. All employees are also entitled to regular health checks and an annual health and fitness allowance. We are making a concerted effort to maintain low absenteeism due to illness by encouraging physical activity and arranging group activities to promote better health and workplace satisfaction. For that purpose we have a workplace satisfaction group which organises health and fitness activities as well as social activities.

All employees of the Hufvudstaden Group get together at the annual employee conference, where they can share lessons learnt and solidify the sense of belonging. The theme of this year's employee conference was a continuation of the work done at the conference in 2018 – the need for development and collaboration in a rapidly changing world.

Health and safety work is handled by a health and safety group made up of representatives of various parts of the organisation. The health and safety group identifies risks, recommends actions and works with continuous improvement. We expanded the work of the health and safety group in various ways during the year, including skills development.

Attractive employer

Our ambition is that Hufvudstaden will always be an attractive employer. We want our employees to be proud of working for us. Employees should be happy, enjoy their work and feel motivated. We carry out employee surveys to evaluate how we are perceived as an employer. The results of this year's survey shows persistently high pride in the company and greater willingness to recommend Hufvudstaden as an employer.

We worked with three focus areas during the year: sustainable employees, equal opportunity and efficient meetings. The focus areas were discussed

in group discussions as well as performance and career development reviews. These dialogues resulted in concrete action plans. Equal opportunity was also followed up in an in-depth report in the employee survey.

Diversity and equal opportunities provide a solid foundation in everything from recruitment to the day-to-day work. To support this work, we have our Diversity Policy, which is aimed at creating an equal opportunity workplace that encourages differences. The Diversity Policy also deals with preventing discrimination and bullying. We work according to an equal treatment plan with set goals in each area: health and safety, parenthood, harassment, recruitment, skills development, promotion and equal pay for equal work.

Hufvudstaden's culture is characterised by strong employee commitment and clear values that are reflected in everything we do. Our employees appreciate working in a values-governed culture with stimulating tasks and good career development opportunities.

OUR SUSTAINABILITY GOALS

SUSTAINABLE EMPLOYEES

- Hufvudstaden will be an attractive employer with the most professional and committed employees in the industry.
- Hufvudstaden will seek to achieve gender equality in operations.

OUTCOME

- Hufvudstaden asks our office tenants every year how they perceive our employees based on set objectives. Scores have remained at a high level for several years, including 2019.
- The percentage of women increased during the year both in the managerial group and in total for the company.

OUR CONTRIBUTIONS TO THE UN SUSTAINABLE DEVELOPMENT GOALS



3.4 By 2030, reduce by one third premature mortality from non-communicable diseases and promote mental health and well-being.

3.4 Hufvudstaden is working actively to promote a healthy environment in which people thrive and are happy. We offer services including occupational health care, health checks and health insurance to ensure that warning signs of ill health are detected and promote preventative care. If needed, we have also offered health coaches to our employees.



5.1 End all forms of discrimination against all women and girls everywhere.

5.1 Diversity and equal opportunities are prioritised issues at Hufvudstaden. We strive towards equal opportunity and work according to an equal opportunity and equal treatment plan that is followed up annually.

“

Hufvudstaden's culture is characterised by strong employee commitment and clear values that are reflected in everything we do.



→ Meetings among employees with different skills promote success.



Hufvudstaden will work actively to promote sustainability

At Hufvudstaden, sustainability is a cornerstone in everything we do. We are developing long-term, green and climate-smart solutions. We are working with our tenants and partners to promote sustainable urban development in Stockholm and Gothenburg.



EPRA sBPR Silver

Hufvudstaden was awarded Silver in the 2019 EPRA sBPR¹⁾. This is an international award intended to raise standards and transparency in sustainability reporting.

¹⁾ European Public Property Association
Sustainability Best Practices Recommendations

Our role and impact

Hufvudstaden has been actively involved in creating the modern city for more than a century, starting Stockholm in 1915 and in Gothenburg in the 1960s. We build properties, but even more importantly, we preserve, manage and develop properties. Thousands of people spend their days in our properties and the areas around them.

That is why we feel such a keen sense of responsibility – for people and our environment are of the utmost importance to us. That is also the foundation of our sustainability work.

Hufvudstaden's property holdings is unique and centrally located in two of the fastest growing regions in Europe. As the cities continue to grow, awareness of climate change and its expected consequences has risen. The need

for sustainable urban development is clearer than ever. It is also clear that the property sector has significant climate impact, especially through energy consumption and use of materials. The construction and property industry is also characterised by challenges and risks related to human rights, workplace health and safety and corruption.

Active, long-term commitment

We are working actively to run Hufvudstaden in a long-term and sustainable way. We set high standards for ourselves, as well as our suppliers and partners. Sustainability work at Hufvudstaden is based on taking long-term responsibility for environmental, social and economic development. We comply with the principles of the UN Global Compact and work in

accordance with our Code of Conduct. Through our strategies and values, we are creating favourable conditions for attaining our goals, which are aligned with the UN sustainable development goals (SDG) and contribute to social development.

In order to identify the sustainability topics that are most material to Hufvudstaden, we analyse our impact and maintain ongoing stakeholder engagement.

We have identified the following areas as the most material to us:

- Responsible business
- Sustainable properties
- Sustainable employees

RESPONSIBLE BUSINESS

Sustainability governance

Sustainability is part of our strategy for attaining our financial and operational objectives. Sustainability work is integrated in the processes for governance and monitoring of the company's business. Detailed process descriptions have been established for everything from how building projects should be implemented to how leases should be arranged. Hufvudstaden's management decides our strategies, policies and sustainability goals. The president is ultimately responsible for our performance and compliance with our policies. Hufvudstaden's head of sustainability prepares the sustainability goals in consultation with the Hufvudstaden Sustainability Council, and coordinates and guides our sustainability work towards the goals. The head of sustainability reports to the head of property development, who is a member of executive management. We monitor our goals, follow procedures and drive our sustainability work together in ongoing operations.

We seek to run Hufvudstaden in a long-term and sustainable way. Being an honest and reliable business partner promotes good relationships with stakeholders. Our work is aimed at customer satisfaction and we try to facilitate, inform and partner with our customers to bring about a more sustainable society. We are aware that the building construction and property industry

has elevated risks in the area of occupational health and safety and the environment. Several of these risks are outside Hufvudstaden's responsibilities as an employer, primarily with contractors who work for us. We also know that the industry faces challenges related to human rights, corruption and bribery, which stand in the way of sustainable development. Hufvudstaden is engaged in active efforts to reduce these risks.

Code of Conduct

Hufvudstaden's Code of Conduct clarifies our responsibility and our actions in relation to internal and external stakeholders. The Code of Conduct is based on our values and sets out how we, our suppliers and our business partners should act as representatives of Hufvudstaden. Through our Code of Conduct, we take a stance on issues related to human rights, working conditions, the environment, business ethics and communication. All Hufvudstaden employees and suppliers must comply with applicable laws and regulations as well as our Code of Conduct. Our Code of Conduct is public and is appended to all major agreements.

All employees undergo training related to our Code of Conduct. We have regular discussions of problems and dilemmas on introduction days and at employee conferences and departmental meetings. Continuously training our employees about our Code of Conduct

WE ARE GENERATING LONG-TERM VALUE FOR:

Customers

First place in the Large Company category in the annual Fastighetsbarometern customer satisfaction survey.

Employees

Professional employees with deep commitment.

Society

Preserving and creating attractive city centre environments for all.

Shareholders

Good returns at low risk.



GRESB¹⁾ awarded us 5 Stars – recognition of Hufvudstaden as an industry leader in sustainability.

¹⁾ Global Property Sustainability Benchmark

HUFVUDSTADEN OFFERS THE MOST CHARGING POINTS FOR ELECTRIC CARS IN CENTRAL STOCKHOLM



The number of chargeable electric cars on the roads is increasing, and so is the need for charging points.

In 2019, we more than doubled the number of charging points for electric cars in our public parking facilities in Stockholm. NK Parkaden offers the most charging points anywhere in central

Stockholm. Of the roughly 800 parking spaces at NK Parkaden, 107 are charging points for electric cars. Continentalgaraget in central Stockholm also has 42 electric car spaces for public use. Our jointly owned parking structure at Nordstan in Gothenburg gained about 40 additional charging

points in 2019 and now offers a total of 77. In addition, there are about 20 charging points in our private parking facilities.

Car-sharing services with electric cars are also available at NK Parkaden and Continentalgaraget.

and maintaining the dialogue on ethical issues are prioritised.

Whistleblower service

We are vigilant about proper business conduct. Hufvudstaden works with a control system to mitigate the risks of corruption, bribery and other breaches. Allocation of responsibility and structured processes in the control system ensure that business is conducted properly.

It is important that irregularities that concern the company and which could cause serious harm to the business or our employees are detected and investigated as soon as possible. Hufvudstaden has a whistleblower service that can be accessed from our website and the intranet. The service makes it possible for people to report suspicions of corruption, bribery and other breaches via an external party.

Customer satisfaction

A continuing effort is ongoing to develop and improve premises in accordance with tenants' needs and preferences. We work proactively and approach tenants in a customer-oriented manner. This is a central aspect of the day-to-day effort to ensure we are meeting our tenants' expectations.

We are within walking distance of our properties, which facilitates partnership with our customers. We have a team of property managers, operating

technicians and customer service staff who manage and maintain the properties. This helps enhance customers' business opportunities, competitiveness and image. In turn, this strengthens customer trust and the long-term customer relationships we strive for.

We worked to strengthen the sense of community among our customers during the year by arranging events including breakfast meetings, film viewings and sneak previews.

Nine out of ten Hufvudstaden customers are highly enthusiastic about our collaboration with them. In addition, more than half of Hufvudstaden customers act as ambassadors. An ambassador is a customer who speaks highly of Hufvudstaden and spreads its good reputation.

Over time, around 80 per cent of customers choose to continue leasing their premises at the end of their current lease.

Supplier relationships

Hufvudstaden's largest suppliers are mainly in the construction and property maintenance sectors. We work closely with our suppliers and we attach considerable importance to creating sound relationships to build up long-term collaboration. Our sustainability requirements are high in connection with the closing of general agreements, procurement of redevelopment projects and purchases of goods and

services. The requirements are based on our Code of Conduct, augmented by requirements in the areas of health and safety, employment conditions and the environment, which includes the precautionary principle. Health and safety is a particular priority because building and maintenance work can be risky. Everyone who works on behalf of Hufvudstaden must, regardless of who is the employer, have terms and conditions of employment and a work environment that as a minimum comply with current legislation.

To ensure compliance with our requirements for projects and day-to-day operations, we have our own project managers and property managers who procure, manage and inspect construction projects. To further examine and ensure compliance our requirements, we carry out internal and third-party audits. We performed five audits during the year in the form of random checks, the outcome of which included minor objections concerning tenant fit-outs. In connection with major development projects, we conduct regular audits to verify compliance with environmental and health and safety requirement. Dialogues regarding potential health and safety improvements and communication of requirements from suppliers to subcontractors occurred during several audits. There were no serious complaints.

WINNER – CUSTOMER SATISFACTION INDEX 2019



Hufvudstaden's customers have had their say and have once again ranked us first among large companies* in the Fastighetsbarometern Customer Satisfaction Survey. The ranking is proof that our sharp focus on customer

relationships and long-term approach produces results. We have consistently high ratings from tenants and were several points higher than the industry average in all areas evaluated. Fastighetsbarometern was founded in 1997

and Hufvudstaden has been in the top three ever since.

*Large companies are defined as property companies with more than 100 tenants.

OUR SUSTAINABILITY GOALS

RESPONSIBLE BUSINESS

- Hufvudstaden will have the most satisfied customers in the industry.
- Several of our tenants will sign green leases.

OUTCOME

- Hufvudstaden participates in the annual customer satisfaction survey (Fastighetsbarometern) among office tenants conducted by CFI Group and the Swedish Property Federation. We were ranked first in the Large Company category and second overall in this year's survey.
- We are committed to working in partnership with our tenants towards a more sustainable society. We therefore offer green leases, whereby the tenant and Hufvudstaden draw up an action plan outlining measures aimed at improving the environment. As of the end of the year, green leases covered 27 per cent of rentable office space.

OUR CONTRIBUTIONS TO THE UN SUSTAINABLE DEVELOPMENT GOALS



8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

8.8 A safe and secure working environment is a key factor in human health and well-being. Hufvudstaden has a systematic health and safety process based on our Work Environment Policy and Work Environment Plan. We have appointed a central safety committee and regular safety inspections are performed. We are involved in promoting a safe and secure working environment for all by means of long-term relationships, high standards and regular audits of suppliers.



12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature

12.2 By imposing high standards on ourselves, our suppliers and other partners, we can contribute to sustainable property management and limited use of natural resources. We impose sustainability requirements in areas including the environment, health and safety and long-term approach.

12.8 Maintaining good and close relationships with our customers and suppliers is one of Hufvudstaden's most important aspects and is something at which we excel. We also understand that we have a responsibility and tremendous opportunity to create the conditions for joint contributions to improving the environment. Green leases are a way to promote the exchange of knowledge between Hufvudstaden and tenants. We are working with our tenants towards a more sustainable society and improving our knowledge regarding sustainable choices and lifestyles.



16.5 Substantially reduce corruption and bribery in all their forms

16.5 We are aware that the building and property industry faces challenges related to corruption and bribery that can stand in the way of sustainable development. Hufvudstaden works with our Code of Conduct and a control system to mitigate the risks of corruption, bribery and other breaches. Suspicions of corruption, bribery or other breaches can be reported anonymously via a whistleblower service.

SUSTAINABLE PROPERTIES

Climate change and its impacts are some of the most urgent and all-encompassing aspects of sustainable development. Understanding how we impact the climate and the challenges and opportunities that climate changes entail for us is important to Hufvudstaden. We know that our use of resources, particularly consumption of energy and materials, accounts for a significant part of our climate impact and that of society. Climate change also entails higher risks to our business, such as the risk of torrential rain and flooding. In partnership with industry colleagues, Hufvudstaden has a responsibility to make the building and property industry more sustainable and thus contribute to more sustainable cities and societies.

Quality and the long-term approach

Quality and a long-term approach are two cornerstones of Hufvudstaden's vision. We consider these success factors in our objective to always be perceived as, and prove to be, one of the most attractive property companies in Sweden. We are committed to creating sustainable premises and building solutions that are flexible and customisable, but also stand the test of time. It must be possible to adapt our solutions to new needs and alter premises with minimal use of resources. Materials are selected based on design and functionality with quality that is at less risk of needing to be replaced when tenants move. Innovation and energy-efficient technology are awarded priority in the choice of products for reducing our energy consumption. Hufvudstaden applies the Building Products Assessment, which is the property industry's database for environmental assessments of building products. The properties are environmentally certified to obtain independent confirmation of our sustainability work. The NK property in Stockholm and the Fyran and Femman in Gothenburg were certified during the year under BREEAM In Use, bringing the certified portion of our portfolio to 51 per cent.

Urban development

Hufvudstaden partners with other property owners and the cities of Stockholm and Gothenburg in various projects aimed at creating safe and vibrant cities and contributing to urban development. The revitalisation of Vasagatan in Stockholm is one of these projects, which was begun in 2018 and will continue for several years. The improvements will include wider pavements, new lighting, improved cycle paths and the planting of trees and flowers.

Hufvudstaden is still participating in the collaborative Purple Flag project for the Fredstan and Nordstan districts in Gothenburg. Purple Flag certifies cities and city centres based on factors such as safety, accessibility and range of attractions during the evening and night-time. The project aims to create secure, vibrant cities, regardless of the time of day or night. This collaborative venture is taking place in partnership with local authorities, the police, business community and other stakeholders.

We are creating green roofs, roof terraces and courtyards at most of our properties to contribute to sustainable urban development and enhance our tenants' well-being. This is providing a huge opportunity to create habitats for flora and fauna and help contribute to greater urban biodiversity.

Energy and climate

As a property company, we have a great responsibility for working in a climate-smart manner and reducing our climate emissions. The energy used to operate our properties is one of Hufvudstaden's main environmental impacts. Accordingly, we are working actively to develop our operations to reduce energy consumption and thus reduce climate emissions. Hufvudstaden also aims to contribute to the Swedish environmental objective of a fossil-free Sweden by 2045 and we support the Roadmap to Fossil-Free Heating.

SUSTAINABILITY IN THE SKÅREN PROJECT



There is strong focus on sustainability at our Skåren 9 property at Norrmalmstorg, where an expansion and redevelopment project began in January 2019. Sustainability from a long-term perspective is the hallmark of the project. Flexible spaces are being built that can be conveniently changed over time without substantial impact on resources. We

are investing in sustainable energy solutions, through which we expect to reduce energy consumption by about 35 per cent. The property will also be given a sedum and dry meadow "green roof". This type of roof delays run-off and creates habitats for flora and fauna while benefiting biodiversity. Solar panels are also being installed on the roof so the building can

produce its own energy. Environmental certification according to BREEAM is in progress. Certifying the property will provide proof from an independent party that Hufvudstaden's sustainability work upholds high standards from all perspectives. We are also building cycle storage rooms and charging points for electric cars.

In everything we do, whether big or small, we always try to make better choices for the environment. For several years we have been using green electricity (origin-guaranteed electricity from hydropower). Geothermal energy has been installed at the Kåkenhusen 40 property in Stockholm to create a sustainable energy solution. Within the ongoing Skären 9 redevelopment and extension project in Bibliotekstan, these include a more efficient heating and ventilation system and solar panels on the roof. Efforts are ongoing to modernise systems and energy projects aimed at improving energy efficiency in the property holdings.

Energy consumption was reduced by 9 per cent in 2019 compared to the preceding year. Total energy consumption has been reduced by 25 per cent since 2010, due mainly to the energy efficiency improvements we have made in recent years. Our energy used for heating is 66 per cent lower than the average according to SCB statistics on commercial premises. We also reduced our climate emissions during the year compared to 2018 and have reduced our climate emissions by 85 per cent since 2010. The reductions were achieved mainly by switching to 100 per cent green electricity, reducing energy consumption and buying district heating and district cooling produced with a lower share of fossil fuels.

In addition to reducing our own energy consumption and climate impact, we inform and encourage our tenants to choose sustainable, energy-efficient solutions. Commuting by cycle has become more common in both Stockholm and Gothenburg. We make it easier for our tenants by providing cycle parking and charging points for electric cycles.

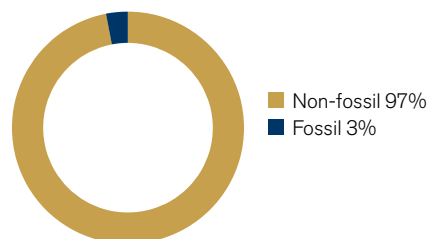
We offer many charging points for electric cars in our public parking structures Continentalgaraget and NK Parkaden in Stockholm and our jointly owned parking structure at Nordstan in Gothenburg. In addition, we offer a number of charging points in our private parking facilities.

Waste management

Increased recycling is a high-priority sustainability topic for us and our tenants. There are recycling rooms in all properties that make it easier to sort waste efficiently into several different categories, but also to coordinate and thus reduce the number of waste removal transports from the properties.

Property redevelopment and renovations in connection with tenant customisation produces large amounts of waste. We impose strict standards on our suppliers with regard to the level of recycling, but we also see potential for improvement in the management of building waste. Hufvudstaden works with long-term solutions and materials whose design, functionality and quality stand the test of time and is at less risk of requiring replacement when a new tenant moves in. This is one way to minimise waste production.

NON-FOSSIL ENERGY SHARE OF TOTAL ENERGY CONSUMPTION



GEOENERGY IN THE KÅKENHUSEN BLOCK



Hufvudstaden installed geoenery at Kåkenhusen 40 in Stockholm during the year to future-proof and create a sustainable energy solution for the property. With the new installation of geothermal heating, the property has gained a system that can be used for cooling and storing energy in addition to producing heat. The project

required a unique technical solution to make it possible to drill in the basement where the ceilings are low and with tenants still in residence. The drilling was done with an electricity and water method instead of traditional pneumatic drilling. A total of 22 geothermal wells were drilled with a total drill length of about 7.3 km. In addition,

we have built a common energy control centre for the property. The work to future-proof the buildings with geoenery was completed in the summer of 2019 and is expected to result in a more sustainable energy solution. Initial measurements indicated an energy reduction of about 40 per cent.

OUR SUSTAINABILITY GOALS

SUSTAINABLE PROPERTIES

- By 2020, energy consumption will be reduced by 30 per cent compared to 2010.
- By 2020, climate emissions from property operations will be reduced by 90 per cent compared to 2010.
- A larger percentage of Hufvudstaden's properties will be environmentally certified in connection with redevelopment and new construction.
- Total waste volume will be reduced and the largest possible share will be recycled or reused.

OUTCOME

- Energy use was reduced by 9 per cent in 2019 compared to the preceding year. Compared to 2010, energy usage has been reduced by 25 per cent.
- Climate emissions from property operations were reduced in 2019 by 24 per cent compared to the preceding year. In total, climate emissions have been reduced by 85 per cent since 2010.
- The NK property in Stockholm and the Fyran and Femman in Gothenburg were certified during the year under BREEAM In Use, bringing the certified portion of our portfolio to 51 per cent.
- Total waste volume increased slightly during the year. We commenced a project during the year to simplify and improve recycling facilities for tenants.

OUR CONTRIBUTIONS TO THE UN SUSTAINABLE DEVELOPMENT GOALS



7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
7.3 By 2030, double the global rate of improvement in energy efficiency

7.2. and 7.3. Hufvudstaden has been working to improve energy efficiency and reduce climate emissions for a long time. We have set targets and support Fossil-Free Sweden's Roadmap to Fossil-Free Heating by 2045. The effort to draw up more long-term targets after 2020 is ongoing.



11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.

11.6 Hufvudstaden's properties are located in the two largest cities in Sweden and we do business in an industry that produces large emissions. We have the opportunity to reduce our emissions and influence the industry in a positive direction. When we reduce our emissions, this also reduces the cities' environmental impact.



12.2 By 2030, achieve the sustainable management and efficient use of natural resources
12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

12.2 We use large quantities of materials in extensions, redevelopments and tenant adaptations to the premises in our properties. The materials we use have substantial climate impact in connection with extraction and production as well as high transport requirements. We are committed to building solutions that are flexible and customisable, but also stand the test of time. In our work, we select materials at less risk of requiring replacement when a new tenant moves in. We apply the Building Products Assessment, which is the property industry's database for environmental assessments of building products. We have a clear ambition to achieve sustainable property management, but we acknowledge that materials are still being torn out and replaced. As an aspect of sustainable property management and efficient use of natural resources, we intend to environmentally certify our properties in connection with redevelopments and new construction.
12.5 Hufvudstaden is working to reduce the total volume of waste and to recycle and reuse the largest possible share.



13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

13.1 Climate change is going to have impact on our property holdings. We have carried out risk analyses to understand, assess and enable management of climate-related risks to parts of our portfolio. A complete risk analysis for the entire portfolio is in progress. Our ambition is to also implement TCFD (Task Force on Climate-related Financial Disclosures) starting in 2020. Hufvudstaden also believes it is important not only to reduce our climate emissions, but also to promote sustainable development. We are, for example, adding green spaces on roofs and in courtyards to contribute to greater urban biodiversity and installing charging points in our parking structures.

Recently refurbished office centrally located at Kungsgatan/Sveavägen in Stockholm.



Increased dividend nineteen years in a row

Share capital

Hufvudstaden was founded in 1915 with share capital of SEK 0.6 million and 6,000 shares with a par value of SEK 100. At year-end 2019, share capital amounted to SEK 1,056.4 million with a quotient value of SEK 5 per share.

Share structure

Hufvudstaden has two share series, A and C. Series A shares carry one vote per share and series C shares carry 100 votes per share. There are no limitations on how many votes each shareholder may cast at a general meeting of shareholders. The series A shares were listed on what was then the Stockholm Stock Exchange in 1938 and are now listed on the Large Cap list of Nasdaq Stockholm. The series C shares were listed in 1998 and delisted in late January 2020 at the request of Nasdaq Stockholm.

The Articles of Association include a conversion clause, by which owners of series C shares have the right to request conversion of their shares to series A shares. There were no such conversions during the year.

At year-end, the total number of shares outstanding was 206,265,933 of which 197,990,869 were series A shares and 8,275,064 were series C shares. In addition, Hufvudstaden held 5,006,000 series A shares.

Ownership structure

The number of shareholders at the year-end was 27,200. The largest shareholder was L E Lundbergföretagen AB with 45.3 per cent of the total number of shares outstanding and 88.1 per cent of the votes. State Street Bank and Trust

was the second largest shareholder with 6.2 per cent of shares outstanding and 1.2 per cent of the votes.

Institutions and companies with holdings of 100,000 shares or more owned a combined total of 182,353,817 shares as of 31 December 2019, equivalent to 88.4 per cent of total shares outstanding and 96.7 per cent of the votes. Of these, 55 were Swedish institutions and companies, who had a combined holding of 127,653,963 shares equivalent to 61.9 per cent of shares outstanding and 91.4 per cent of the votes. There were 69 foreign institutions and companies with holdings of 100,000 shares or more. Their holdings amounted to 54,699,854 shares equivalent to 26.5 per cent of shares outstanding and 5.3 per cent of the votes. In addition, seven Swedish private individuals who each owned 100,000 shares or more. The number of shareholders increased during the year by 3,121. The proportion of foreign ownership increased during the year from 28.1 to 28.4 per cent of shares outstanding.

Buy-back of shares

The Annual General Meeting held in 2003 authorised the Board to buy back series A shares to a maximum of 10 per cent of all shares in the Company. The authorisation was renewed at the 2019 Annual Meeting. At the end of the year, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of issued shares. No shares were bought back in 2019.

Market capitalization and trading

At year-end 2019, Hufvudstaden's total market capitalization was SEK 39,106 million based on the price of series A shares. The yield was 2.1 per cent based on the market price for the series A share as of 31 December 2019. In total, 156 million shares were traded during the year, equivalent to 76 per cent (80) of total shares outstanding. The turnover rate calculated in relation to shares available for trading (free float) was 138 per cent (146). On average, 630,000 (666,000) shares in Hufvudstaden were traded on each trading day. Swedish shares are being traded to an increasing extent in marketplaces other than Nasdaq Stockholm. In 2019, 58 per cent (51) of trading in Hufvudstaden's shares took place in marketplaces other than Nasdaq Stockholm, such as Cboe 44 per cent, LSE 5 per cent and Turquoise 2 per cent.

Dividend

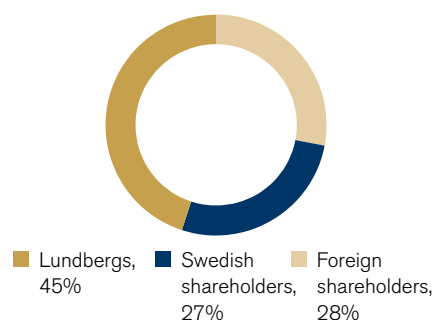
Unless a deviation is justified by investments or the Company's financial position in other respects, Hufvudstaden shares will deliver good dividend growth over time and the distribution will amount to more than half of the net profit from current operations. The board is proposing a dividend of SEK 3.90 per share for 2019, equivalent to 83 per cent of the net profit from current operations. The proposal means that ordinary dividend has been increased for the 19th year in succession.

OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2019

Number of shares	Number of shareholders	Proportion of shareholders, %	Number of issued shares	Proportion of shares, %
1-999	23,609	86.8	3,572,204	1.7
1,000-9,999	3,094	11.4	6,907,852	3.3
10,000-99,999	366	1.3	10,688,323	5.0
100,000	131	0.5	185,097,554	87.6
Shares outstanding	27,200	100.0	206,265,933	97.6
Hufvudstaden			5,006,000	2.4
All issued shares			211,271,933	100.0

Source: Euroclear Sweden

OWNERSHIP STRUCTURE



SHARES AND SHAREHOLDERS

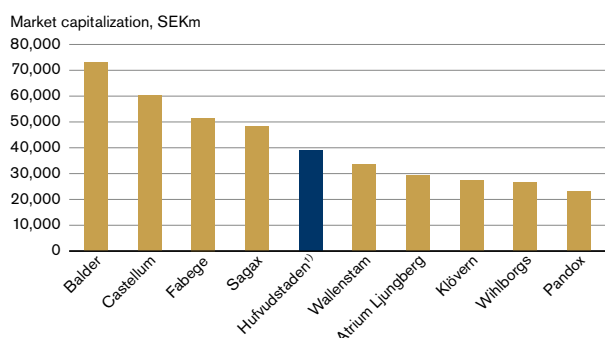
THE LARGEST SHAREHOLDER GROUPS AS OF 31 DECEMBER 2019

	Number of series A shares	Number of series C shares	Total number of Shares	Shares outstanding, %		Issued shares, %	
				Capital	Votes	Capital	Votes
L E Lundbergföretagen	85,200,000	8,177,680	93,377,680	45.3	88.1	44.2	87.6
State Street Bank and Trust	12,736,286	0	12,736,286	6.2	1.2	6.0	1.2
J.P. Morgan Funds	10,771,841	0	10,771,841	5.2	1.0	5.1	1.0
Citibank	9,190,255	1	9,190,256	4.4	0.9	4.3	0.9
BNY Mellon Funds	7,798,980	0	7,798,980	3.8	0.7	3.7	0.7
AMF Fonder	6,950,604	0	6,950,604	3.4	0.7	3.3	0.7
Fourth Swedish National Pension Fund	6,897,367	0	6,897,367	3.3	0.7	3.3	0.7
BNP Paribas	4,995,784	0	4,995,784	2.4	0.5	2.4	0.5
Länsförsäkringar	3,686,474	0	3,686,474	1.8	0.4	1.7	0.4
Other shareholders	49,763,278	97,383	49,860,661	24.2	5.8	23.6	5.8
Shares outstanding	197,990,869	8,275,064	206,265,933	100.0	100.0	97.6	99.5
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
All issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0
Votes (excluding treasury shares)	197,990,869	827,506,400	1,025,497,269				
Votes (including treasury shares)	202,996,869	827,506,400	1,030,503,269				

Source: Euroclear Sweden

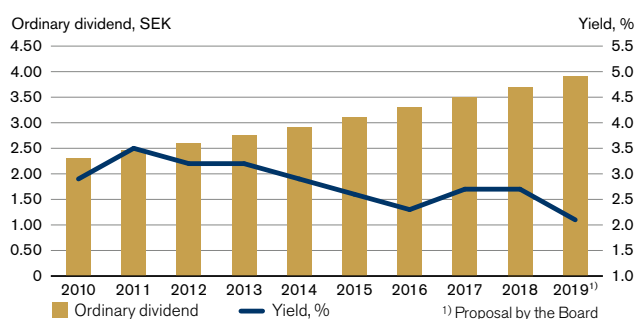
LARGEST LISTED PROPERTY COMPANIES

As of 31 December 2019



¹) Based on the price per series A share. Source: Nasdaq Stockholm

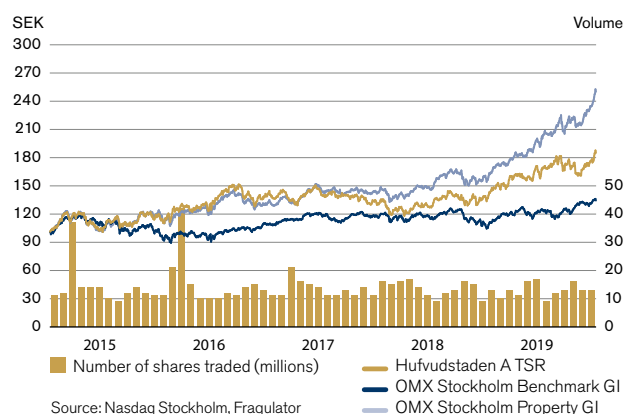
DIVIDEND AND YIELD



¹) Proposal by the Board

SHARE PRICE PERFORMANCE AND TURNOVER

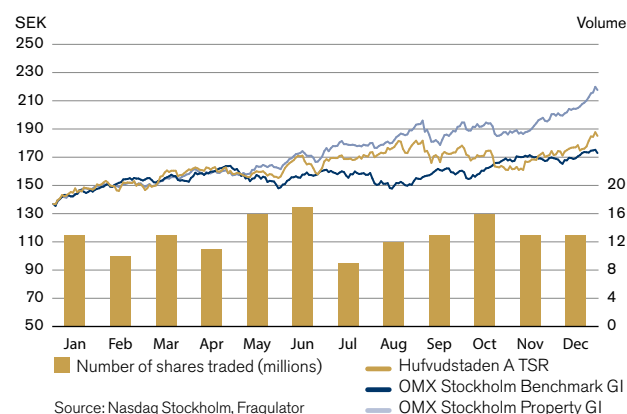
Including dividend in relation to index



Source: Nasdaq Stockholm, Fragulator

SHARE PRICE PERFORMANCE AND TURNOVER 2019

Including dividend in relation to index



Source: Nasdaq Stockholm, Fragulator



A decorative frieze is painted with careful attention to detail in one of our properties in Bibliotekstan, Stockholm.



Administration Report

The Board of Directors and the President hereby present the Annual Report and the consolidated financial statements for Hufvudstaden AB (publ), company registration number 556012-8240, NK 100, SE-111 77 Stockholm, visiting address Regeringsgatan 38, Stockholm.

Hufvudstaden is listed on Nasdaq Stockholm Large Cap. LE Lundberg-företagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group.

It is proposed that the Income Statements and Balance Sheets included in the Annual Report be adopted at the Annual Meeting to be held on March 19, 2020.

The Corporate Governance Report is part of the Administration Report and is presented on pages 92–95.

Business concept

Through its properties in central Stockholm and central Gothenburg, Hufvudstaden's business concept is to offer successful companies high-quality office and retail premises in attractive marketplaces.

Key events during the financial year

Economic growth globally lost momentum slightly during 2019. This decline was followed in part by a natural fluctuation in the economy although it was also a result of political uncertainty, linked mainly to trade relations that were increasingly under strain. In Sweden,

GDP rose by just over 1 per cent. After five years with an interest rate below zero, the Swedish Central Bank raised the key rate to 0 per cent in December, with a forecast that it would remain unchanged for the next couple of years.

Stockholm and Gothenburg are two expanding regions. The population is growing, industry and commerce are dynamic, major infrastructure projects are being implemented, and more tourists are visiting the cities.

The demand for offices was positive during the year and the level of vacant space in the Stockholm CBD at the end of the year was 2–3 per cent. This resulted in market rents rising by up to 5 per cent, and at the end of the year they were SEK 6,300–8,700 per square metre per year, excluding the property tax supplement. In the Gothenburg CBD, the level of vacant space for offices remained unchanged at 2–3 per cent, and market rents rose by approximately 10 per cent to SEK 2,900–3,800 per square metre per year, excluding the property tax supplement.

It is important that both property owners and retailers keep pace with changing consumer behaviour patterns in the retail sector. In response to this need, there has been a firm focus on developing our marketplaces. In the NK department stores, extensive investments are taking place and to date the major development project at the NK department store in Stockholm has resulted in the opening of some 35 new departments. In Bibliotekstan, work on further reinforcing

the area has continued and several companies have opened new stores.

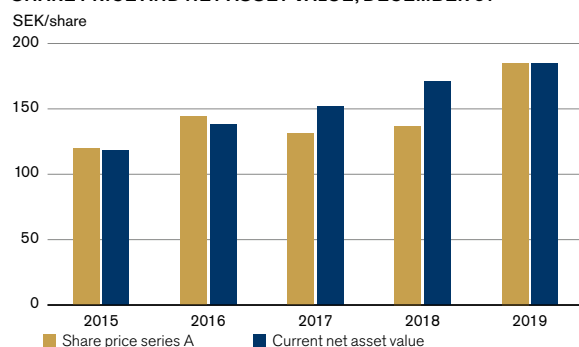
On the Skären 9 property in Bibliotekstan, redevelopment and extension projects have reached the halfway point. The roof has been completed and the new facade has been fitted. In Gothenburg, a new local plan has been received for the Inom Vallgraven 12 block. Surveys have commenced as part of an extensive redevelopment and expansion project. The new local plan will facilitate the creation of additional building rights, representing around 15,000 square metres of gross floor space. The local planning process for the Vildmannen 7 property in Stockholm is proceeding according to schedule. Adaptation of around 30,000 square metres of commercial premises took place during the year.

Operating profitability has risen and Hufvudstaden's financial position continues to be sound. The net loan-to-value ratio was 16 per cent, the equity ratio was 62 per cent, and the interest coverage multiple was 11.4. The value of the Company's property holdings increased by SEK 3.6 billion and now stands at SEK 47.7 billion. The increase can be attributed mainly to the impact of higher rents and slightly lower direct yield requirements and investments.

Property holdings

At the end of the year, Hufvudstaden owned 29 properties (29). Rentable floor space was 278,800 square metres in Stockholm and 105,400 square metres in Gothenburg, making a total of 384,200 square metres (384,500).

SHARE PRICE AND NET ASSET VALUE, DECEMBER 31



NET ASSET VALUE, DECEMBER 31 2019

	SEK million	SEK/share
Equity according to the Balance Sheet	31,382.7	152
<i>Reversal</i>		
Deferred tax, investment properties	8,931.4	43
Non-current net asset value (EPRA NAV)	40,314.1	195
<i>Deduction</i>		
Assessed actual liability, deferred tax, 5%	-2,167.9	-10
Current net asset value (EPRA NNAV)	38,146.2	185

The total rental vacancy level in the Group as at December 31, 2019 was 5.0 per cent (2.6), and the floor space vacancy level was 6.7 per cent (4.3). Excluding current development projects, the rental vacancy level was 1.7 per cent (1.3). In Stockholm, the rental vacancy level was 5.4 per cent and in Gothenburg 3.9 per cent. Excluding current projects, the figures were 1.6 per cent and 2.2 per cent.

During the year, 37,700 square metres (57,200) were renegotiated at a total value of SEK 211 million per year, and new leases were signed for 16,200 square metres (31,100).

Property value and net asset value

Hufvudstaden has made an internal valuation of all the Company's properties. The aim of the valuation is to assess the fair value of the property holdings as at December 31, 2019. To assure the valuation, external valuations were commissioned from three independent valuation companies. The external valuations made at the turn of the year were equivalent to 38 per cent of the fair value, and the corresponding proportion at the mid-year point was 37 per cent.

The fair value of the property holdings as at December 31, 2019 was set at SEK 47.7 billion (44.1). The unrealized change in value was SEK 2,726.9 million (3,620.8).

Valuation method

A valuation of the property holdings was made by assessing each individual property's fair value. The assessment took place based on a valuation made

according to a variant of the location price method, known as the net capitalization method, where the market yield requirement is set against the net operating income of the properties.

A presentation of the valuation methods and assumptions can be found in Note 16.

Net asset value

Based on the valuation of the property holdings, the long-term net asset value (EPRA NAV) was SEK 40.3 billion or SEK 195 per share. The actual net asset value (EPRA NNNNAV) was SEK 38.1 billion or SEK 185 per share following a deduction for assessed deferred tax. This assessment is made in the light of current tax legislation, which means that properties can be sold via a limited company without tax implications. The assessed deferred tax has been set at 5 per cent.

Financing

Hufvudstaden's financing potential has been guaranteed through, among other things, loan assurances. The framework is SEK 4,000 million, of which SEK 3,000 million was unutilized. SEK 1,150 million of this sum is reserved to cover outstanding commercial paper. The Company has satisfactory margins regarding the lenders' covenants relating to the loan agreements. The interest risk has been handled by borrowings of SEK 6,200 million carrying a fixed rate of interest. The fixed interest period was 2.6 years and the average annual equivalent rate was 1.2 per cent. The Company has financing options through

an MTN programme with a limit of SEK 8,000 million, and a commercial paper programme for short-term borrowing totalling SEK 3,000 million.

Sensitivity analysis

The effects on pre-tax profit on a full-year basis, excluding changes in value, in the event of changes in a number of factors are reported in the table below.

The reported impact on profit in conjunction with changes in the rent level, vacancy level, operating and maintenance costs, property tax, and interest rates, refers to the effects that would have occurred, calculated using current information at the end of the financial year.

The reported effects on profit should only be seen as an indication and do not include any effect resulting from compensatory measures that could be taken by the Executive Management.

Guidelines for remuneration to senior executives

The Board of Directors proposes that a decision be taken at the 2020 Annual Meeting that the following guidelines for remuneration to senior executives shall come into effect from the 2020 Annual Meeting.

It is Hufvudstaden's vision to always be perceived as, and prove to be, the most interesting and vibrant property company in Sweden. One of the Company's operating goals in its endeavour to realise this vision is to have the most professional employees in the industry, with firm commitment to the customer, good business acumen, and professional know-how. For further information about the Company's business concept and strategies, reference can be made to the Company's website.

Successful implementation of the Company's business concept and safeguarding of the Company's long-term interests, including sustainability, presuppose that the Company can recruit, develop and retain qualified employees. To achieve this, the Company must be able to offer competitive remuneration.

These guidelines make it possible to offer senior executives a competitive

SENSITIVITY ANALYSIS, PROPERTY VALUATION¹⁾

	Change +/-	Impact on profit before tax, SEK million
Rental revenue	SEK 100/sq m	+/- 1,070
Property costs	SEK 50/sq m	-/+ 535
Rental vacancy level	1.0 percentage points	-/+ 610
Yield requirement	0.25 percentage points	-/+ 3,300

¹⁾ Valuation date 31-12-2019

remuneration package. The guidelines cover the President and other members of the Executive Management, and shall apply to remuneration that is agreed and changes to remuneration that has already been agreed and which are made after the guidelines have been adopted at the Annual Meeting. The guidelines do not cover remuneration decided at the Annual Meeting. Remuneration to senior executives shall comprise a fixed basic salary, pension benefits, the possibility of variable remuneration in the form of a bonus, and other benefits.

Remuneration shall be in line with market conditions and with an incentive in the form of a bonus that is payable only if the Company reports a positive financial result without taking into account unrealised changes in the value of the property holdings.

Any bonus of this nature shall be linked to pre-set, quantifiable criteria, the fulfillment of which will be measured annually. A bonus to the President is subject to a maximum of three months' fixed salary per year, and for other senior executives a maximum of the higher of three months' fixed salary or SEK 250,000 per person per year. The bonus part aims to provide the management with a special incentive to work to achieve positive results for the Company and thus support the interests of the shareholders. The criteria for bonus should be designed to promote the Company's business concept and long-term interests, including sustainability. In total, 70 per cent of the criteria shall refer to financial goals related to operating

results, 15 per cent to operating goals related to customer satisfaction, and 15 per cent to individual goals. The operating result is defined as the operating profit or loss excluding special projects, adaptation of premises, changes in the value of the property holdings, and other items affecting comparability. When the measurement period for fulfillment of criteria for payment of a variable cash payment comes to an end, the extent to which the criteria have been fulfilled is assessed/confirmed. The Board of Directors are responsible for the assessment with regard to variable cash remuneration to the President. As regards variable cash remuneration to other senior executives, responsibility for assessment rests with the President. As regards financial goals, the assessment shall be based on the most recent Annual Report published by the Company.

The retirement age for the President shall be 65 years, although with the right for the President or the Company to decide on retirement with a full pension from the age of 60. The pensionable age for other senior executives shall be in accordance with statutory stipulations or a collective agreement. Pensions payable to the Executive Management, including the pension paid to the President, shall be covered by the ITP plan. In cases where the ITP plan means that a senior executive's pension is a defined contribution pension, the pension premiums shall amount to a maximum of 30 per cent of the fixed annual salary. Variable remuneration (bonus) shall be pensionable.

In addition, a defined contribution pension is payable to the President and Vice President for the part of their salary not covered by the ITP plan. Any such pension premiums shall amount to a maximum of 20 per cent of the fixed annual salary.

The President can also, within the framework of remuneration determined on market terms, receive a direct pension (retirement and survivor's pension) secured via endowment insurance, whereupon premiums for the endowment insurance shall be invested in shares in Hufvudstaden. The premiums for a direct pension of this nature shall amount to a maximum of 25 per cent of the fixed annual cash salary.

Other benefits may include benefits accrued under a collective agreement, health insurance, and company car benefit. Premiums and other costs deriving from such benefits can amount to a maximum of 10 per cent of the fixed annual cash salary.

On cessation of employment, the period of notice can be a maximum of 12 months. A fixed annual salary during the period of notice and severance pay shall not exceed an amount equivalent to two years' fixed annual salary in the case of the President and one year in the case of the Vice President and other senior executives. In the case of notice of termination given by the President or other senior executives, the period of notice shall be a maximum of six months with no entitlement to severance pay. In all cases, there shall be a set-off against any payment received from a new employer.

When formulating the Board of Directors' proposal for these remuneration guidelines, account has been taken of salary and terms and conditions of employment for the Company's employees in that information about the employees' total remuneration, the components that make up the remuneration, and the increase in remuneration and rate of increase over time have been used by the Board of Directors when evaluating and deciding on the reasonableness of the guidelines and the limitations that ensue from the guidelines. The gap

CHANGE IN PRE-TAX PROFIT, EXCLUDING CHANGES IN VALUE

	Change +/-	Impact on profit, excluding changes in value before tax, SEK million	
Rent level	SEK 100/sq m	+/-	38
Vacancy level ¹⁾	1 percentage point	-/+	21
Operation, maintenances and depreciation costs	10 per cent	-/+	14
Property tax ²⁾	1 percentage point	-/+	27
Interest rate	1 percentage point	-18	+10

¹⁾ Vacant floor space is estimated at SEK 5,400 per square metre.

²⁾ Taking account of the fact that a large proportion of the costs are passed on to the tenants within the framework of lease agreements.

between the remuneration paid to senior executives and remuneration received by other employees will be included in the Remuneration Report.

The Board of Directors shall be entitled to temporarily deviate from the guidelines, either wholly or in part, if in an individual case there are specific reasons for doing so and where a deviation is necessary to satisfy the Company's long-term interests and sustainability, or to ensure the Company's financial strength.

The Board of Directors has examined the matter of establishing a Remuneration Committee but has opted not to appoint such a committee and will instead handle remuneration matters as part of the regular work of the Board of Directors. The entire Board of Directors, apart from the President, shall carry out the duties that rest with a Remuneration Committee, including following up and evaluating programmes for variable remuneration for senior executives, the application of guidelines for remuneration to senior executives, as well as general remuneration structures and remuneration levels within the Company. When the Board of Directors discusses and decides on remuneration-related issues, the President shall not be present and nor shall other senior executives to the extent they are affected by the issues under discussion. The Board of Directors shall draw up proposals for new guidelines at least every fourth year and shall present their proposal for a decision at the Annual Meeting. The guidelines shall apply up to the point at which new guidelines are adopted at the Annual Meeting.

CSR Report

Corporate social responsibility, both internally and externally, is key element in the Company's operations. Hufvudstaden contributes to the development of society by assuming responsibility for its properties and the surrounding environment. The Company ensures

that it complies with current laws and agreements by making demands on contractors and sub-suppliers. Hufvudstaden's values characterize the actions of its employees and are a valuable tool in their day-to-day work. The Company's CSR Report is included in the Annual Report on pages 8–11 and 36–48.

Stock market information

All publishing of information is governed by the Company's information policy. The Annual Report and interim reports are published in Swedish and English and are distributed to shareholders and other parties who have expressed an interest.

Reports and press releases are available on the Company's website, where subscription applications can be made as well as requests for information.

Hufvudstaden applied for delisting of the company's Class C shares in early 2020 at the request of Nasdaq Stockholm. The stock exchange subsequently decided to delist Hufvudstaden's Class C shares from Nasdaq Stockholm at the end of January 2020.

The future

The property industry has benefited in recent years from economic growth, low interest rates, and good access to capital. The global economy weakened slightly in 2019, although during the autumn concern about trade conflicts eased. Coupled with continued low interest rates this led to improved economic prospects. The Central Bank forecast was that the key rate would remain unchanged for the next couple of years.

Office tenants are seeking greater flexibility and a higher level of service, which has resulted in a rise in co-working facilities. To meet changing demands, Hufvudstaden will begin co-working operations under its own auspices in Bibliotekstan. The assessment is that the level of vacant space will continue to be low in the immediate future, and the

rent trend will remain stable or slightly positive. Upcoming new and renegotiated leases are expected to result in rent increases. The retail trade is undergoing a transition and growth in the durable goods sector derives mainly or entirely from e-commerce. We will continue to develop our marketplaces with regard to both the physical and digital environment, and with a particular focus on the NK department stores.

Hufvudstaden's property holdings are located in the most central areas of the two largest cities in Sweden, and the Company is financially sound. This creates conditions for the Company to maintain good earning capacity in different phases of the business cycle. The pace at which major development projects are proceeding has been stepped up, and acquisitions to complement existing property holdings are being sought. Investment will take place within the framework of the Company's financial goals. Our level of quality and our long-term approach to property management will be retained.

Dividend and allocation of unappropriated earnings

The Board of Directors has proposed a dividend of SEK 3.90 per share, or a total of SEK 804.4 million. The Board of Directors proposed allocation of unappropriated earnings is presented in full in Note 24 and on page 88.

A statement regarding the dividend proposal, complete with reasons, can be found on the Company's website and will be enclosed with the documents at the Annual Meeting. The statement is also available from the Company by request.

Risks and risk management

Our value-controlled corporate culture involves identifying operating risks and opportunities and continuously assessing the Company's financial risks. Hufvudstaden's potential to influence the financial outcome of current operations in the short term is limited. Revenue flows are governed by relatively long leases, normally 3–5 years, and operating costs are difficult to change in the short term without impacting on service and quality. Successful management of risks and opportunities within a property company requires the adoption of a long-term approach and clear strategies.

Area	Risk	Opportunity	Approach
Marketing and business risks			
Change in the value of properties	Increased direct yield requirements, lower market rents, increased vacant space, and higher property costs lead to reduced property values.	Lower property values on the market lead to increased acquisition potential.	Hufvudstaden has focused on acquiring and developing properties in prime commercial locations in the largest cities in Sweden – Stockholm and Gothenburg – which is considered to limit the risk over time.
Political decisions	A decision to increase property tax constitutes a risk. Other political decisions that have repercussions include increases in energy tax and corporation tax.	Reducing property tax and corporation tax, or more beneficial conditions for meeting Hufvudstaden's energy requirements.	The cost of property tax is mainly passed on to Hufvudstaden's tenants. Energy costs are also passed on. Hufvudstaden has adopted a focused, long-term approach to reducing energy consumption.
A change in the economy could affect consumer purchasing power	Hufvudstaden's commercial properties house mainly offices and retail. Stores are subject to fluctuations in consumer purchasing power, with a resulting impact on Hufvudstaden's earnings.	Increased purchasing power among consumers is resulting in a higher turnover for stores, which is making rent increases possible.	Hufvudstaden is striving to secure longer leases for retail operators with a high guaranteed minimum rent, thus limiting the risk of loss of rental revenue, supplemented by the revenue-generating potential of applying a turnover-based rent supplement.
E-commerce	E-commerce is leading to changes in consumer behaviour, which could affect demand for retail premises and payment capability.	Operators have identified e-commerce as an effective means of supplementing physical store sales, particularly in strong marketplaces.	Continuous development aimed at offering consumers attractive meeting points and marketplaces with unique purchasing experiences. Reinforce the Company's presence in the digital sphere.
Operating risks			
Development of properties	Incorrect assessments in the calculation process. Greater complexity leads to higher costs. Time schedules put under pressure.	Higher yield on the property holdings.	Hufvudstaden is running expansion and redevelopment projects under its own auspices. It employs its own project managers who procure and control implementation together with its partners.
Rent trend	Reduced rent revenue as a result of falling market rents leads to lower earnings and reduced cash flow, which has a negative impact on property values.	Positive growth in rent revenue as a result of rising market rents leads to higher earnings and improved cash flow, which has a positive impact on property values.	Hufvudstaden's concentration on properties in prime commercial locations limits the rental risk. The rent for premises with lease terms of three years or longer is linked to the consumer price index and many agreements also have a minimum indexation level. Changes in rent take place when a lease is renegotiated or when a new lease is signed.
Rent losses on vacant premises	An increase in vacant space due to a fall in demand results in a fall in earnings and reduced cash flow and has a negative impact on property values.	A decrease in vacant space due to a rise in demand results in higher earnings and improved cash flow and has a positive impact on property values.	There should always be a certain level of vacant office space to offer customers the potential to expand, to facilitate redevelopment, and to test the market's willingness to accept higher rent levels. Hufvudstaden works in close ongoing dialogue with tenants to meet their demands.
Property costs	Property costs are affected significantly by changes in energy costs and other current operating costs.	Improvements in efficiency and procurement result in unchanged or lower property costs.	Hufvudstaden is working actively to optimize its property operations. Procurement of electricity takes place with the aid of forward agreements to reduce sensitivity to fluctuations in energy prices. The property holdings are well maintained, which reduces the risk of unforeseen cost increases.
Human resources	Not being perceived as and acting as an attractive, modern employer, thus reducing the ability to retain and recruit the desired level of expertise.	Capitalize on the pride and commitment of employees to the benefit of both the properties and Hufvudstaden as a company.	Hufvudstaden is a value-governed company that, among other things, works with competence development and equality. We offer centrally located offices and a work environment in which people are satisfied and where focus is on well-being and health.
Tax	There is a risk that incorrect handling of VAT and income tax will have consequences.	Correct and responsible management will have positive effect on the brand.	Procedures, processes and in-house personnel with operational experience minimise the risk of errors.

ADMINISTRATION REPORT

Area	Risk	Opportunity	Approach
Financial risks and regulatory compliance			
Financing	The financing risk is reflected in the form of difficulty obtaining funding for operations at a given point in time.		Hufvudstaden has a low loan-to-value ratio and is in a strong position financially. In combination with a stable ownership structure, this reduces the refinancing risk. The aim is to secure financing from at least three of the major banks and with a loan portfolio with long terms and a spread of renewal dates.
Interest risk	Interest risk refers to the negative effect on earnings that a permanent change in the interest rate would have on the Group's net financial income and expense.	A permanent reduction in the interest rate would have a positive effect on the Group's net financial income and expense.	One of the overall aims is to ensure the renewal structure in the leases is taken into account when determining the interest period, and that a balance is struck between the assessed current cost of borrowing and the risk of a sudden major change in the interest rate having a significant negative effect on earnings. The Group's fixed interest term for net debt should normally be 1-4 years.
Credit risk	The credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and any collateral provided does not cover the Group's claims.		Limited by Hufvudstaden deliberately selecting customers with documented business skills and competitive operations. To limit the risks, the financial position of the Group's customers is checked in terms of their credit rating. A bank guarantee or guarantee undertaking is normally required in conjunction with new leases. Rents are invoiced in advance.
Financial statements	Hufvudstaden's financial statements form the basis for a whole series of decisions, both in-house and externally, and their reliability and accuracy are vital.		Structured processes and good internal control ensure the reliability and accuracy of the financial statements.
Sustainability risks			
Construction and management of properties	The risk of workplace accidents among our own employees and among external contractors working on our properties.	A workplace without personal injuries.	Hufvudstaden works systematically and in line with our work environment plan and it carries out ongoing audits of the work environment and natural environment. Our project managers procure and supervise implementation together with our partners. We have processes in place for allocation of duties and responsibility throughout the whole project.
Corruption	Risk of corruption in the purchasing process and the supply chain.	To be and be perceived to be a responsible, attractive partner. Positive impact on the brand.	Hufvudstaden works according to a Code of Conduct. Our expectations are clear, and we impose strict demands on contractors. Procurement takes place according to clearly defined processes. Inconsistencies and irregularities can be reported anonymously and securely through our whistleblower system. Any anomalies that affect Hufvudstaden are brought to its attention and investigated as soon as possible.
Negative environmental impact	The construction and property industry is responsible for a large proportion of energy use and emissions in society and it generates a great deal of waste.	Properties do not produce a negative climate footprint and offer optimal environmental performance.	Hufvudstaden has strategies and goals in place to reduce its environmental impact. Our environmental programme sets out our goals and demands, ensuring environmental impact is minimized. Contractors and suppliers that work for Hufvudstaden also work in accordance with the environmental programme. The aim is to environmentally certify our properties.
Climate change	The risk of a change in precipitation and temperature patterns resulting in deluges and drought.	Long-term property ownership and knowledge of our buildings offer the opportunity to plan and prevent.	Hufvudstaden makes climate change risk assessments of its property holdings. Climate change events include extreme precipitation and changes in water level. Assessments are made to understand, assess, and facilitate the management of future risks.

→
The development at the NK department store in Gothenburg have resulted in brand-new retail concepts.



BYREDO



Income Statements – Group

SEK m	Note	2019	2018
Net revenue	3 – 5		
Property management		1,896.4	1,797.1
Parking operations		84.8	85.8
		1,981.2	1,882.9
Property management costs			
– Maintenance		-28.9	-24.5
– Operations and administration		-287.0	-283.1
– Ground rents		–	-21.8
– Property tax		-200.7	-165.9
– Depreciation right-of-use assets	6	-6.8	–
Property management expenses		-523.4	-495.3
Parking operations, costs		-52.5	-51.1
Cost of operations	6 – 10	-575.9	-546.4
Gross profit		1,405.3	1,336.5
– of which Property management		1,373.0	1,301.8
– of which Parking operations		32.3	34.7
Central administration	6 – 10	-49.2	-43.5
Operating profit before changes in value		1,356.1	1,293.0
Changes in value, investment properties		2,726.9	3,620.8
Changes in value, interest derivatives		3.7	26.6
Operating profit		4,086.7	4,940.4
Financial income and expense			
Financial income	11	0.4	2.9
Financial expense	12	-119.1	-123.4
		-118.7	-120.5
Profit before tax		3,968.0	4,819.9
Tax	14	-821.6	-500.2
PROFIT FOR THE YEAR AFTER TAX		3,146.4	4,319.7
Other comprehensive income		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,146.4	4,319.7
Profit for the year per share before and after dilution, SEK	24	15.25	20.94
Dividend per share, SEK (proposed)		3.90	3.70

COMMENTS

Property management

Net revenue from property management during the year totalled SEK 1,896.4 million (1,797.1), an increase of 6 per cent. The increase can be attributable mainly to new and renegotiated leases and indexation. Net revenue was affected by a loss of income attributable to current projects, mainly at Skären 9 and in the NK department store in Stockholm.

During the year, Hufvudstaden renegotiated leases equivalent to SEK 211 million in annual rental revenue. Renegotiations for both office and retail premises resulted in an average increase in rent of 13 per cent (26), of which offices rose by almost 30 per cent and retail by 4 per cent. Renegotiations in 2018 included offices at the Skären 9 property, which will begin to have an impact on the result in 2021 after the redevelopment and expansion project has been completed. The rental vacancy level was 5.0 per cent (2.6). The rental vacancy level excluding current development projects was 1.7 per cent (1.3).

The turnover-based rent supplement was SEK 11.1 million (12.1), of which the NK properties accounted for SEK 8.9 million (9.3). Turnover at the NK department stores was SEK 2,605 million (2,804). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents.

Maintenance costs totalled SEK 28.9 million (24.5). Operating costs totalled SEK 192.8 million (193.8). Administration costs

totalled SEK 94.2 million (89.3). From 2019, ground rent is recognised as a financial cost in line with the application of IFRS 16. Property tax amounted to SEK 200.7 million (165.9) as a result of a new property tax assessment and has mainly been passed on to the tenants. SEK 6.8 million (–) in depreciation of right-of-use assets according to IFRS 16 has been added. This cost was previously recognized under operating costs. The total cost for property management was SEK 523.4 million (495.3).

The gross profit for the year was SEK 1,373.0 million (1,301.8).

Parking operations

Parking operations comprise operations at Parkaden AB.

Net revenue was SEK 84.8 million (85.8). The decrease can be attributed mainly to lower short-term parking revenue. Costs totalled SEK 52.5 million (51.1) and gross profit totalled SEK 32.3 million (34.7).

Changes in value

Unrealized changes in the value of investment properties totalled SEK 2,726.9 million (3,620.8). The unrealized increase in value can be attributed mainly to the effect of higher market rents and a slightly lower yield requirement. The yield requirement has on average fallen by 14 points and in conjunction with the above valuation it stood at 3.6 per cent (3.8).

Changes in the value of interest derivatives totalled SEK 3.7 million (26.6). All interest derivatives expired in 2019.

Financial items

Financial income was SEK 0.4 million (2.9). Financial expense was SEK -119.1 million (-123.4), of which -96.7 million (-123.4) refers to borrowing costs, and SEK -22.4 (–) refers to amended recognition under IFRS 16. The cost of borrowing has fallen as a result of a lower rate of interest on borrowings.

Tax

The Group's tax expense was SEK -821.6 million (-500.2), of which SEK -142.3 million (-147.1) was current tax and SEK -679.3 million (-353.1) was deferred tax.

In June 2018, the Swedish Parliament decided to reduce the rate of corporation tax in two stages, from 22.0 per cent to 21.4 per cent in 2019, and to 20.6 per cent in 2021. This resulted in a recalculation of deferred tax during 2018, which in accounting terms had a positive effect of SEK 532.7 million.

Profit for the year

The profit for the year after tax was SEK 3,146.4 million (4,319.7). The decrease can be attributed mainly to lower unrealized changes in the value of the property holdings and the recalculation of deferred tax the previous year following the decision to reduce Swedish corporation tax. The application of IFRS 16 has only had a marginal impact on profit for the year, for more information see Note 1, pages 71–72.

Balance Sheets – Group

SEK m	Note	31-12-2019	31-12-2018
ASSETS			
Fixed assets			
Intangible fixed assets	15	70.5	11.9
Investment properties	16	47,680.6	44,088.5
Tangible fixed assets	17	10.0	9.5
Right-of-use assets	19	760.0	–
Non-current receivables	20	20.6	15.7
Total fixed assets		48,541.7	44,125.6
Current assets			
Accounts receivable	21	12.2	17.5
Other receivables		2.8	0.9
Prepaid expense and accrued income	22	78.8	160.5
Cash and bank holdings	23	1,706.1	1,070.7
Total current assets		1,799.9	1,249.6
TOTAL ASSETS		50,341.6	45,375.2
EQUITY AND LIABILITIES			
Equity			
	24		
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Profit brought forward, including profit for the year		29,698.2	27,315.0
Total equity		31,382.7	28,999.5
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	6,700.0	5,700.0
Deferred tax liabilities	26	8,972.3	8,293.0
Non-current lease liabilities	25	719.0	–
Other provisions		61.0	50.1
Total non-current liabilities	27	25.7	19.6
Total non-current liabilities		16,478.0	14,062.7
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	1,650.0	1,650.0
Current lease liabilities	25	41.4	–
Accounts payable		126.0	161.9
Income tax liability		14.0	9.7
Other liabilities	28	105.5	107.2
Accrued expenses and prepaid income	30	544.0	384.2
Total current liabilities		2,480.9	2,313.0
Total liabilities		18,958.9	16,375.7
TOTAL EQUITY AND LIABILITIES		50,341.6	45,375.2

COMMENTS

Investment properties

The carrying amount for properties in the Group was SEK 47,680.6 million (44,088.5). The increase in the properties' fair value can be attributed to unrealized changes in value totalling SEK 2,726.9 million (3,620.8) and investments in current development projects in the property holdings during the year totalling SEK 865.2 million (737.7). Investment properties in the Group are reported at fair value according to IAS 40, which means there is no depreciation. The valuation method is presented in Note 16. The properties' fiscal residual value was SEK 3.3 billion (3.3).

Right-of-use assets

Right-of-use assets totalled SEK 760.0 million (–) and comprise mainly site leaseholds recognised at fair value according to the application of IFRS 16. Site leaseholds are considered to be perpetual lease agreements and there is no depreciation. Other agreements covered by IFRS 16 are depreciated during the term of the

agreement. For more information see Note 1, pages 71–72.

Cash and cash equivalents

Cash and bank holdings amounted to SEK 1,706.1 million (1,070.7). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is normally used for amortization of loans or is invested in short-term instruments with high liquidity and low risk. There are no limits on the right of use of cash and cash equivalents.

Lease liabilities

Lease liabilities totalled SEK 760.4 million (–), comprising future ground rents and costs for other lease agreements which have been computed at the current value according to the application of IFRS 16 for more information see Note 1, pages 71–72.

Interest-bearing liabilities

The Group's liabilities to credit institutions amounted to SEK 1,000 million (1,000). At the year-end, Hufvudstaden's commercial paper totalled SEK 1,150 million (1,650) and bond loans totalled SEK 6,200 million (4,700). Borrowings totalled SEK 8,350 million (7,350). The average fixed interest period was 2.6 years (2.6), the capital tie-up period was 3.3 years (3.9), and the average annual equivalent interest cost at the year-end was 1.2 per cent (1.2). Interest-bearing liabilities include lease liabilities of SEK 760.4 million (–). Net debt totalled SEK 7,404.3 million (6,279.3).

Deferred tax liabilities

Deferred tax liabilities amounted to SEK 8,972.3 million (8,293.0). The change can be attributed mainly to deferred tax on unrealized changes in value.

Changes in Equity – Group

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
Opening equity 01-01-2018	1,056.4	628.1	23,717.2	25,401.7
Profit for the year			4,319.7	4,319.7
Other comprehensive income for the year			–	–
Comprehensive income for the year			4,319.7	4,319.7
Dividend			-721.9	-721.9
Closing equity 31-12-2018	1,056.4	628.1	27,315.0	28,999.5
Opening equity 01-01-2019	1,056.4	628.1	27,315.0	28,999.5
Profit for the year			3,146.4	3,146.4
Other comprehensive income for the year			–	–
Comprehensive income for the year			3,146.4	3,146.4
Dividend			-763.2	-763.2
Closing equity 31-12-2019	1,056.4	628.1	29,698.2	31,382.7

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all the issued shares. At the Annual Meeting on March 21, 2019, the Board of Directors was given a renewed mandate to buy back a maximum of 10 per cent of all issued shares with the aim of giving the Board the opportunity

to adjust the capital structure in order to create increased value for the Company's shareholders and/or allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of companies or properties. No buy-backs took place during 2019.

A dividend of SEK 3.70 per share was paid to the Company's shareholders for 2019, totaling SEK 763,183,952 kronor.

The proposed dividend according to the allocation of unappropriated earnings is SEK 804.4 million.

Office tenants enjoy working in our properties. We were ranked first in this year's customer satisfaction survey in the Large Company category.



Cash Flow Statements – Group

SEK m	Note	2019	2018
Current operations			
Profit before tax		3,968.0	4,819.9
Depreciation and impairment of assets		52.8	8.6
Unrealized change in value, investment properties		-2,726.9	-3,620.8
Unrealized change in value, interest derivatives		-3.7	-26.6
Other changes		6.0	3.4
Income tax paid		-138.0	-162.2
Cash flow from current operations before changes in working capital		1,158.2	1,022.3
Cash flow from changes in working capital			
Decrease (+) / Increase (-) in operating receivables		72.1	-37.4
Increase (+) / Decrease (-) in operating liabilities		136.8	18.0
Cash flow from current operations		1,367.1	1,002.9
Investments			
Investment in intangible fixed assets		-58.6	-11.9
Investment in properties		-865.2	-737.7
Investment in equipment		-4.4	-5.6
Cash flow from investments		-928.2	-755.2
Financing			
Loans raised	25	5,350.0	7,100.0
Amortization of loans	25	-4,350.0	-5,950.0
Amortization of lease liabilities		-40.3	-
Dividend paid		-763.2	-721.9
Cash flow from financing		196.5	428.1
Cash flow for the year		635.4	675.8
Cash and cash equivalents at the beginning of the year		1,070.7	394.9
Cash and cash equivalents at the year-end	23	1,706.1	1,070.7
Supplementary disclosures, cash flow statements			
Interest received		0.8	3.5
Interest paid		116.8	100.6

COMMENTS

Cash flow from current operations

Cash flow from current operations before changes in operating capital increased by SEK 135.9 million to SEK 1,158.2 million (1,022.3). Changes in working capital increased cash flow by SEK 208.9 million (-19.4). Cash flow from current operations thus totalled SEK 1,367.1 million (1,002.9).

Cash flow from investments

Cash flow from investments amounted to SEK -928.2 million (-755.2) and refers to investment in existing property holdings, intangible fixed assets, and equipment.

Cash flow from financing

Cash flow from financing amounted to SEK 196.5 million (428.1). Net borrowing increased by SEK 1,000 million compared to SEK 1,150 million the previous year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK 635.4 million (675.8).

Cash and cash equivalents

The Group's cash and cash equivalents totalled SEK 1,706.1 million (1,070.7) and comprised cash and bank holdings. In addition to cash and cash equivalents, there were unutilized overdraft facilities of SEK 40 million (40). As

at December 31, 2019, Hufvudstaden had loan assurances of SEK 4,000 million. At the year-end, SEK 3,000 million was unutilized, of which SEK 1,150 million was reserved to cover outstanding commercial paper. The commercial paper programme totalled SEK 3,000 million, of which SEK 1,150 million was outstanding at the year-end. The unutilized amount is SEK 1,850 million. The Company's MTN programme has a limit of SEK 8,000 million, of which SEK 6,200 million has been issued. The unutilized amount is SEK 1,800 million.

There are no restrictions on the right of use of cash and cash equivalents.

Parent Company

INCOME STATEMENTS

SEK m	Note	2019	2018
Net revenue	5	1,282.7	1,210.8
Operating costs	6–10	-802.7	-656.5
Gross profit		480.0	554.3
Central administration	6–10	-49.2	-43.5
Changes in value, derivatives		3.7	26.6
Operating profit		434.5	537.4
Profit from financial items			
Group contributions received		162.9	158.2
Financial income	11	0.4	2.9
Financial expense	12	-96.7	-123.3
		66.6	37.8
Profit after financial items		501.1	575.2
Appropriations	13	174.5	136.4
Profit before tax		675.6	711.6
Tax	14	-145.0	-96.5
PROFIT FOR THE YEAR		530.6	615.1

STATEMENT OF COMPREHENSIVE INCOME

SEK m	Note	2019	2018
Profit for the year		530.6	615.1
Other comprehensive income		–	–
COMPREHENSIVE INCOME FOR THE YEAR		530.6	615.1

BALANCE SHEETS

SEK m	Note	31-12-2019	31-12-2018
ASSETS			
Fixed assets			
Intangible fixed assets	15	2.6	0.5
<i>Tangible fixed assets</i>			
Investment properties	16	8,066.7	7,980.7
Equipment	17	4.7	5.3
Total tangible fixed assets		8,071.4	7,986.0
<i>Financial fixed assets</i>			
Participations in Group companies	18	2,886.9	2,886.9
Non-current receivables	20	20.5	15.7
Total financial fixed assets		2,907.4	2,902.6
Total fixed assets		10,981.4	10,889.1

SEK m	Note	31-12-2019	31-12-2018
Current assets			
<i>Current receivables</i>			
Accounts receivable	21	1.3	4.5
Receivables from Group companies		615.3	509.2
Other receivables		1.9	1.8
Prepaid expenses and accrued income	22	53.6	135.5
Total current receivables		672.1	651.0
Cash and bank holdings	23	1,681.2	1,060.0
Total current assets		2,353.3	1,711.0
TOTAL ASSETS		13,334.7	12,600.1
EQUITY AND LIABILITIES			
Equity	24		
<i>Restricted equity</i>			
Share capital		1,056.4	1,056.4
Revaluation reserve		124.2	124.2
Statutory reserve		798.1	798.1
Total restricted equity		1,978.7	1,978.7
<i>Non-restricted equity</i>			
Retained earnings		829.3	977.4
Profit for the year		530.6	615.1
Total non-restricted equity		1,359.9	1,592.5
Total equity		3,338.6	3,571.2
Untaxed reserves	29	161.6	340.5
<i>Provisions</i>			
Pension provisions	27	25.6	19.5
Provisions for taxes	26	871.1	868.3
Total provisions		896.7	887.8
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	6,700.0	5,700.0
Liabilities to Group companies		0.7	0.7
Other liabilities		53.7	44.4
Total non-current liabilities		6,754.4	5,745.1
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	1,650.0	1,650.0
Accounts payable		74.6	73.0
Liabilities to Group companies		6.8	1.3
Income tax liability		4.4	6.5
Other liabilities	28	32.7	40.0
Accrued expenses and prepaid income	30	414.9	284.7
Total current liabilities		2,183.4	2,055.5
TOTAL EQUITY AND LIABILITIES		13,334.7	12,600.1

INCOME STATEMENT – PARENT COMPANY

CHANGES IN EQUITY

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings including profit for the year	Total
Opening equity 01-01-2018	1,056.4	124.2	798.1	1,699.3	3,678.0
Profit for the year				615.1	615.1
Other comprehensive income for the year				–	–
Comprehensive income for the year				615.1	615.1
Dividend				-721.9	-721.9
Closing equity 31-12-2018	1,056.4	124.2	798.1	1,592.5	3,571.2
Opening equity 01-01-2019	1,056.4	124.2	798.1	1,592.5	3,571.2
Profit for the year				530.6	530.6
Other comprehensive income for the year				–	–
Comprehensive income for the year				530.6	530.6
Dividend				-763.2	-763.2
Closing equity 31-12-2019	1,056.4	124.2	798.1	1,359.9	3,338.6

CASH FLOW STATEMENTS

SEK m	Note	2019	2018
Current operations			
Profit after financial items		501.1	575.2
Depreciation and impairment of assets		188.0	181.4
Unrealized changes in value, interest derivatives		-3.7	-26.6
Group contribution		-162.9	-158.2
Other changes		6.1	3.4
Income tax paid		-144.3	-166.7
Cash flow from current operations before changes in working capital		384.3	408.5
Cash flow from changes in working capital			
Decrease (+) / Increase (-) in operating receivables		134.5	28.2
Increase (+) / Decrease (-) in operating liabilities		138.7	-26.3
Cash flow from current operations		657.5	410.4
Investments			
Investment in intangible fixed assets		-2.1	-0.5
Investment in properties		-269.1	-139.8
Investment in equipment		-1.9	-2.8
Cash flow from investments		-273.1	-143.1
FINANCING			
Loans raised	25	5,350.0	7,100.0
Amortization of loans	25	-4,350.0	-5,950.0
Dividend paid		-763.2	-721.9
Cash flow from financing		236.8	428.1
Cash flow for the year		621.2	695.4
Cash and cash equivalents at the beginning of the year		1,060.0	364.6
Cash and cash equivalents at the year-end	23	1,681.2	1,060.0
Supplementary disclosures, cash flow statements			
Interest received		0.7	3.2
Interest paid		94.3	100.6

COMMENTS

Net revenue was SEK 1,282.7 million (1,210.8). The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases as well as indexation. Rent revenue totalled SEK 1,239.0 million (1,172.1) and service revenue SEK 43.7 million (38.7). Property tax increased as a result of a new property tax assessment and the cost has mainly been passed onto the tenants. Maintenance costs totalled SEK 283.7 million (177.9). The increase can be attributed primarily to major current development projects. Operating costs totalled SEK 802.7 million (656.5). Gross profit amounted to SEK 480.0 million (554.3).

Net financial income and expense was SEK 66.6 million (37.8). Net financial income and expense includes group contributions from subsidiaries totalling SEK 162.9 million (158.2). In June 2018, the Swedish Parliament decided to reduce the corporation tax rate. This resulted in a recalculation of deferred tax in 2018, which in accounting terms had a positive impact of SEK 58.9 million.

Cash and cash equivalents at the year-end totalled SEK 1,681.2 million (1,060.0). Investment in existing property holdings, intangible fixed assets, and equipment totalled SEK 273.1 million (143.1).

Notes

NOTE 1. ACCOUNTING PRINCIPLES

General information

Hufvudstaden AB (publ), company registration number 556012-8240, is a limited liability company with its registered office in Stockholm. Hufvudstaden is quoted in the Large Cap list on Nasdaq Stockholm. The Group's principal area of business is the ownership, development and management of commercial properties. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Consolidated Financial Statements for Hufvudstaden AB (publ) for 2019 have been approved for publication according to a decision reached by the Board on February 13, 2020. It is proposed that the Annual Report and Consolidated Financial Statements be adopted at the Annual Meeting on March 19, 2020.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the EU. In addition, the Swedish Financial Accounting Standards Council recommendation RFR 1, Supplementary Rules for Consolidated Financial Statements, has been applied. Hufvudstaden's Income Statements are classified according to function and are adapted to the Company's operations.

The Parent Company applies the same accounting principles as the Group, except in those cases stated below under the heading 'Parent Company accounting principles'. The deviations that arise between the principles applied by the Parent Company and the principles applied by the Group are attributable to limits on the potential to apply IFRS in the Parent Company as a result of the Annual Accounts Act, the Safeguarding of Pension Commitments Act, and in certain cases for tax reasons.

Prerequisites in conjunction with preparation of the financial statements

The Group's functional currency is Swedish kronor, which is also the reporting currency for the Group and the Parent Company. Assets and liabilities are reported at the historical acquisition values, apart from certain financial assets and liabilities as well as investment properties valued at fair value. Financial assets and liabilities valued at fair value comprise derivatives and assets classified as financial assets valued at fair value in profit or loss. Valuation at fair value of investment properties and financial derivatives is the accounting principle that has greatest impact on the Consolidated Financial Statements.

The accounting principles stated below for the Group have been applied to all periods that are presented in the Consolidated Financial Statements unless stated otherwise below. The Group's accounting principles have been applied to reporting and consolidation of the Parent Company and subsidiaries.

In certain cases rounding-off has taken place, which means that tables and calculations do not always tally.

Assessments and estimates

In order to prepare statements in compliance with IFRS, the Executive Management makes use of a number of material accounting estimates. In addition, it is required that the Executive Management makes certain assessments in conjunction with the application of the Group's accounting principles.

The most material sources of uncertainty in the estimates are presented below.

Investment properties

The value of a property can only be determined with certainty when payment has been received following its sale. In the final accounts, an estimate is made of the market value, which in accounting terms is known as the fair value. The fair value is determined based on a valuation according to a variation on the location price method, known as the net capitalization method. The method means that the market yield requirement is put in relation to the net operating income of the properties. In this valuation, assessment is made of the yield requirement for each individual property. The properties' net operating income is calculated based on the market rent revenue, long-term rental vacancy level, and normalized operating and maintenance costs. In the case of other project properties and undeveloped land, the value is determined based on weighing up the location price method and a development calculation where the net capitalization method is used for a completed property with a deduction for construction costs, a profit for the developer that is line with the market, as well as financial costs and rental vacancy costs during the construction period. Hufvudstaden's internal property valuation is checked with independent external valuation companies, where an uncertainty range of +/-5 per cent of the assessed fair value is given.

If Hufvudstaden's valuation is outside the uncertainty range, an explanation for the deviation is given. External changes could mean that an assumption made by the Executive Management needs to be reviewed. This could result in a considerable variation in the value of the property holdings, which can be seen in the sensitivity analysis in Note 16.

New accounting principles

The Group has applied IFRS 16 Leases since January 1, 2019. As a result, the Group has changed its accounting principles for leases in accordance with what is stated in the Leases section on pages 71–72. The Group has opted to apply the simplified transition method, which among other things means that the comparison year has not been converted in accordance with IFRS 16.

Otherwise new and amended standards that came into effect in 2019 have not had any material impact on the Consolidated Financial Statements.

New standards that will come into effect in 2020 onwards

New and amended IFRS that will be applied in the future are not expected to have any material impact on the Consolidated Financial Statements.

Changes in Swedish regulations governing financial statements

Changes during 2019 have not had any material impact on Hufvudstaden's financial statements apart from a slight expansion in disclosure requirements.

Classification etc.

Fixed assets and non-current liabilities in the Parent Company and Group comprise amounts that are expected to be recovered or paid after more than twelve months have elapsed, calculated from the period-end. Current assets and current liabilities in the Parent Company and the Group comprise amounts that are expected to be recovered or paid within twelve months, calculated from the period-end. Fixed assets, the carrying amount of which is estimated to be recovered following their sale within one year, are classified as fixed assets held for sale and are reported according to IFRS 5.

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Consolidated Financial Statements

The Consolidated Financial Statements cover the Parent Company and all subsidiaries. Those companies in which the Parent Company, directly or indirectly, has a controlling interest are consolidated subsidiaries. The subsidiaries have been reported in accordance with the acquisition method, which means that assets and liabilities that have been taken over are valued at fair value according to the acquisition analysis. If the acquisition does not refer to business operations that are normal in conjunction with the acquisition of properties, the acquisition costs are divided among the individually identifiable assets and liabilities according to their fair value at the time of acquisition without any reporting of goodwill and a deferred tax receivable/liability in conjunction with the acquisition. Untaxed reserves have been divided into a deferred tax liability and equity. Intra-group receivables, liabilities and profits or losses that arise from intra-group transactions have been eliminated in conjunction with the preparation of the consolidated financial statements. Consolidation in conjunction with acquisitions takes place from the date on which a controlling influence is acquired, and in conjunction with disposals, up to the date on which the controlling influence ceases.

Reporting of revenue and costs

Rent revenue and service revenue

Net revenue comprises rent revenue and service revenue. Rent revenue refers to invoiced rent, including indexation, supplementary property tax charges, as well as investments. Service revenue comprises all other additional charges, such as heating, cooling, waste management and water. Rent revenue is allocated to a specific period on a straight-line basis over the term of the lease. Service revenue is reported during the period in which the service is performed on behalf of the tenant. Rent revenue and service revenue paid in advance are thus reported as prepaid revenue.

Income from property sales

Income from property sales is normally reported on the completion date unless control has passed to the purchaser previously. In addition, account is taken of circumstances that could affect the outcome of the transaction and which are beyond the control of the seller and/or purchaser.

Intra-Group rents and costs

Intra-Group rents and costs are on market terms and are reported in their entirety as incurred.

Administration costs

Administration costs have been split into property management administration costs, which are included in gross profit, and central administration costs, which are included in the operating profit.

Financial income and expense

Financial income and expense comprises interest income and interest expense, dividends from subsidiaries, and unrealized and realized gains on financial investments. Interest income and interest expense are reported in the Income Statement for the period to which they refer, apart from borrowing expenses that are attributable directly to investments and where the financing cost is of material significance. Interest income attributable to accounts receivable is included in the gross profit. Interest income and interest expense are calculated according to the effective interest rate method.

Leases

All the Group's lease agreements relating to commercial premises, as lessor, are classified as operating lease agreements. Accounting principles of these are presented in the section Rent revenue and service revenue above.

When an agreement is entered into, the Group assesses whether the agreement is, or contains, a lease agreement. An agreement is, or contains, a lease agreement if the agreement conveys the right to control an identified asset during a specified period in return for payment.

At the beginning of the lease agreement, or following a review of a lease agreement that contains several components – both lease and non-

lease components – the Group allocates the payment made under the agreement to each component based on the independent price.

Principles applied from January 1, 2019

Lease agreements where the Group is the lessee

The Group recognizes a right-of-use asset and a lease liability on the date the lease agreement came into effect. The right-of-use asset is valued initially at acquisition value, which comprises the initial value of the lease liability with the addition of lease costs paid on or before the commencement date plus any initial direct charges. The right-of-use asset is depreciated on a straight-line basis from the date of commencement to the end of the right-of-use period of the asset or the end of the lease period, whichever comes first. For the Group this is normally the end of the lease period. In rarer cases, when the acquisition value of the right-of-use asset reflects the fact that the Group will utilize an option to purchase the underlying asset, the asset is impaired at the end of the right-of-use period.

The lease liability – which is divided into a non-current and current part – is valued initially at the current value of the remaining lease charges during the assessed lease period. The lease period comprises the non-terminable period with the addition of further periods in the agreement if, on the commencement date, it is considered to be reasonably certain that this option will be utilized.

The lease charges are normally discounted at the Group's average marginal rate of interest on borrowings. In those cases where the implicit rate of interest in the lease agreement can be easily set, this interest rate is used instead. The Group's average marginal rate of interest on borrowings during 2019 and as at December 31, 2019, was 1.50 per cent, and this will continue to be the case throughout the whole of the financial year.

The lease liability covers the present value of the following charges during an assessed lease period:

- Fixed charges, including what are in substance fixed charges.
- Variable lease charges, index-linked or price-linked, initially valued using the index or price that applied on the commencement date.

The value of the liability increases with the interest cost for each period and is reduced by the lease payments made. The interest cost is calculated as the value of the liability multiplied by the discount rate.

The lease liability for the Group's commercial premises with index-linked rent are calculated on the rent payable at the end of each reporting period. At this point in time, the liability is adjusted to the same extent as the recognized value of the right-of-use asset. The liability and the value of the asset are adjusted correspondingly in conjunction with a reassessment of the lease period.

Certain lease agreements contain extension options or termination options which the Group can exercise or not exercise for up to a year before the end of the non-terminable lease period. The options can be exercised by both the lessor and the Group as lessee. Whether it is reasonably certain that an extension option will be exercised is determined on the commencement date of the lease agreement. The Group examines whether it is reasonably certain that an extension option will be exercised if there are material changes in circumstances that are within the control of the Group.

The Group's agreements for commercial premises and land, not site leasehold agreements, comprise mainly non-terminable terms of several years, which are extended by a further number of years if the Group or the lessor does not terminate the agreement by giving 9–24 months' notice. For the majority of these agreements, the Group assessment is that it is not reasonably certain that the agreements will be extended beyond the first term, i.e. the lease period is normally assessed to be just one term.

In its capacity as lessee, Hufvudstaden has identified site leasehold agreements to be the most material. The lease liability as at January 1, 2020 was SEK 788 million, of which site leasehold agreements totalled SEK 676 million. According to IFRS 16, site leasehold rights are considered to be perpetual lease agreements recognized at fair value and will thus not be depreciated. The value of the right-of-use asset remains until the next renegotiation of the ground rent. The lease liability is not amortized, and the value remains unchanged until the ground rent is renegotiated. Ground rent costs are recognized in their entirety as a financial

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expense, which is different from the previous application according to IAS 17 Leases, where they are recognized as operating costs charged to gross profit and loss.

The Group presents right-of-use assets and lease liabilities as separate items in the Consolidated Financial Statement.

For lease agreements where the lease term is 12 months or less, or which have an underlying low-value asset, i.e. below SEK 50,000, no right-of-use asset and lease liability are recognized. Lease charges for these lease agreements are recognized as a cost on a straight-line basis over the term of the lease.

Below is a reconciliation of the undertakings for operational leases at the end of the 2018 financial year, and the lease liability and right-of-use asset as at January 1, 2019 following the transition to IFRS 16.

Reconciliation, operational lease undertakings SEK m	Group
Undiscounted undertakings in respect of operational leases as at December 31, 2018	231.1
Additional undiscounted undertakings in respect of operational leases as at January 1, 2019	3.2
Discounting of the Group's average interest rate on lease agreements	554.6
Agreements in respect of short-term leases which are expensed	-0.8
Agreements regarding leasing of low-value assets which are expensed	-0.1
Recalculation as a result of extending agreements	0.1
Lease liability as at January 1, 2019	788.1

Comparison of the application of IFRS 16 INCOME STATEMENTS – SUMMARY

GROUP, SEK m	2019	
	incl. IFRS 16	excl. IFRS 16
Net revenue	1,981.2	1,981.2
Cost of operations	-575.9	-598.1
Gross profit	1,405.3	1,383.1
Central administration	-49.2	-49.2
Operating profit before changes in value	1,356.1	1,333.9
Changes in value	2,730.6	2,730.8
Operating profit	4,086.7	4,064.7
Financial income and expense	-118.7	-96.3
Profit before tax	3,968.0	3,968.4
Tax	-821.6	-821.7
Profit after tax	3,146.4	3,146.7
Total comprehensive income for the year	3,146.4	3,146.7

BALANCE SHEETS – SUMMARY

GROUP, SEK m	2019	
	incl. IFRS 16	excl. IFRS 16
Fixed assets	48,541.7	47,781.7
Current assets	1,799.9	1,799.9
Total assets	50,341.6	49,581.6
Equity	31,382.7	31,383.0
Non-current liabilities	16,478.0	15,759.1
Current liabilities	2,480.9	2,439.5
Total equity and liabilities	50,341.6	49,581.6

Principles applied up to and including December 31, 2018

Prior to January 1, 2019, the Group, both in its capacity as lessee and lessor, classified lease agreements as operating or finance leases based on whether the agreement essentially transferred the risks and benefits associated with ownership of the asset.

As lessee, costs related to operating lease agreements were recognized in profit or loss for the year on a straight-line basis over the term of the lease. Variable charges were expensed during the period in which they arose.

Financial lease agreements in which the Group was lessee have been essentially recognized in the same way as the principles applied from January 1, 2019. The accounting principles applied during the comparison period to agreements where the Group is the lessor do not differ from IFRS 16.

Remuneration to employees

Remuneration to employees, such as salaries, paid holidays and social insurance costs, are reported in line with the employee performing services in return for payment. Remuneration according to a bonus scheme is reported at the year-end.

As regards the Group's pension undertakings, the majority of white-collar workers are covered by what is known as the ITP plan, which is secured through insurance with Alecta, and blue-collar workers are covered by the SAF-LO contractual pension plan. During the 2019 financial year, the Company did not have access to information that made it possible to report these plans as defined benefit plans. The pension plans are therefore reported as defined contribution plans. The commitments regarding charges to defined contribution plans are reported as a cost in the Income Statement when they arise.

Tax

Tax is reported in the profit for the year apart from when the underlying transaction is reported under Other Comprehensive Income or under Equity, whereupon the associated tax effect is reported under Other Comprehensive Income or Equity. Current tax is the tax to be paid or received for the year in question. This also includes an adjustment of current tax attributable to previous periods. Deferred tax is calculated according to the Balance Sheet method, using temporary differences between carrying amounts and tax values of assets and liabilities as a starting point. The amounts are calculated based on how the temporary differences are expected to be realized, and on application of the tax rates and tax rules that had been decided or notified as at the year-end. In the Parent Company, untaxed reserves are reported inclusive of the deferred tax liability.

Deferred tax assets in respect of deductible temporary differences and a carryforward of unused tax losses are only reported to the extent it is likely that these will entail lower tax payments in the future.

Financial instruments

The Group classifies the financial assets valued at the accrued acquisition value or fair value through profit or loss. The financial liabilities are classified at the accrued acquisition value or the fair value through profit or loss.

A financial instrument is valued initially at fair value excluding transaction costs. Financial assets and liabilities are recorded on application of the business date principle. A financial asset or financial liability is recorded in the Balance Sheet when the Company becomes a party to an agreement. An account receivable is recorded in the Balance Sheet when an invoice has been sent. A rent receivable, however, is recorded when each rental period has commenced. A liability is taken up when the counter-party has performed and a contractual obligation to pay exists, even if an invoice has not yet been received. A financial asset (or part thereof) is removed from the Balance Sheet when the rights in the agreement are realized or fall due, or when the Company transfers in all material respects the risks and benefits that are linked to ownership. A financial liability (or part thereof) is removed from the Balance Sheet when the obligation in the agreement is performed or is extinguished in some other manner.

A financial asset and a financial liability are set off and reported as a net amount in the Balance Sheet only when there is a legal right to set off the amounts and when there is an intention to settle the items at a net amount or at the same time realize the asset and settle the liability.

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Financial assets and liabilities valued at fair value in profit or loss

This category comprises financial assets and liabilities when held for trading purposes, i.e. where the main purpose is to sell or repurchase in the short term. Derivatives are classified as being held for trading purposes if they are not identified as hedges. Financial assets in this category are valued continuously at fair value with changes in value reported in the Income Statement. This category includes interest derivatives.

Financial assets and liabilities valued at accrued cost

Receivables are valued at accrued cost. The accrued cost is determined based on the effective annual interest rate calculated at the time of acquisition. The expected term of the accounts receivable is short and consequently the values are reported at the nominal amount without discounting. Accounts receivable and loan receivables are reported at the amounts at which they are expected to accrue, i.e. following a deduction for bad debts.

Cash and bank holdings are reported at the nominal value. Overdraft facilities categorized as loan liabilities are reported under current liabilities.

Receivables with a remaining term of more than 12 months are reported at the accrued cost.

Financial assets that are included in this category are rent receivables and accounts receivable, cash and bank holdings, loan receivables, and other receivables.

All loans are reported at the accrued cost, which means that the value is adjusted by any discounts or premiums paid when the loan was raised or repaid, and costs in conjunction with the raising of loans are allocated to a specific period throughout the term of the loan. Period allocation is calculated on the basis of the effective annual interest rate on the loan. Any profit or loss that arises when the loan is repaid is reported in the Income Statement.

Liabilities are initially reported at fair value and thereafter at the accrued cost. Financial liabilities that are included in this category are loans and other financial liabilities, such as account payables.

Derivatives

Derivatives are reported in the Balance Sheet on the contract date and are valued at fair value, both initially and in conjunction with subsequent revaluations. The Group uses derivatives of financial instruments to reduce interest risks. Borrowing at a variable rate of interest is switched to fixed interest loans through interest swap contracts. The Group reports interest swap contracts as financial instruments valued at fair value through profit or loss.

Impairment of financial instruments

At each period-end, the Group assesses whether there are any objective grounds for impairment of a financial asset. A provision for a decrease in value of accounts receivable is made in accordance to assessments of expected credit losses. Significant financial difficulties on the part of the debtor, the probability that the debtor will enter into bankruptcy or undergo a financial reconstruction, and where payments will not be made or will be delayed (fallen due more than 60 days), are regarded as indicators that there could be a need for impairment of a receivable. The size of the provision comprises the difference between the carrying amount of the asset and the current value of assessed future cash flows, discounted using the original effective interest rate. Changes in value are reported in the Income Statement on a separate line, and paid interest and accrued interest are reported as a financial expense.

Intangible fixed assets

Intangible fixed assets have been reported at cost with a deduction for accumulated depreciation according to plan and any impairments that have been made. Intangible fixed assets are depreciated on a straight-line basis according to plan over a period of 3–5 years based on the acquisition cost.

Tangible fixed assets

Tangible fixed assets are reported as an asset in the Balance Sheet if it is probable that there will be future economic benefits for the Company. Tangible fixed assets are valued at cost with a deduction for accumulated depreciation and any impairments. If an investment is made, borrowing costs that are directly attributable are added to the asset value in those cases where the financing cost is of material significance.

Depreciation, Property Management

Depreciation of tangible fixed assets used in administration is included in Property Management administration.

Depreciation, Parking Operations

Depreciation of tangible fixed assets is included in the cost of Parking Operations.

Depreciation principles

Depreciation according to plan is based on the original acquisition values and the estimated useful life. The estimated useful life for equipment is 3–5 years.

Investment properties

Investment properties are properties that are held for the purposes of securing rent revenue and/or an increase in value. Initially, investment properties are recognized at the acquisition cost, which includes expenses directly attributable to the acquisition. After the initial recognition, investment properties are reported in the Balance Sheet at fair value. The fair value is based on internal valuations of each individual property. These valuations take place each quarter. To assure the quality of the valuation, independent external valuations are obtained from valuation companies at least once a year. The external valuations normally cover 30–40 per cent of the internally assessed fair value of the property holdings and the selection of properties represents different property categories, towns, locations, technical standards and construction standards. There is a continuous update during the year of the internal valuation of the properties to take account of purchases, sales and investments. Hufvudstaden also investigates on an ongoing basis if there are other indications of changes in the fair value of the properties. These indications could take the form, for example, of major leases, terminations, and material changes in the yield requirements.

Both unrealized and realized changes in value are reported in the Income Statement. Changes in value are reported net.

Additional expenses are only capitalized when it is probable that the future economic benefits that are associated with the asset will accrue to the Group, that the cost can be calculated reliably, and that measures refer to replacement of an existing component or the inclusion of a new, identified component. Other repair and maintenance costs are expensed continuously during the period in which they arise.

The loan charges attributable to the construction of what are termed qualified assets are capitalized as part of the acquisition value of the qualified asset. In the Group, this mainly involves construction or major redevelopment projects involving investment properties. Calculation of loan charges is based on the financing requirements of the project and the Group's borrowing cost.

Impairments

The carrying amounts for the Group's assets – with the exception of investment properties, fixed assets held for sale, financial assets, and deferred tax assets – are examined at each period-end to assess whether there is an indication that the carrying amount cannot be recovered. If there is such an indication, the recoverable amount of the asset is calculated. The asset is impaired to the recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the fair value minus sales expenses and its value in use. See the section above for impairment of financial assets.

NOTES

Share capital

Acquisition of Company shares is reported as a reduction in equity. The sum received from the disposal of Company shares is reported as an increase in equity.

Profit per share

Calculation of the profit per share is based on the consolidated profit for the year and on the weighted average number of outstanding shares during the year. The profit is attributable in its entirety to the shareholders in the Parent Company and there are no dilution effects.

Fixed assets held for sale and discontinued operations

Assets that are to be disposed of are classified as assets held for sale. Operations that are to be disposed of are classified as assets, liabilities and the result from discontinued operations.

Provisions

Provisions are reported in the Balance Sheet when there is a legal or informal obligation arising from an event, and when it is likely that the obligation will be fulfilled, and the amount can be calculated reliably. If the effect of the time when the payment is made is material, the value of the provision is determined by calculating the current value of the expected future cash flow using a discounting factor (before tax) that reflects the market's current valuation of the time value and any risks that are attributable to the obligation. A provision for a deferred tax liability is not subject to discounting.

Contingent liabilities

A contingent liability is reported when there is a possible undertaking that arises from events that have occurred, and the occurrence of which is only confirmed by one or more uncertain future events, or when there is an undertaking that is not reported as a liability or provision due to the fact that it is not probable that an outflow of resources will be required.

Cash Flow Statements

The Cash Flow Statements have been prepared according to the indirect method.

Segment reporting

From an accounting point of view, a segment is an identifiable part of the Group that provides services that are exposed to risks and opportunities that are different from other segments. The Group's operations are divided into two segments, Property Management and Parking Operations. This division is in compliance with the manner in which operations are followed up internally.

PARENT COMPANY ACCOUNTING PRINCIPLES

The Parent Company has prepared its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for Legal Entities. The statements issued by the Swedish Financial Reporting Board for listed companies have also been applied. RFR 2 means that in the annual report for the legal entity, the Parent Company shall apply all EU-endorsed IFRS and statements as far as this is possible within the framework of the Annual Accounts Act and the Safeguarding of Pension Commitments Act, and with consideration given to the link between the accounts and taxation. The recommendation states the exceptions and additions that should be made to IFRS. The differences between the Group accounting principles and the Parent Company accounting principles are stated below.

Group contributions received are reported under Financial items and group contributions granted are reported under Appropriations.

The Parent Company makes allocations to untaxed reserves within the framework of current tax rules.

Amended accounting principles

The new principles for leases in accordance with IFRS 16, which are now being applied by the Group, are not applied by the Parent Company. The Parent Company has exercised an exemption option in RFR 2, with the

effect that the Parent Company recognises existing lease agreements in the same way as in previous years.

Subsidiaries

Shareholdings in subsidiaries are reported in the Parent Company according to the cost method. This means that transaction costs are included in the reported value of holdings in subsidiaries. In the consolidated financial statements, transaction costs attributable to subsidiaries are reported directly in profit or loss as the costs arise.

Investment properties

The Parent Company investment properties are reported according to the Group principles for tangible fixed assets although without the opportunity to apply the fair value method. Instead, the cost method is applied with depreciation over the assessed useful life of the buildings. The acquisition value comprises the acquisition price, cost of title deeds, and value-enhancing improvements. Only charges that generate a permanent increase in the value of the properties are capitalized. Development costs of a maintenance nature are charged to profit or loss. Loan charges are not capitalized in the Parent Company. In accordance with the special provisions for investment properties in RFR2, buildings are reported as a single impairment unit without a division into components.

Valuation of investment properties and tangible fixed assets

The carrying amount of investment properties and tangible fixed assets is examined with regard to possible impairment requirements when events or a change in conditions indicate a possibility that the carrying amount might not be recovered. If there are such indications, and if the carrying amount exceeds the expected recoverable amount, the assets are impaired to the recoverable amount. The recoverable amount is equivalent to the maximum of the net realizable value and the value in use. The net realizable value is set through comparison with the sale of similar objects. The value in use comprises the current value of the expected future cash flows according to a discounting factor before tax, which reflects the market's current estimate of the time value and the risks associated with the asset.

For assets that do not generate independent cash flows to a predominant extent, the recoverable amount is set for the cash-generating unit to which the asset belongs. Any impairment is reported in the Income Statement. Reversal of impairments is made if the recoverable amount once again exceeds the previous carrying amount. Reported revaluations of investment properties have been made at the fair value with a deduction for deferred tax.

Information about the properties' fair values as at the year-end can be found in Note 16.

Depreciation – investment properties

The Parent Company's depreciation according to plan is based on the original acquisition values, adjusted where applicable for revaluations and impairments and the estimated useful life. The estimated useful life for buildings is 50–100 years and for building equipment 5–20 years.

The revaluation is depreciated over the remaining depreciation period of the underlying asset. Depreciation percentages are reported in Note 16.

Leased assets

The Parent Company does not apply IFRS 16 in accordance with the exception in RFR 2. As a lessee, lease charges are recognised as a cost on a straight-line basis over the term of the lease and consequently rights of use and lease liabilities are not reported in the Balance Sheet. As in the Consolidated Financial Statements, no distinction is made between lease and non-lease components for buildings and land. Instead, lease and non-lease components are recognised as one single lease component for these types of underlying assets. The lease agreements in which the Parent Company is a lessor are recognised as operational leases.

NOTES

NOTE 2. FINANCIAL RISKS

Hufvudstaden is mainly exposed to financing risks and interest risks. The Group endeavours to have a loan portfolio with a diverse credit maturity structure that facilitates possible amortizations. No loans are raised in foreign currency, and consequently the Group is not exposed to a currency exchange risk. Borrowing normally takes place both with short and long fixed interest periods.

Hufvudstaden's finance function is a Group function with central responsibility for financing and liquidity planning. The work is governed by the Finance Policy decided by the Board of Directors, which aims to secure the Group's financing requirements at the lowest possible cost and risk. Within the Finance function, there are instructions, systems and allocations of duties to achieve good internal control and follow-up of operations. Major financing solutions and derivative transactions should be approved by the Chairman of the Board, and the Board is informed at each Board meeting about financial issues.

Hufvudstaden's aim is to use surplus liquidity to amortize existing loans. Surplus liquidity not used for amortization may only be invested in instruments with high liquidity and low risk. Information regarding borrowing, loan frameworks and terms and conditions can be found in Note 25.

Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. The aim is to have financing from at least three of the major banks and a loan portfolio with a spread of due dates and long terms. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the rescheduling of loans and investments. In addition, the Company has a commercial paper programme and an MTN programme. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis. The Executive Management prepares rolling forecasts for the Group's liquidity on the basis of expected cash flows. Hufvudstaden's borrowings amounted to SEK 8,350 million (7,350) at the year-end. The average fixed interest period was 2.6 years (2.6), the average capital tie-up period was 3.3 years (3.9), and the average equivalent annual interest cost was 1.2 per cent (1.2). Net debt totalled SEK 7,404.3 million compared to SEK 6,279.3 million at the end of 2018. As at December 31, 2019, the Group had non-current loan assurances of SEK 4.0 billion, of which SEK 3.0 billion was unutilized. Of this, SEK 1.15 billion was reserved to cover outstanding commercial paper. There is also a commercial paper programme of SEK 3 billion, of which SEK 1.85 billion was unutilized, as well as an MTN programme of SEK 8 billion, of which SEK 1.8 billion was unutilized. The Company has satisfactory margins with regard to the lenders' restrictions (covenants) in the loan agreements.

DUE DATE STRUCTURE, INTEREST AND CAPITAL, DECEMBER 31, 2019

Year due	Interest payments, SEK m	Nominal amount, SEK m ¹⁾	Proportion, %
2020, Q 1	40.6	–	–
2020, Q 2	16.5	–	–
2020, Q 3	21.6	–	–
2020, Q 4	14.2	500	6
2021	82.0	1,150	14
2022	64.0	1,700	20
2023	35.6	2,000	24
2024	18.8	2,000	24
2025	1.5	1,000	12
Totalt	294.8	8,350	100

¹⁾ Capital tie-up in respect of commercial paper loans has been calculated based on the underlying loan assurances.

In addition to the above, there are other liabilities, which also include accounts payable, which normally fall due within 30 days.

Interest risk

Interest risk refers to the impact on profit that a permanent change in the interest rate has on the Group's net financial income and expense. Hufvudstaden's financing sources are primarily equity, cash flow from current operations and the raising of loans.

The raising of interest-bearing loans means that the Group is exposed to an interest risk. Hufvudstaden's Finance Policy states the framework for how interest risks are to be handled. An overall aim is that the renewal structure in the leases should be taken into account when determining the fixed interest period, and that a balance is struck between the assessed current cost of borrowing and the risk of a significant negative impact on profit in the event of a sudden, major change in the interest rate. This means that the Group's fixed interest period for net debt should normally be 1–4 years. Borrowing takes place both with a short fixed interest period, normally 3–6 months, and a long fixed interest period, normally 5–7 years. As at December 31, 2019, the Group's fixed interest period was 2.6 years. Of the interest-bearing liabilities, around one-fourth have a fixed interest period of 3–6 months, and the remainder is at a fixed rate of interest. A change in the market interest rate (STIBOR 3 months) of +1 percentage point, assuming an unchanged loan volume and fixed interest period including current derivative agreements, would increase Hufvudstaden's interest expense in 2020 by SEK 18 million (17), and in the event of a change in the market interest rate of -1 percentage point, Hufvudstaden's interest expense would decrease by SEK 10 million (11). The difference between the interest cost can be explained by the fact that certain agreements stipulate a minimum rate of interest.

FIXED INTEREST STRUCTURE, DECEMBER 31, 2019

Year due	Credit, SEK m	AER, % ¹⁾
2020	2,150	0.9
2021	1,000	1.5
2022	1,200	1.5
2023	2,000	1.3
2024	1,000	1.4
2025	1,000	1.0
Totalt	8,350	1.2

¹⁾ The credit margins in the table are allocated to the period in which the credit is reported.

Credit risk

A credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and any collateral does not cover the Group's claims. The aim is to minimize the credit risk through advance rent payments and to only enter into credit transactions with large financing institutions. A credit risk can be attributed mainly to outstanding accounts receivable/rent receivables, as well as cash and cash equivalents, which as at the year-end had a collective carrying value of SEK 1,718.3 million, which means that the Group has limited exposure to credit risks.

Losses on accounts receivable/rent receivables occur when tenants are put into receivership or, for other reasons, they are unable to meet their payment commitments. The risks are limited by Hufvudstaden deliberately selecting customers with documented business skills and competitive operations. To limit the risks, the financial position of the customers is checked in terms of their credit rating by obtaining information from different credit information companies. In accordance with Hufvudstaden's Credit Policy, a security in the form of a deposit, a bank guarantee or guarantee undertaking is normally required in conjunction with new leases. Rents are invoiced in advance.

NOTES

CONCENTRATION OF CREDIT RISK, DECEMBER 31, 2019^{1) 2)}

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	64	2,295	0
100 – 499	75	22,950	1
500 – 999	88	69,319	4
1,000 – 2,499	173	283,095	15
2,500 – 4,999	89	320,473	17
5,000 – 9,999	63	442,516	23
10,000 –	32	767,826	40
Totalt	584	1,908,474	100

¹⁾ Excluding vacant floor space and space (storage and office) for Hufvudstaden's own use.

²⁾ Annual rent as at December 31, 2019.

The Group's ten largest tenants represent 23 per cent of the total contracted rent, and the single largest customer accounts for 8 per cent, which means that Hufvudstaden's exposure to the credit risk represented by individual customers is relatively limited.

Fair value

The fair value of financial instruments traded on an active market is based on the listed market prices on the reporting date. The listed price used is the current purchase price. The fair value of financial instruments not traded on an active market is set with the aid of valuation techniques. Fair values are set by discounting future payment flows to the current market rate of interest for similar instruments. For financial instruments such as account receivables, account payables and so on, which are reported at amortized cost with a deduction for possible impairment, the fair value was considered to be in line with the carrying value as these instruments have a very short term. The assessment is that the fair value is essentially in line with the carrying value.

INFORMATION REGARDING FAIR VALUES, FINANCIAL INSTRUMENTS

SEK m	Reported at fair value through profit or loss		Reported at the accrued acquisition value		Total carrying amount	
	2019	2018	2019	2018	2019	2018
GROUP						
Non-current receivables			20.6	15.7	20.6	15.7
Current receivables			16.1	19.8	16.1	19.8
Cash and cash equivalents			1,706.1	1,070.7	1,706.1	1,070.7
Non-current liabilities			6,725.7	5,719.6	6,725.7	5,719.6
Current liabilities	–	3.7	1,817.5	1,850.3	1,817.5	1,854.0
PARENT COMPANY						
Non-current receivables			20.5	15.7	20.5	15.7
Current receivables			4.3	7.7	4.3	7.7
Cash and cash equivalents			1,681.2	1,060.0	1,681.2	1,060.0
Non-current liabilities			6,725.6	5,719.6	6,725.6	5,719.6
Current liabilities	–	3.7	1,766.1	1,761.4	1,766.1	1,765.1

The fair value concurs essentially with the carrying value. For bond loans with a fixed rate of interest the undervalue is SEK -31.0 million. The fair value of all instruments valued at fair value in the Balance Sheet is attributable to level 2 in IFRS 13, i.e. the value has been calculated based on official market listings.

NOTES

NOTE 3. SEGMENT INFORMATION

The Group's operations are divided into two segments, Property Management and Parking Operations. The Property Management segment is divided into business areas that follow the operative control of the Company's business. This generally falls into line with the Company's geographical sub-markets. In the Parent Company, there is only one operating segment – Property Management. The following presentation shows income and costs as well as assets and investments for the different business areas in 2019 and the comparison year 2018.

SEK m	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
GROUP								
Property Management								
Income and costs ¹⁾								
Rent revenue	1,032.7	981.8	445.6	427.3	331.3	310.3	1,809.6	1,719.4
(of which turnover-based rent)	(2.2)	(2.4)	(8.9)	(9.3)	(0.0)	(0.4)	(11.1)	(12.1)
Service revenue	23.7	21.7	42.3	38.3	20.8	17.7	86.8	77.7
Maintenance	-16.8	-15.9	-6.3	-5.4	-5.8	-3.2	-28.9	-24.5
Operation and administration	-109.3	-107.5	-116.6	-116.5	-61.1	-59.1	-287.0	-283.1
Ground rent	–	-13.0	–	-8.8	–	–	–	-21.8
Property tax	-116.8	-95.3	-47.1	-40.2	-36.8	-30.4	-200.7	-165.9
Depreciation	-2.0	–	-4.5	–	-0.3	–	-6.8	–
Gross profit, property management	811.5	771.8	313.4	294.7	248.1	235.3	1,373.0	1,301.8
Parking operations, net			32.3	34.7			32.3	34.7
Central administration							-49.2	-43.5
Changes in value, investment properties							2,726.9	3,620.8
Changes in value, interest derivatives							3.7	26.6
Operating profit							4,086.7	4,940.4
Financial income and expense							-118.7	-120.5
Profit before tax							3,968.0	4,819.9
Assets								
Investment properties	30,322.7	27,391.1	10,437.8	10,114.6	6,920.1	6,582.8	47,680.6	44,088.5
Rent receivables	0.4	1.1	0.9	1.5	0.2	0.2	1.5	2.8
Investments								
Investment properties and equipment	367.9	198.3	311.5	428.8	190.2	116.2	869.6	743.3

¹⁾ For comparable holdings, see Business Areas in figures, page 104.

Parking Operations

The Parking Operations segment includes parking operations at Parkaden AB.

SEK m	2019	2018
GROUP		
Net revenue	84.8	85.8
Rental costs	-43.3	-42.1
Operation and administration	-8.6	-8.4
Depreciation	-0.6	-0.6
Gross profit	32.3	34.7

Total assets amounted to SEK 19.2 million (14.5).

NOTES

NOTE 4. PROFIT TREND – SUMMARY

Mnkr	Jan – Mar		Apr – Jun		Jul – Sept		Okt – Dec		Jan – Dec	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
GROUP										
Property management										
Rent revenue	450.6	425.6	442.5	422.3	447.9	426.1	468.6	445.4	1,809.6	1,719.4
Service revenue	21.4	19.5	23.6	20.2	21.6	19.4	20.2	18.6	86.8	77.7
Property management revenue	472.0	445.1	466.1	442.5	469.5	445.5	488.8	464.0	1,896.4	1,797.1
Maintenance	-5.3	-3.6	-7.3	-6.3	-7.7	-9.2	-8.6	-5.4	-28.9	-24.5
Operation and administration	-72.3	-69.0	-68.1	-67.0	-63.8	-65.4	-82.8	-81.7	-287.0	-283.1
Other costs	-51.5	-47.2	-51.7	-46.9	-51.0	-46.6	-53.3	-47.0	-207.5	-187.7
Property management costs	-129.1	-119.8	-127.1	-120.2	-122.5	-121.2	-144.7	-134.1	-523.4	-495.3
Parking operations, net	7.9	8.9	7.8	8.7	6.6	6.6	10.0	10.5	32.3	34.7
Gross profit	350.8	334.2	346.8	331.0	353.6	330.9	354.1	340.4	1,405.3	1,336.5
Central administration	-10.8	-9.9	-11.4	-9.9	-11.4	-9.9	-15.6	-13.8	-49.2	-43.5
Changes in value, investment properties	331.8	593.0	960.1	1,444.7	408.0	429.0	1,027.0	1,154.1	2,726.9	3,620.8
Changes in value, interest derivatives	2.2	8.8	1.1	8.7	0.4	5.0	0.0	4.1	3.7	26.6
Financial income and expense	-28.6	-28.4	-30.7	-31.8	-29.5	-34.0	-29.9	-26.3	-118.7	-120.5
Tax	-145.9	-206.1	-284.2	140.8	-157.6	-158.7	-233.9	-276.2	-821.6	-500.2
Profit for the period after tax	499.5	691.6	981.7	1,883.5	563.5	562.3	1,101.7	1,182.3	3,146.4	4,319.7

NOTE 5. OPERATIONAL LEASE AGREEMENTS – GROUP AS LESSOR

The Group rents out premises in its investment property holdings. The Group classifies these lease agreements as operating leases as the lease agreements do not transfer the material risks and benefits

associated with ownership of the underlying asset. See table below for a maturity analysis of charges where the remaining term is 1 and 17 years.

RENEWAL STRUCTURE ^{1) 2) 3)}

	2020	2021	2022	2023	2024	2025–	Total
Number of agreements							
Offices	61	68	69	61	20	25	304
Retail	105	80	61	44	28	21	339
Other	463	214	124	87	25	65	978
Total, Group	629	362	254	192	73	111	1,621
Proportion, %	38.8	22.3	15.7	11.8	4.5	6.9	100.0
Total, Parent Company	484	289	178	147	42	84	1,224
Annual rent, SEK m							
Offices	149.6	173.8	196.7	204.6	150.7	184.8	1,060.2
Retail	193.4	123.4	131.3	139.6	86.9	112.6	787.2
Other	28.2	27.8	20.1	19.8	13.2	27.8	136.9
Total, Group	371.2	325.0	348.1	364.0	250.8	325.2	1,984.3
Proportion, %	18.7	16.4	17.6	18.3	12.6	16.4	100.0
Total, Parent Company	236.3	282.3	257.4	287.4	108.8	243.1	1,415.3

¹⁾ Including leases signed for future occupancy/commencement, whereupon the corresponding present floor space is excluded.

²⁾ Excluding vacant floor space and floor space (storage and office) for Hufvudstaden's use.

³⁾ Excluding residential leases.

NOTES

NOTE 6. DEPRECIATION

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Depreciation per type of asset				
Investment properties	- 1)	- 1)	183.2	176.9
Equipment	3.9	3.4	2.5	2.6
Right-of-use assets	7.1	-	-	-
Total	11.0	3.4	185.7	179.5
Depreciation per function				
<i>Property management</i>				
Operation and administration	3.3	2.8	2.5	2.6
Depreciation right-of-use assets	6.8	-	183.2	176.9
<i>Parking operations</i>				
Parking operations, costs	0.6	0.6	-	-
Parking operations	0.3	-	-	-
Total	11.0	3.4	185.7	179.5

¹⁾ Investment properties in the Group are reported at fair value and consequently there is no depreciation.

NOTE 7. AVERAGE NUMBER OF EMPLOYEES

Average number of employees	2019		2018	
		Of which men,%		Of which men,%
Parent Company	132	56	124	59
(of which executives)	(8)	(75)	(8)	(75)
Wholly owned subsidiaries				
Parkaden AB	3	67	3	67
Total, Group	135	56	127	59
(of which executives)	(8)	(75)	(8)	(75)

Of the Group's 30 managers (30) 11 are women (9) or 37 per cent (30). The Board of the Parent Company comprised 6 men (6) and 3 women (3). In the Group, there is one other male member of the Board (1 man). The Group only has employees in Sweden.

NOTE 8. SALARIES AND REMUNERATION

SEK k	Group				Parent Company			
	2019 ¹⁾	Of which bonus	2018	Of which bonus	2019 ¹⁾	Of which bonus	2018	Of which bonus
Salaries and other remuneration								
Fee to the Chairman of the Board	485		465		485		465	
Fee to other Board members	1,728		1,658		1,698		1,628	
Remuneration and benefits, President	5,302	345	5,072	325	5,303	345	5,072	325
Remuneration and benefits, other executives	13,469	1,161	11,394	918	13,470	1,161	11,394	918
Remuneration and benefits, other employees	77,167	4,671	70,345	2,926	76,264	4,645	69,068	2,917
Total	98,151	6,177	88,934	4,169	97,220²⁾	6,151	87,627²⁾	4,160
National insurance expenses, including special employer's contribution								
Chairman of the Board	72		76		72		76	
Other Board members	498		481		493		476	
President	2,421		2,276		2,421		2,276	
Other executives	5,185		4,375		5,185		4,375	
Other employees	26,728		24,441		26,429		24,021	
Total	34,904		31,649		34,600		31,224	
Pension expenses								
President	3,073		2,825		3,073		2,825	
Other executives	3,983		3,690		3,983		3,690	
Other employees	12,190		10,988		12,107		10,890	
Total	19,246		17,503		19,163		17,405	

¹⁾ Salaries, remuneration, and other costs for the Acting President are included under Other executives.

²⁾ Salaries and other remuneration also include non-monetary benefits.

NOTES

An expensed director's fee of SEK 485,000 was paid to the Chairman of the Board Fredrik Lundberg for 2019, and Board members Claes Boustedt, Peter Egardt, Liv Forhaug, Louise Lindh, Fredrik Persson, Sten Peterson and Anna-Greta Sjöberg were each paid SEK 242,500. The President, Ivo Stopner, does not receive any remuneration for his work on the Board. The Group management also includes Arne Lundin, who is a member of the board of Parkaden AB. Arne Lundin received a director's fee of SEK 30,000.

Guidelines for salary, bonus and other remuneration to executives are decided at the Annual Meeting. For 2019, the meeting decided that the following guidelines should be applied.

Salary conditions for executives shall be formulated in line with the market plus an incentive element in the form of a bonus, which is only payable if the Company reports a positive result without consideration being given to unrealized changes in value. Such a bonus shall be decided for one year on each occasion, shall be linked to predetermined, quantifiable criteria, and shall be subject to a ceiling. The bonus part aims to provide the management with a special incentive to work to achieve positive results for the Company and thus support the interests of the shareholders.

Payment to both the President and other executives shall comprise a fixed permanent salary with the possibility of a bonus, which is paid in the manner stated subject to achievement of objectives for the Company and for the individual.

The bonus paid to the President can amount to a maximum of three months' salary per year, and for other executives a maximum of the higher of three months' salary and SEK 250,000 per person per year. The bonus payable to the current executives, at the present salary level, can amount to a maximum of SEK 3.9 million.

The retirement age for the President is 65 years, although with the right for the President or the Company to decide on retirement with a full pension from the age of 60. Pensions for members of the Group management, including the President, are covered by the ITP plan. In addition, there is a defined contribution pension for the President and Vice President for the part of the salary not covered by the ITP plan. The President has a direct pension of SEK 1 million per year, secured through endowment insurance. The premium has been invested in Hufvudstaden shares.

If the President and other executives are given notice of termination of employment by the Company, the total fixed salary during the period of notice plus severance pay shall not exceed an amount equivalent to the fixed salary for two years for the President and Vice-President, and one year for other executives.

In the case of notification of termination being given by the President or other executives, the period of notice shall be a maximum of six months without any right to severance pay. In all cases, any payment received from a new employer shall be offset.

These guidelines will cover those persons who during the time the guidelines apply are members of the Executive Management. The guidelines apply to agreements entered into following a decision at the Annual Meeting, and in those cases where changes are made in existing agreements after this point in time. The current guidelines were followed during 2019.

Pensions for Group employees are covered by the respective collective agreements. These are the ITP plan for white-collar workers and the SAF-LO occupational pension agreement for blue-collar workers. The ITP plan includes both a defined benefit pension and a defined contribution pension. Some 80 employees are covered by a defined benefit pension. Alecta's surplus in the form of the collective consolidation level as of December had not been confirmed at the time of the signing of this Annual Report. Alecta's preliminary consolidation level, as at September 30, 2019, amounted to 142 per cent (159). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the

insurance undertakings, calculated according to Alecta's insurance calculation assumptions, which do not concur with IAS 19.

For the President and members of the Executive Management, a bonus scheme was in place during the year based on result, customer satisfaction and personal objectives as described above. Other permanent employees in the Group were also covered by a bonus scheme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers there was also a personal assessment and individual objectives, and a bonus was payable up to a maximum of two months' salary. In the case of other employees, the bonus was subject to a maximum of one month's salary.

The bonus schemes are subject to a decision being made for one year on each occasion, and the bonuses are subject to a ceiling. A bonus is only payable if the Company reports a positive result without taking into account unrealized changes in value.

In the final accounts, a provision has been made for a bonus for profit targets and customer satisfaction. For personal objectives, a provision is made equivalent to 75 per cent of the maximum outcome. The bonus outcome for 2019 has been affected by a positive outcome for 2018 of SEK 150,915.

NOTE 9. FEES AND COST REIMBURSEMENTS TO AUDITORS

SEK m	Group		Parent Company	
	2019	2018	2019	2018
KPMG AB				
Audit work	1.2	1.2	1.2	1.2
Other assignments	0.2	0.1	0.2	0.1
Total	1.4	1.3	1.4	1.3

NOTE 10. OPERATING COSTS PER COST CATEGORY

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Maintenance	28.3	23.8	283.7	177.9
Operation and administration	225.7	229.3	71.6	71.0
Ground rent	0.0	21.8	13.0	13.0
Property tax	200.7	165.9	140.3	114.7
Depreciation and impairment	11.0	3.4	185.7	179.5
Personnel costs	159.4	145.7	157.6	143.9
Total	625.1	589.9	851.9	700.0

NOTE 11. FINANCIAL INCOME

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Interest income on current investments	0.4	2.9	0.4	2.9
Total	0.4	2.9	0.4	2.9

All financial income refers to financial instruments not valued at fair value.

NOTES

NOTE 12. FINANCIAL EXPENSE

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Interest expense to				
– credit institutions	81.0	85.8	81.0	85.8
– interest expense, swap	3.7	26.8	3.7	26.8
– lease liability	22.4	–	–	–
– other	12.0	10.8	12.0	10.7
Total	119.1	123.4	96.7	123.3

Of the financial expense, SEK 93.1 million (96.6) refers to financial instruments not valued at fair value.

NOTE 13. APPROPRIATIONS

SEK m	Parent Company	
	2019	2018
Change in accumulated additional depreciation	28.9	25.7
Change in tax allocation reserve	150.0	150.0
Group contribution granted	-4.4	-39.3
Total	174.5	136.4

NOTE 14. INCOME TAXES

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Current tax expense				
Tax expense for the year	-142.2	-149.0	-142.2	-148.9
Tax attributable to previous years	-0.1	1.9	0.0	1.9
Deferred tax expense/tax income				
Difference between fiscal and accounting depreciation of properties	-2.8	-3.2	-3.2	-3.2
Unrealized change in value, properties	-715.9	-917.0	–	–
Unrealized change in value, interest derivatives	-0.8	-5.9	-0.8	-5.9
Effect, allocation to untaxed reserves	38.9	39.6	–	–
Effect, pension provision	1.2	0.7	1.2	0.7
Right-of-use assets	-156.9	–	–	–
Lease liability	157.0	–	–	–
Recalculation, deferred tax	–	532.7	–	58.9
Total tax	-821.6	-500.2	-145.0	-96.5
Profit before tax	3,968.0	4,819.9	675.6	711.6
Tax according to the current tax rate of 21.4% (22%)	-849.2	-1,060.4	-144.6	-156.6
Effect of other tax rates	26.7	559.7	0.9	59.0
Tax attributable to previous years	-0.1	1.9	0.0	1.9
Non-taxable income	0.1	0.1	0.1	0.1
Non-deductible expenses	-1.8	-1.5	-0.9	-1.0
Standard income, tax allocation reserve	-0.3	-0.3	-0.3	-0.3
Other	3.0	0.3	-0.2	0.4
Total tax	-821.6	-500.2	-145.0	-96.5

As at the year-end, there were no deficit deduction in the Group.

In June, the Swedish Parliament decided to reduce the Swedish corporation tax rate in two stages, from 22.0 per cent to 21.4 per cent in 2019, and to 20.6 per cent in 2021.

NOTE 15. INTANGIBLE FIXED ASSETS

Mnkr	Group		Parent Company	
	2019	2018	2019	2018
Opening acquisition value	11.9	–	0.5	–
Investments for the year	58.6	11.9	2.1	0.5
Closing residual value according to plan	70.5	11.9	2.6	0.5

Refers to acquired intangible fixed assets which comprise development costs for digital systems. Development work is ongoing and consequently impairments have not been made during the year.

NOTE 16. INVESTMENT PROPERTIES**GROUP**

Investment properties were reported according to the fair value method.

SEK m	Group	
	2019	2018
Investment properties, Group	47,680.6	44,088.5

Information about changes in the carrying amounts of investment properties.

SEK m	2019	2018
2019		
Opening fair value	44,088.5	39,730.0
Investment in properties	865.2	737.7
Unrealized change in value	2,726.9	3,620.8
Closing fair value	47,680.6	44,088.5

For income and costs attributable to investment properties, reference can be made to Note 3.

All properties are owned by the Group and are classified as investment properties. They cover the balance sheet items Buildings, Building Equipment, Land and Development in Progress. Investment properties are valued according to level 3 in the fair value hierarchy in IFRS 13. The property holdings include commercial properties that mainly comprise office and retail space and are treated as one single asset category. Fair value is based on an internal valuation.

Valuation method

Valuation of the property holdings was done by assessing the fair value of each individual property.

The assessment took place in the form of a valuation according to a variation on the location price method, known as the net capitalization method. The method means that the market yield requirements are put in relation to the net operating income of the properties.

In the case of other project properties and undeveloped land, an assessment has been made of the value according to a total appraisal of the location price method and a development calculation where the net capitalization method is used for a completed property with a deduction for construction costs, profit for the developer in line with market conditions, as well as financial expenses and the loss of rent revenue on vacant space that arose during the construction period.

The assessment of the yield requirements is based on information gathered on the market yield requirements for purchases and sales of comparable properties in similar locations. If few or no deals are concluded in the property's sub-area, transactions in the adjoining area are analyzed. Transactions not yet concluded also provide guidance on the market yield requirements. Account is also taken of the property type, technical standard building construction and major investment requirements. The yield requirements used in the valuation vary between different regions and different sub-areas within the regions. Information is checked with independent valuation and advisory companies. Hufvudstaden's average yield requirement since December 31, 2014 has varied between 3.6 per cent and 4.5 per cent, and as at December 31, 2019 the figure was 3.6 per cent. For leasehold properties, the calculation is based on a yield requirement that

is 0.20 percentage points higher than for equivalent properties where the land is freehold. The net operating income is based on market-adapted rent revenue. Rent revenue is adapted to the market by adjusting existing rents using newly signed and renegotiated leases and with account taken of the expected rent trend.

Revenue has been reduced to take into account an assessed long-term rental vacancy level. The vacancy level is based on the true outcome of the property holdings over a business cycle, and the expected rental situation for the individual property. In the valuation, an average vacancy level of 4 per cent has been estimated. The actual average vacancy level during the period 2010–2019 varied between 3 and 6 per cent, and as at December 31, 2019, the figure was 5.0 per cent.

A deduction is made for standard costs for operation and maintenance, excluding costs that can be passed on, and part of the property administration. These are based on the actual outcome and are adjusted for non-permanent deviations. The average cost per square metre over the most recent five-year period has been in the range SEK 400–500, and the estimated cost in the valuation as at December 31, 2019 was on the same level.

The building cost is based on standard information as well as information reported in current leasehold cases with an upward adjustment in line with an assumed cost trend. In addition, a deduction is made for profit requirements for the developer in line with market conditions, financing costs and the loss of rental revenue on vacant space that arose during the construction period.

External valuation

To assure the valuation, external valuations were obtained from three independent valuation companies: Cushman and Wakefield, Forum Fastighetsekonomi and Newsec Advice. The external valuations cover 11 properties and are equivalent to 38 per cent of the internally assessed fair value, and the corresponding figure at the mid-year point was 37 per cent. The basis for the selection of the properties was that they should represent variations in property category, town, location, technical standard and construction standard. The properties that underwent an external valuation were Grönlandet Södra 11, Håsthuvudet 13, Kåkenhusen 40 (part of), Orgelpipan 7, Packarhuset 4, Pumpstocken 10 (part of), Rännilen 11 and Rännilen 19 (part of) in Stockholm, and Inom Vallgraven 10:9 (NK Gothenburg), the block Inom Vallgraven 12 (part of), and Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies set a fair value of SEK 18.8 billion. Hufvudstaden's internal valuation of the same properties was SEK 18.3 billion. The internal valuations thus concur well with the external valuations.

Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of valuation. The price, however, can only be set when a transaction has been completed. In conjunction with an external property valuation, a range is often given to indicate the degree of uncertainty surrounding the fair value estimates. The value range is usually +/- 5 per cent but can vary depending, among other things, on the market situation, the technical standard of the property, and investment requirements. Hufvudstaden's property holdings are valued at SEK 47.7 billion with a degree of uncertainty of +/- 5 per cent, which means that the assessed fair value varies by +/- 2.4 billion.

The following information has been used in the valuation made on 31-12-2019:

Office and retail	Range (weighted average)			
	2019		2018	
Net operating income (SEK/sq m)	1,440 – 7,280	(4,670)	1,430 – 6,820	(4,480)
Vacancy level (%)	2 – 5	(4)	2 – 5	(4)
Yield requirement, Stockholm (%)	3.2 – 3.6	(3.4)	3.3 – 3.8	(3.6)
Yield requirement, Gothenburg (%)	4.1 – 4.8	(4.3)	4.1 – 4.8	(4.4)
Yield requirement, total (%)	3.6		3.8	

NOTES

SENSITIVITY ANALYSIS, PROPERTY VALUATION¹⁾

	Change, +/-	Impact on value, +/-
Rent revenue	SEK 100 per sq m	SEK 1,070 m
Property costs	SEK 50 per sq m	SEK 535 m
Rental vacancy level	1.0 percentage points	SEK 610 m
Yield requirement	0.25 percentage points	SEK 3,300 m

¹⁾ Valuation date December 31, 2019.

TAX VALUES, INVESTMENT PROPERTIES, GROUP

SEK m	2019	2018
Tax values, buildings	9,336.4	9,156.2
Tax values, land	11,163.2	7,541.1
	20,499.6	16,697.3

PARENT COMPANY

Investment properties are reported according to the principles for tangible fixed assets but without the possibility of applying the fair value method.

SEK m	2019	2018
Investment properties, Parent Company	8,066.7	7,980.7

INVESTMENT PROPERTIES, EXCLUDING LAND

SEK m	2019	2018
Opening acquisition values	4,263.2	4,123.4
Investments for the year	269.1	139.8
Closing acquisition values	4,532.3	4,263.2
Opening depreciation	-1,543.5	-1,380.2
Depreciation for the year	-169.5	-163.3
Closing depreciation	-1,713.0	-1,543.5
Opening revaluation according to the adopted Balance Sheet for the previous year	1,012.2	1,025.9
Depreciation for the year	-13.6	-13.7
Closing revaluation	998.6	1,012.2
Closing residual value according to plan	3,817.9	3,731.9

LAND

SEK m	2019	2018
Opening acquisition value	1,207.4	1,207.4
Closing acquisition value	1,207.4	1,207.4
Opening value, revaluation	3,041.4	3,041.4
Closing value, revaluation	3,041.4	3,041.4
Closing residual value according to plan	4,248.8	4,248.8

Investment properties are divided into different categories, which are depreciated as follows:

- Buildings: Offices, 1 per cent
- Buildings: Department stores, multi-storey car parks, restaurants, 2 per cent
- Building equipment: 5 – 20 per cent
- Land improvements: 3.75 – 5 per cent

INFORMATION ABOUT THE FAIR VALUE OF INVESTMENT PROPERTIES

SEK m	2019	2018
Investment properties, Parent Company	33,702.0	30,603.8

In the valuation of the Parent Company's properties at fair value, the same valuation method is used as for the Group.

TAX VALUES, INVESTMENT PROPERTIES, PARENT COMPANY

SEK m	2019	2018
Tax values, buildings	6,329.6	6,099.8
Tax values, land	7,846.0	5,472.7
	14,175.6	11,572.5

NOTE 17. EQUIPMENT

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Opening acquisition value	38.0	36.8	17.1	18.7
Investments for the year	4.5	5.8	2.0	3.0
Sales and disposals	-2.5	-4.6	-2.1	-4.6
Closing acquisition value	40.0	38.0	17.0	17.1
Opening depreciation	-28.5	-29.5	-11.8	-13.6
Depreciation for the year	-3.9	-3.4	-2.5	-2.6
Sales and disposals	2.4	4.4	2.0	4.4
Closing accumulated depreciation	-30.0	-28.5	-12.3	-11.8
Closing residual value according to plan	10.0	9.5	4.7	5.3

NOTES

NOTE 18. PARTICIPATION IN GROUP COMPANIES

	Company reg. no.	Reg. office	Capital (votes) %	Number	Nominal value, SEK 1,000	Carrying amount 2019, SEK m
PARENT COMPANY						
Shares in subsidiaries						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget Hamngatgaraget	556068-6601	Stockholm	100	3,000	300	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5,000	500	0.6
Gbg Inom Vallgraven 3-2 AB	556724-2531	Stockholm	100	1,000	100	62.1
						2,886.6
Shares in dormant companies						
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	100	-
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	-
Förvaltnings AB Norrmalmstorg nr. 1	556019-5405	Stockholm	100	150	150	-
Hufvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, total						2,886.9
OTHER GROUP COMPANIES						
Owned by AB Citypalatset						
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7,776	239.5
Owned by Fastighetsaktiebolaget Stockholms City						
Hotel Stockholm Aktiebolag	556031-4303	Stockholm	100	10,000	1,000	3.4
Owned by AB Nordiska Kompaniet						
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	168	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	100	0.1
						0.5
Other Group companies, total						243.4

There are no foreign subsidiaries in the Group. Intra-group revenue refers to rents, which amounted to SEK 73.7 (62.1) million during the year.

CHANGE IN THE PARENT COMPANY'S HOLDINGS IN GROUP COMPANIES

SEK m	Parent Company	
	2019	2018
Opening carrying amount	2,886.9	2,886.9
Closing carrying amount	2,886.9	2,886.9

NOTE 19. RIGHT-OF-USE ASSETS

The effect of the transition to IFRS 16 on the Group's lease agreements is set out in Note 1 Accounting principles.

The transition approach the Group has chosen to adopt means that the comparative information has not been recalculated.

Additional right-of-use assets during 2019 totalled SEK 12.6 million. This amount includes the acquisition value of newly acquired right-of-use assets during the year as well as additional amounts arising in conjunction with a revaluation of lease liabilities.

For a maturity analysis of the lease liabilities and the effects of IFRS 16 on the outgoing cash flow, see Note 25 Interest-bearing liabilities

Effect of IFRS 16¹⁾

Group 2019				
SEK m	Site lease- hold rights	Commercial premises	Other	Total
Opening balance	675.8	108.1	4.2	788.1
Additional right-of-use assets	-	5.4	6.7	12.1
Depreciation during the year	-	-38.0	-2.7	-40.7
Revaluation	-	0.5	-	0.5
Closing balance	675.8	76.0	8.2	760.0

Group 2019			
SEK m	Income Statement	Balance Sheet	Total
Depreciation of right-of-use assets	-7.1	-33.6	-40.7
Interest on lease liabilities	-22.4	-1.0	-23.4
Variable charges not included in the valuation of the lease liability	-0.6	-4.9	-5.5
Income from right-of-use assets	8.0	38.2	46.2
Costs for short-term leases/low-value leases	-1.6	-	-1.6
Net effect	-23.7	-1.3	-25.0

¹⁾ The table only shows the application of IFRS 16. The full impact on the Income Statements and Balance Sheets is shown in tables Note 1 on page 72.

NOTES

NOTE 20. NON-CURRENT RECEIVABLES

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Opening carrying amount	15.7	13.0	15.7	12.9
Change for the year	4.9	2.7	4.8	2.7
Closing carrying amount	20.6	15.7	20.5	15.7

NOTE 21. ACCOUNTS RECEIVABLE

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Accounts receivable	10.7	14.7	0.6	3.4
Rent receivables	1.5	2.8	0.7	1.1
Total	12.2	17.5	1.3	4.5

Accounts receivable and rent receivables are reported at the accrued acquisition value, which normally means the nominal value.

Rent receivables are charged in advance, the majority on a quarterly basis. Accounts receivable are invoiced subject to terms of payment of 30 days. Bad debt losses for the year amounted to SEK 8.1 million (5.2). Impairment is based on an assessment of expected credit losses. Accounts receivable and rent receivables that have fallen due, but which have not been impaired, amounted to SEK 5.5 million (5.0).

NOTE 22. PREPAID EXPENSES AND ACCRUED INCOME

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Accrued rent revenue	22.8	28.7	20.0	23.2
Accrued revenue	29.8	107.3	26.9	104.2
Prepaid expenses	25.1	23.1	5.6	6.7
Prepaid interest expense	1.1	1.4	1.1	1.4
Total	78.8	160.5	53.6	135.5

NOTE 23. CASH AND BANK HOLDINGS

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Cash and cash equivalents	1,706.1	1,070.7	1,681.2	1,060.0
Total	1,706.1	1,070.7	1,681.2	1,060.0

Interest according to a variable rate of interest is calculated for cash and cash equivalents. The variable rate of interest is based on the current daily investment rate.

NOTE 24. EQUITY

Share capital

SEK m	2019	2018
Breakdown of share series		
A 202,996,869 shares, par value SEK 5	1,015.0	1,015.0
C 8,275,064 shares, par value SEK 5	41.4	41.4
Total	1,056.4	1,056.4

Hufvudstaden AB (publ) has two share series, series A and series C. Series A shares carry one vote per share and series C shares carry 100 votes per share. All shares carry the same right to a proportion of the Company's assets and liabilities. Series A shares are listed on Nasdaq Stockholm Large Cap.

Upon request of Nasdaq Stockholm, Hufvudstaden applied in early 2020 for delisting of the Company's series C shares. The stock exchange decided thereafter to delist the Company's series C shares from Nasdaq Stockholm in late January 2020.

Shareholders are entitled to request conversion of series C shares into series A shares. No such conversion took place during the year.

Hufvudstaden's own holding is 5,006,000 series A shares. No buy-back of shares took place during the year. The average number of outstanding shares was 206,265,933, which is unchanged compared to the preceding year.

There are no instruments that mean that a dilution of the number of shares can take place.

GROUP

Other contributed capital

Refers to equity contributed by the owners. This includes share premium reserves paid out in conjunction with share issues.

Retained earnings, including profit for the year

The retained earnings, including profit for the year, include profit in the Parent Company and its subsidiaries. Previous allocations to the statutory reserve, excluding transferred share premium reserves, are included in this equity item.

Dividend

In 2019, a dividend was paid of SEK 3.70 per share, or a total of SEK 763,183,952. For 2019, the Board of Directors proposes a dividend of SEK 3.90 per share, or a total of SEK 804,437,139.

Asset management

The Company's capital is defined as the Group's reported equity. Hufvudstaden's aim is to improve profit from current operations and to have a well consolidated balance sheet with an equity ratio of at least 40 per cent over time. The shareholders shall have good dividend growth over time, and the dividend shall comprise more than half of the net profit from current operations unless investments or the Company's financial position in general justify a deviation.

Profit per share

When calculating the profit per share, the profit for the year and the average number of shares are used. The whole of the profit is attributable to the Parent Company's shareholders and there are no dilution effects.

	2019	2018
Total profit for the year, SEK m	3,146.4	4,319.7
Outstanding shares	206,265,933	206,265,933
Profit per share, SEK	15.25	20.94

PARENT COMPANY

Restricted funds

Restricted funds may not be reduced through a dividend.

Statutory reserve. The aim of the statutory reserve has been to save part of the net profit that is not used to cover a retained loss.

Revaluation reserve. In the event of a revaluation of a tangible or financial fixed asset, the revaluation amount is allocated to a revaluation reserve.

Non-restricted equity

Retained earnings. This comprises non-restricted equity from previous years after payment of dividends. Retained earnings, together with the profit for the year, is the amount available for payment of a dividend to the shareholders.

NOTES

NOTE 25. INTEREST-BEARING LIABILITIES

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Non-current liabilities				
Bank loans	500	1,000	500	1,000
Bond loans	6,200	4,700	6,200	4,700
Lease liabilities	719	–	–	–
Total	7,419	5,700	6,700	5,700
Current liabilities				
Bank loans	500	–	500	–
Commercial paper loans	1,150	1,650	1,150	1,650
Lease liabilities	41	–	–	–
Total	1,691	1,650	1,650	1,650
Credit facility granted	40	40	40	40
Loan assurances	4,000	4,000	4,000	4,000

Bank loans raised are normally secured by means of a property mortgage and are supplemented in many cases by a guarantee regarding the equity ratio and interest coverage level. Bond loans and commercial paper loans are not secured.

CAPITAL TIE-UP STRUCTURE, LOAN TERMS AND ANNUAL EQUIVALENT RATE OF INTEREST 2019-12-31

GROUP AND PARENT COMPANY

Year due	AER, % ¹⁾	Nominal amount, SEK m		
		Bank loans ²⁾	Bonds ³⁾	Commercial paper ⁴⁾
2020	0.7	500	–	–
2021	1.4	–	1,000	150
2022	1.3	500	1,200	–
2023	1.3	–	2,000	–
2024	0.8	–	1,000	1,000
2025	1.0	–	1,000	–
Total		1,000	6,200	1,150

¹⁾ All loans are denominated in SEK.

²⁾ Interest terms are three months Stibor with an interest margin supplement.

Interest is paid quarterly.

³⁾ Fixed rate of interest with an annual coupon.

⁴⁾ Interest terms are 3–12 months Stibor with an interest margin supplement. Interest is paid at the time of issue. Capital-tie-up is calculated based on underlying loan assurances.

RECONCILIATION OF LIABILITIES ATTRIBUTABLE TO FINANCING

GROUP AND PARENT COMPANY

SEK m	Closing balance 2018	Cash flow	Closing balance 2019
Bank loans	1,000	0	1,000
Bond loans	4,700	1,500	6,200
Commercial paper	1,650	-500	1,150
Total	7,350	1,000	8,350

Lessee

The Group leases several types of assets, mainly leasehold land, commercial premises, machinery, and IT equipment. No lease agreements contain covenants or other limitations apart from the collateral in the leased asset.

Lease liabilities	Group
SEK m	2019-12-31
Current	41.4
Non-current	719.0
Lease liabilities included in the Statement of Financial Position	760.4

Amounts recognized in the Cash Flow Statement	Group
SEK m	2019-12-31
Total cash outflows attributable to lease agreements	65.3

The above cash flow includes amounts in respect of lease agreements recognized as a lease liability, and amounts in respect of variable lease charges, short-term leases, and low-value leases.

Below is a maturity analysis of lease charges:

IFRS 16	Group
SEK m	2019-12-31
< 1 year	41.4
1 year – 2 years	10.2
2 years – 3 years	6.4
3 years – 4 years	4.2
4 years – 5 years	4.0
> 5 years ¹⁾	694.2
Total discounted lease charges	760.4

¹⁾ Discounted ground rent of SEK 675.8 million is included in discounted lease charges that fall due later than five years from the reporting date. The group has four leasehold agreements whose annual undiscounted ground rent totals SEK 21.9 million. From the Group's perspective, these lease agreements are considered to be perpetual leases as the Group does not have any right to terminate the leases. All site leasehold leases will be renegotiated within 2-6 years, which will have an effect on the total of the site leasehold agreement.

IAS 17	Group ¹⁾	Parent Company	Parent Company
SEK m	2018-12-31	2019-12-31	2018-12-31
< 1 year	64.7	55.7	50.6
1 year – 5 years	129.2	58.9	92.9
5 years >	37.2	–	11.0
Total undiscounted lease charges	231.1	114.6	154.5

¹⁾ Since January 1, 2019, the Group has applied IFRS 16, the maturity analysis for which is presented above.

NOTE 26. DEFERRED TAX LIABILITY

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Investment properties	8,931.4	8,212.7	876.3	873.1
Interest derivatives	0.0	-0.8	0.0	-0.8
Untaxed reserves	46.2	85.1	–	–
Pension provision	-5.2	-4.0	-5.2	-4.0
Right-of-use assets	156.9	–	–	–
Lease liability	-157.0	–	–	–
Total	8,972.3	8,293.0	871.1	868.3

There were no loss carry-forwards at the year-end.

NOTES

DEFERRED TAX LIABILITY

SEK m	Balance at January 1	Reported within profit or loss	Balance at December 31
GROUP			
2019			
Investment properties	8,212.7	718.7	8,931.4
Untaxed reserves	85.1	-38.9	46.2
Interest derivatives	-0.8	0.8	-
Pension provision	-4.0	-1.2	-5.2
Right-of-use assets	-	156.9	156.9
Lease liability	-	-157.0	-157.0
	8,293.0	679.3	8,972.3

2018

Investment properties	7,823.3	389.4	8,212.7
Untaxed reserves	126.8	-41.7	85.1
Interest derivatives	-6.7	5.9	-0.8
Pension provision	-3.5	-0.5	-4.0
	7,939.9	353.1	8,293.0

SEK m	Balance at January 1	Reported within profit or loss	Balance at December 31
PARENT COMPANY			
2019			
Investment properties	873.1	3.2	876.3
Interest derivatives	-0.8	0.8	-
Pension provision	-4.0	-1.2	-5.2
	868.3	2.8	871.2

2018

Investment properties	929.1	-55.9	873.1
Interest derivatives	-6.7	5.9	-0.8
Pension provision	-3.5	-0.5	-4.0
	918.9	-50.5	868.3

NOTE 27. OTHER PROVISIONS

A provision has been made in the Balance Sheet for a pension liability in respect of endowment insurance for the President and the Vice President.

NOTE 28. OTHER LIABILITIES

SEK m	Group		Parent Company	
	2019	2018	2019	2018
VAT	20.2	17.4	24.5	28.5
Current derivatives	-	3.7	-	3.7
Other	85.3	86.1	8.2	7.8
Total	105.5	107.2	32.7	40.0

NOTE 29. UNTAXED RESERVES

SEK m	Parent Company	
	2019	2018
Accumulated depreciation in excess of plan		
Opening balance	74.5	100.2
Depreciation for the year	-28.9	-25.7
Closing balance	45.6	74.5
Tax allocation reserves	116.0	266.0
Total	116.0	266.0
Total untaxed reserves	161.6	340.5

NOTE 30. ACCRUED EXPENSES AND PREPAID INCOME

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Advance rent payments	302.0	297.0	198.9	204.2
Accrued interest expense	41.5	38.4	41.5	38.4
Other accrued expenses	200.5	48.8	174.5	42.1
Total	544.0	384.2	414.9	284.7

NOTE 31. PLEDGED ASSETS AND CONTINGENT LIABILITIES

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Property mortgages for liabilities at credit institutions	507.5	507.5	507.5	507.5
(of which mortgages on subsidiaries' properties)			(156.0)	(156.0)
Other non-current receivables	20.5	15.7	20.5	15.7
Total	528.0	523.2	528.0	523.2

Pledged assets for own liabilities include mortgages on own properties which Hufvudstaden has lodged as collateral for loans on its properties. Mortgages not used to raise loans are filed with the Company. There are no contingent liabilities.

NOTE 32. AFFILIATIONS

Hufvudstaden AB is under the controlling influence of L E Lundberg-företagen AB and Fredrik Lundberg. No material transactions have taken place with L E Lundbergföretagen AB. Fredrik Lundberg's director's fee for 2019 was SEK 485,000. Details of payments to Board members and executives can be found in Note 8.

In addition to the affiliations that have been stated for the Group, the Parent Company also has affiliations, which means that it has a controlling influence over its subsidiaries, see Note 18.

NOTE 33. EVENTS AFTER THE YEAR-END

No events of material significance have occurred after the end of the financial year.

Proposed Allocation of Unappropriated Earnings

The Board of Directors proposes that the funds available for appropriation at the Annual Meeting, as reported in the Parent Company Balance Sheet, be distributed as follows.

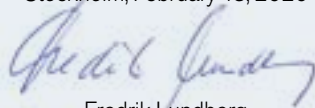
A statement explaining the proposed distribution of earnings is available on the Company's website, www.hufvudstaden.se, or can be obtained free of charge from the Company upon request.

Retained earnings	SEK 829,244,267
Profit for the year	SEK 530,617,119
	SEK 1,359,861,386
Dividend to the shareholders	
SEK 3.90 per share	SEK 804,437,139 ¹⁾
To be carried forward	SEK 555,424,247
	SEK 1,359,861,386

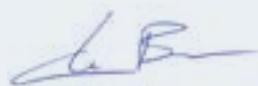
¹⁾ See Definitions, page 119, Dividend.

The Board of Directors and the President hereby certify that to the best of their knowledge the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the Consolidated Accounts have been prepared in accordance with International Financial Reporting Standards, as stated in Regulation No. 1606/2002 of the European Parliament and the Council (EC), dated July 19, 2002, regarding the application of international accounting standards. The Annual Report and the Consolidated Accounts provide a true and fair picture of the Parent Company's and the Group's position and results. The Administration Report for the Parent Company and the Group provides a true and fair overview of the development, financial position and results of the Parent Company and the Group, and describes material risks and uncertainties facing the Parent Company and the companies that form part of the Group.

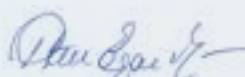
Stockholm, February 13, 2020



Fredrik Lundberg
Chairman



Claes Boustedt
Board Member



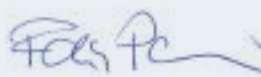
Peter Egardt
Board Member



Liv Forhaug
Board Member



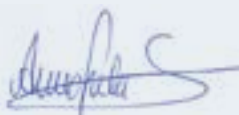
Louise Lindh
Board Member



Fredrik Persson
Board Member




Sten Peterson
Board Member



Anna-Greta Sjöberg
Board Member

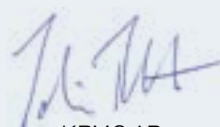


Ivo Stopner
*President
Board Member*



Bo Wikare
Acting President

Our audit report was submitted on February 14, 2020



KPMG AB
Joakim Thilstedt
Authorized Public Accountant

Auditor's Report

To the general meeting of the shareholders of Hufvudstaden AB (publ), corp. id 556012-8240

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hufvudstaden AB (publ) for the year 2019, except for the sustainability report on pages 8–11 and 36–48. The annual accounts and consolidated accounts of the company are included on pages 8–11, 36–48, 53–88 and 92–95 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the sustainability report on pages 8–11 and 36–48.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of investment properties

See administration report on pages 53–54, note 16 and accounting principles on pages 70 and 73 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

How the area has been taken into account in the audit

Investment properties are accounted for at fair value in the consolidated accounts. The carrying value amounts to SEK 47,681 million as of 31 December 2019, which represents 95 per cent of the Group's total assets and is based on internal valuations of each of the Group's properties. These valuations

are based on assumptions such as investment yield, future occupancy rates and expected rentals. To assure the valuations management has additionally obtained property valuations carried out by independent external experts for a subset of the properties.

With regards to the valuation of investments in existing properties, it is also necessary to consider the group's processes for project management, in particular the monitoring of construction costs and any economic obligations in relation to these projects.

There is a risk that the underlying assumptions used to determine the carrying value of investment properties are proven to have been inappropriate and may need to be adjusted, which would directly affect the reported results for the period.

Response in the audit

We have assessed the internal valuation process and have selected samples for recalculating the completed property valuations.

Assumptions about investment yield, rentals and vacancies have been evaluated against external data in terms of transactions involving similar properties, rent levels in newly subscribed rental agreements regarding the Group's properties and long term vacancies according to external valuation reports.

We have assessed whether the applied internal valuation methods seem reasonable by comparing them to methods that are, from our experience, used by other property companies and valuation experts. Additionally, we have made comparisons to the property valuations carried out by independent external experts, which the Group has obtained for a subset of its properties. With regards to investments in existing properties, we have for a sample of projects had review meetings with the relevant project managers within the Group. We have evaluated the Group's internal controls for property development projects through procedures such as selecting samples for testing authorizations of investment calculations, contracting property development and maintenance work and current expenses. Moreover, we have taken

AUDITOR'S REPORT

part of prepared forecasts and analysis of potential deviations from original investment calculation in order to evaluate the accuracy of the forecasts in relation to our previous experience of projects that have already been completed.

Furthermore, we have considered the completeness of the underlying data and circumstances that are disclosed in the notes to the Annual Report and evaluated whether the information provided is sufficient to understand management's judgment and the used key assumptions.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–8, 12–35, 49–52 and 96–121. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from

material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have

AUDITOR'S REPORT

complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hufvudstaden AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place

on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and

the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 8–11 and 36–48 and that it is prepared in accordance with the Annual Accounts Act.

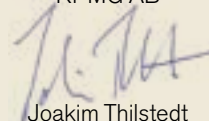
Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Hufvudstaden AB (publ) by the general meeting of the shareholders on the 21 March 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1999.

Stockholm 14 February 2020

KPMG AB



Joakim Thilstedt
Authorized Public Accountant

Corporate Governance Report

Rules and regulations and Articles of Association

Hufvudstaden is a Swedish publically listed limited company with its registered office in Stockholm. The Group is governed by the Articles of Association, the Swedish Companies Act, the rules of Nasdaq Stockholm for issuers, the Swedish Corporate Governance Code (the Code) and other applicable laws and rules. The Code aims to create good prerequisites for active, responsible ownership, and is intended to be part of the self-governance process in Swedish industry, see www.bolagsstyrning.se. It is based on the principle of comply or explain, which means that companies can deviate from one or more rules in the Code if there is justification and an explanation, and if the solution chosen can be presented.

Hufvudstaden complies with the Code with a deviation with regard to Election Committee stipulations. The deviation from the Code is explained in more detail below.

Shares and shareholders

Hufvudstaden's share capital at the year-end amounted to SEK 1,056,359,665, divided into 211,271,933 shares, giving a par value of SEK 5 per share. Of the shares, 202,996,869 are series A shares, carrying one vote per share, and 8,275,064 are series C shares, carrying 100 votes per share. All shares carry an equal right to a share in the Company's assets and profit. The largest shareholder is LE Lundbergföretagen AB, with a total of 45.3 per cent of outstanding shares and 88.1 per cent of the votes. Apart from LE Lundbergföretagen AB, there is no shareholder in the Company that holds, directly or indirectly, shares where the number of voting rights represents one-tenth or more of the total number of votes for all shares in the Company.

According to a conversion provision in the Articles of Association, the holders of series C shares are entitled to request that their series C shares be converted into series A shares. No conversion of this nature took place during the year. There are no limits in the Articles of Association regarding transferability of shares or voting rights at a general meeting of the shareholders. There

are no known agreements that would be affected by a public purchase offer. There have been no infringements of applicable stock market rules.

Buy-back of Company shares

Since the Annual Meeting in 2003, the Board of Directors has had the mandate of the General Meeting to buy back series A shares up to a maximum of 10 per cent of all shares in the Company. The mandate was renewed at the 2019 Annual Meeting. The aim is to give the Board the opportunity to adjust the capital structure in order to create increased value for the shareholders and/or to allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of a company or property. As at December 31, 2019, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of shares. The whole block was acquired in 2003 at an average price of SEK 27.30 per share. No shares were bought back during the year or after the end of the reporting period (up to and including February 13, 2020).

Annual Meeting

A shareholder's right to decide in matters related to Hufvudstaden is exercised at a general meeting. Shareholders who are registered in the shareholders' register on the record date, and who have notified their intention to attend the meeting within the specified time, are entitled to attend and vote at the Annual Meeting, either in person or by proxy. In order to exercise their right to vote at the Annual Meeting, shareholders who have their shares registered with nominees must have their shares re-registered temporarily in their own name as stipulated in the summons to the meeting. Decisions at the meeting are normally reached through a simple majority. In certain matters, however, the Swedish Companies Act stipulates that a proposal must be approved by a higher proportion of the votes represented and cast at the meeting.

Individual shareholders who wish to have a matter taken up at the meeting can make a request to the Hufvudstaden Board of Directors at a specified address well in advance of the issuing of a sum-

mons to the meeting. The address is published on the Company's website.

The Annual Meeting must be held in Stockholm within six months of the end of the financial year. The Annual Meeting makes decisions in a range of matters, including adoption of the Income Statements and Balance Sheets; dividend; discharge of the members of the Board of Directors and the President from liability; election of members of the Board of Directors, the Chairman of the Board and auditors, as well as remuneration to the Board of Directors and auditors; principles for remuneration to senior executives and other important matters. Notice of a general meeting shall be issued in the form of announcements in Post- och Inrikes Tidningar and on the Company's website. Notification that the summons has been issued is published in Dagens Nyheter.

The 2019 Annual Meeting was held on March 21, 2019. A total of 360 shareholders, representing 127,705,625 series A shares and 8,263,044 series C shares, were present, and they represented 954,010,025 votes, equivalent to 93 per cent of the total number of outstanding votes. Present at the meeting were the Board of Directors, the members of the Executive Management and the auditor. Fredrik Lundberg was elected to chair the meeting. It was decided at the Annual Meeting to adopt the Income Statement and Balance Sheet presented, as well as the Consolidated Income Statement and Consolidated Balance Sheet, and to issue a dividend of SEK 3.70 per share to the shareholders. At the meeting, the members of the Board of Directors and the President were granted discharge from liability, and a decision was reached on remuneration to the members of the Board of Directors and the auditors. In addition, all the members of the Board of Directors and the auditors were re-elected for the period up to the end of the next Annual Meeting. Finally, a decision was reached at the meeting regarding guidelines for remuneration to senior executives and authorization of the Board of Directors to decide on the acquisition and transfer of the Company's own series A shares.

The 2020 Annual Meeting will be held in Stockholm on March 19, 2020.

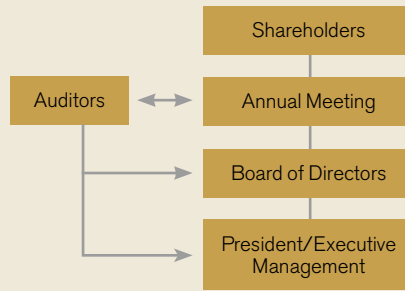
Nomination and election of the Board of Directors and auditors

According to the Articles of Association, the Board of Directors shall comprise a minimum of five and a maximum of ten members. Members are elected at a general meeting of the shareholders for the period up to the end of the first Annual Meeting to be held after the year in which the members of the Board of Directors were elected. In the light of the concentrated ownership structure, Hufvudstaden does not have a formally appointed election committee. The duty of an election committee to prepare decisions to be reached at the Meeting in matters relating to elections and fees rests with Hufvudstaden's main shareholder, L E Lundbergföretagen AB. Hufvudstaden's procedure regarding the election committee is a deviation from the Code. The main shareholder presents a proposal regarding the person who will chair the Annual Meeting, the Board of Directors, the Chairman of the Board, and remuneration to the Members of the Board of Directors. A proposal regarding the auditor and the audit fee is presented by the Board of Directors. Other shareholders have the opportunity to submit nomination proposals at the address stated on the Company website. The proposals are published no later than the time of the issuing of a summons to the Annual Meeting.

The main shareholder has applied point 4.1 in the Code as a diversity policy, which means that the composition of the Board of Directors must be well adapted in the light of the Company's operations, the current phase in its development, and circumstances in general. The composition of the Board must reflect diversity and breadth in terms of the expertise, experience and background of the members elected at the Annual Meeting, and an even gender distribution must be sought. A decision was reached at the 2019 Annual Meeting in accordance with the proposal set forth by the main shareholder, which resulted in the election of nine members, of whom three were women and six were men.

As a basis for its proposal prior to the 2020 Annual Meeting, the main shareholder has assessed whether the composition of the present Board of Directors is appropriate, among other things using applicable parts of the annual evaluation of the work of the Board of Directors as a guide.

HUFVUDSTADEN'S CONTROL STRUCTURE



Composition of the Board of Directors

Hufvudstaden's Board of Directors comprises nine members, elected at the Annual Meeting for a period of one year. The composition of Hufvudstaden's Board of Directors is arranged in line with the Company's operations. All members of the Board have been assessed based on skills, experience and background. The only member of the Executive Management on the Board is the President, and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder L E Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 96–97. An external lawyer is engaged to act as secretary to the Board of Directors.

Responsibility of the Board of Directors

According to the Companies Act, the Board of Directors has overall responsibility for the Group's organization and management, and for ensuring that control of the accounting records, management of funds and financial circumstances in general are satisfactory. The Board of Directors reaches decisions in matters regarding the Group's overall aims, strategic orientation and policies, as well as more important issues regarding financing, acquisitions, divestments and investments. Other duties that are incumbent on the Board of Directors include the following:

- Continuous follow-up and assessment of the Company's financial position and business development.
- Continuous evaluation of the Company's operative management and the work of the President.
- Ensuring there is satisfactory control of the Company's compliance with

laws and other regulations, and the continuous evaluation of the Company's internal control and risk management systems.

- Adoption of guidelines governing the way the Company should act in the community from a sustainability point of view.

The work of the Board of Directors follows the rules of procedure adopted by the Board of Directors, which provide the framework for decisions regarding investments, financing, financial statements, and other matters of a strategic nature. The rules of procedure also govern the duties of the Board of Directors and the President, and the allocation of duties between the Board of Directors and the President. The relevance and validity of the rules of procedure are reviewed each year.

The Chairman of the Board leads the work of the Board of Directors and has continuous contact with the President to follow the Group's operations and development on an ongoing basis. The Chairman of the Board consults with the President on strategic matters, represents the Company in ownership matters, and passes on the views of the shareholders to the Board.

The Chairman of the Board ensures that the work of the Board is evaluated once a year and that new Board members receive appropriate training. The evaluation takes place by each Board member completing a questionnaire. The responses are collated by the Chairman, who then presents the results to the Board, whereupon a discussion takes place within the Board.

The Board also evaluates the work of the President, although without the person in question being present, and approves more material assignments carried out by the President outside the Company.

Work of the Board of Directors

The Board of Directors held eight meetings during 2019, of which one was a statutory meeting. Economic and financial reports and operational reports from the Business Area are presented at each Board meeting. In addition, key matters of a principle nature or of major economic significance are taken up at each ordinary meeting. The work of the Board of Directors during the year was aimed specifically at strategy discussions, issues relating to the economic climate and financing, property valuation,

acquisitions, and investments. Other matters dealt with during the year were major current projects, including development projects in the NK department stores, the Skären 9 extension and redevelopment project, and insurance matters related to the fire at the Vildmanen 7 property. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2018 was approved, and the Board meeting in August in conjunction with the examination by the Board of the Company's six-monthly report.

Board committees

The Board of Directors have examined the matter of establishment of an audit committee and a remuneration committee but has chosen not to set up any committees and will instead handle matters that rest with such committees as part of the regular work of the Board of Directors. The full expertise of the Board can be utilized, and the meetings can be made more efficient. This means that the Board of Directors as a whole perform the duties that rest with an audit committee, and that the entire Board, apart from the President, discharge the duties that rest with a remuneration committee, including following up and evaluating current variable remuneration programmes for the Executive Management as well as programmes that were terminated during the year. The Board of Directors also follows and evaluates the application of the guidelines governing remuneration to senior executives, as decided at the Annual Meeting, and governing Company remuneration structures and remuneration levels for senior executives.

Executive Management

The President heads operations in accordance with the adopted rules of procedure for the Board of Directors and the President, which include the instructions for the President issued by the Board of Directors. The President is responsible for ensuring that the Board of Directors receives information and a basis for making decisions that is sufficiently factual, complete and relevant for the Board of Directors to make well-informed judgements.

The Executive Management comprises the President and three business

area heads, as well as the CFO, Head of Business Development/Vice President, Head of Property Development, and Head of Human Resources. The Executive Management meets approximately once a month to discuss current issues. They also hold a strategy conference twice a year. During the fourth quarter of 2019 Hufvudstaden's President Ivo Stopner has been on leave of absence due to need for recovery after a period of high workload. The company's Vice President Bo Wikare has since October 1, 2019 handled the President's duties and will continue to do so until he takes up his position again, which is expected to be on April 1, 2020. For information about individual members, see pages 98–99.

Audit

According to the Articles of Association, the Company must have one or two auditors and a corresponding number of deputies. Alternatively, one or two registered auditing companies can be appointed. At the 2019 Annual Meeting, KPMG AB was re-elected as the auditing company for a period of one year. Joakim Thilstedt is lead auditor. Joakim Thilstedt's other major assignments include AFRY, Ahlsell, Holmen, LE Lundbergföretagen and Modern Times Group MTG.

The Board meets the Company's auditor twice a year, of which at least one meeting is in the absence of the President. On these occasions, the auditor presents a report, and there is a discussion about the audit orientation and observations. Internal routines and control systems are examined continuously during the year. A final examination of the annual accounts and the Annual Report takes place in January – February. The sixth-monthly report is examined on a general basis. The fee to the auditors, including the fee for advisory services, is reported in Note 9.

Remuneration

Board of Directors

Remuneration to the Board of Directors is decided at the Annual Meeting. At the Annual Meeting in 2019 it was decided that remuneration for the period up to the next Annual Meeting, totalling SEK 2,205,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work on the Board. Remuneration is divided between the

Chairman, who receives SEK 490,000 and the other seven non-employed members, who each receive SEK 245,000.

Executive Management

Guidelines on salaries, bonuses and other remuneration to the Company's senior executives are decided at the Annual Meeting. It was confirmed at the 2019 Annual Meeting that remuneration from the Company shall comprise salaries that are in line with the market, as well as a limited, profit-related bonus scheme as described below. The Company has no incentive schemes related to the share price. These guidelines have been followed since the 2019 Annual Meeting, and a proposal with largely unchanged guidelines will be presented for a decision at the 2020 Annual Meeting. The report by the Board of Directors covering the evaluation of variable remuneration programmes for the Executive Management, the application of guidelines for remuneration to senior executives, and current Company remuneration structures and remuneration levels for senior executives, will be published on the Company's website no later than three weeks prior to the 2020 Annual Meeting. The auditor's statement on whether guidelines adopted at the Annual Meeting in 2019 governing remuneration to senior executives have been followed, will be available on the Company's website no later than three weeks prior to the Annual Meeting, and will be attached to the documents distributed at the Annual Meeting. The statement is also available from the Company on request.

Remuneration to the President is proposed by the Chairman of the Board and is confirmed by the Board of Directors. The President does not take part in this decision. The President decides on remuneration to other senior executives following consultation with the Chairman of the Board.

For further information regarding salaries and remuneration, as well as guidelines for remuneration to senior executives, as adopted at the 2019 Annual Meeting, see Note 8.

Bonus

Other permanent employees in the Group were included in a bonus scheme during the year. The bonus payment criteria are operating results and cus-

tomer satisfaction. In the case of managers with HR responsibility, there is also a personal assessment with individual objectives.

In the case of both bonus schemes, a decision is made one year at a time, and the bonus is subject to a ceiling. A bonus is only payable if the Company reports a positive result with no consideration given to unrealized changes in value. In 2019, the bonus cost for all employees was SEK 6.2 million (4.2), or an average of SEK 188,000 per person for the Executive Management, including the President, and an average of SEK 40,000 per person for other employees.

Internal control and risk management

The Board of Directors has overall responsibility for ensuring that Hufvudstaden has a satisfactory internal control system. The President is responsible for ensuring that such a system is in place and that it covers any material risk of error in the financial statements. Hufvudstaden's internal control systems cover the control environment, risk assessment, control measures, information, communication, and follow-up.

Control environment

The control environment is the basis for internal control of financial reporting. Hufvudstaden's internal control structure is based, among other things, on a clear allocation of responsibility and duties between the Board of Directors and the President, and within the Company's operations. The Executive Management and the Board of Directors continuously document and evaluate policies and guidelines, such as the Company's valuation principles, information policy, and accounting handbook. To ensure continuous operational follow-up, there are routines in place for financial reporting and analysis. The routines include

monthly and quarterly reports, budget follow-ups, and forecasts. These tasks are handled by the accounting and controller function on the Business Area and Group level.

Risk assessment

Based on ongoing discussions and meetings in the organization, the Hufvudstaden Executive Management identify, analyze and decide on the Company's material risk areas, whereupon the Board of Directors confirms these areas. The Executive Management is responsible for handling the risk of error in the financial statements. The Board of Directors analyzes the outcome of the Company's risk assessment and risk management process to ensure it covers all material areas. Hufvudstaden's greatest risks are linked to property valuation, financial transactions, property projects, and handling of tax matters.

Control measures

Based on risk assessments, Hufvudstaden has adopted a number of control measures. These are both of a preventative nature, i.e. measures aimed at avoiding losses or errors in the reporting, and of an identification nature. The controls should also ensure that errors are rectified. Examples of areas that have a material impact on the Company's result, and which have carefully formulated control measures, are property and derivative valuation, maintenance, redevelopment, interest payments and leasing. Controls are carried out, among other things, using deviation analyses and quarterly meetings between the business area, group management and controller function.

Information and communication

In-house information and external communication are governed on a general level by, among other things, the Informa-

tion Policy. Internal communication to and from the Board and the Executive Management takes place in different ways, including regular information meetings held by the management, both for the whole Company and for individual units. Another important communication channel is Hufvudstaden's intranet. Through the intranet, all employees have access to up-to-date information. Internal policies, guidelines, instructions and equivalent documents that control and support operations are published on the intranet. Feedback on internal control work takes place at quarterly meetings, management team meetings, and Board meetings.

Follow-up

The Hufvudstaden Executive Management evaluates on an ongoing basis internal control of financial reporting, and whether reporting to the Board is functioning efficiently. This takes place primarily through its own analyses, questioning, and familiarization with the work of the controller function. To follow up identified risks and ensure that the internal control work takes place optimally, the controller function works continuously on this follow-up process. Apart from quarterly reports with financial outcomes, including the Executive Management's comments on operations, the Board receives the Executive Management's comments on how internal control is working and whether identified risks ought to be changed. The Company's auditor attends Board meetings on two occasions each year, and reports his observations regarding the Company's internal routines and control systems. The members of the Board then have the opportunity to ask questions. Each year, an examination is made of material risk areas, whereupon the Board adopts a position on risks in the financial reporting system and evaluates the internal control system.

Internal audit statement

The Hufvudstaden Executive Management has systematically examined and structured the internal documentation of the in-house control system. Nothing has emerged to indicate that the control system is not functioning in the manner intended. The Board of Directors has therefore decided not to establish an internal audit function. This decision will be reviewed annually.

Name	Function	Attendance ¹⁾	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	8	Yes	No
Claes Boustedt		8	Yes	No
Peter Egardt		7	Yes	Yes
Liv Forhaug		7	Yes	Yes
Louise Lindh		8	Yes	No
Fredrik Persson		8	Yes	Yes
Sten Peterson		8	Yes	No
Anna-Greta Sjöberg		8	Yes	Yes
Ivo Stopner	President	5	No (employee)	Yes

¹⁾ Eight board meetings were held during the year, of which six were held after the Annual Meeting.

Board of Directors and Auditors

The Board of Directors consists of nine members, without any deputies, all of whom are elected at the Annual Meeting. The members include persons who have links to Hufvudstaden's largest shareholder LE Lundbergföretagen AB. The President is also a member of the Board of Directors. Other senior executives in the Company take part in Board meetings to present specific points. During 2019, the Board of Directors held eight meetings, of which one was a statutory meeting. The work of the Board of Directors complies with the rules of procedure adopted by the Board governing the undertakings of the Board and the President and the allocation of duties between the Board and the President.



Fredrik Lundberg

Born 1951. MSc, MBA, Honorary PhD in Economics, Honorary PhD in Engineering. Chairman, Board member since 1998. President and CEO of LE Lundbergföretagen AB. Chairman of Holmen AB and AB Industrivärden. Deputy Chairman of Svenska Handelsbanken AB. Member of the board of LE Lundbergföretagen AB and Skanska AB.
Holding in Hufvudstaden: 1,850,412 shares. (directly and through related parties).¹⁾



Claes Boustedt

Born 1962. MBA. Board member since 1998. Vice President of LE Lundbergföretagen AB. President of LE Lundberg Kapitalförvaltning AB. Member of the board of Sandvik AB. Holding in Hufvudstaden: 1,000 shares.



Fredrik Persson

Born 1968. MBA. Board member since 2016. Chairman of JM AB and the Confederation of Swedish Enterprise. Member of the board of AB Electrolux, Ahlström Capital Oy, ICA Gruppen AB and Interogo Holding AG. Previous positions include President and CEO of Axel Johnson AB. Holding in Hufvudstaden: 2,500 shares.



Sten Peterson

Born 1956. MSc. Board member since 2006. President of Förvaltnings AB Lunden. Member of the board of Fastighets AB LE Lundberg, Förvaltnings AB Lunden, J2L Holding AB, and LE Lundbergföretagen AB. Holding in Hufvudstaden: 2,000 shares.

¹⁾ LE Lundbergföretagen AB also holds 93,377,680 shares in Hufvudstaden. Fredrik Lundberg and related parties control approximately 71 per cent of the votes in LE Lundbergföretagen AB, and Louise Lindh and related parties control approximately 11 per cent of the votes.

BOARD OF DIRECTORS AND AUDITORS



Peter Egardt

Born 1949. BA.
Board member since 2003.
Chairman of the Swedish National College of Defence. Previous positions include Governor of the County of Uppsala, and President of the Stockholm Chamber of Commerce and the Association of Swedish Chambers of Commerce.
Holding in Hufvudstaden: 18,000 shares.



Liv Forhaug

Born 1970. MBA.
Board member since 2016.
CEO Martin & Servera AB.
Chairman of the Board for subsidiaries of Martin & Servera. Previous experience includes positions as Chief Strategy Officer for ICA Gruppen AB and partner at McKinsey & Company.
Holding in Hufvudstaden: 1,800 shares.



Louise Lindh

Born 1979. MBA.
Board member since 2007.
President of Fastighets AB L E Lundberg.
Chairman of the Board of J2L Holding AB.
Member of the board of Fastighets AB L E Lundberg, Holmen AB and L E Lundbergföretagen AB.
Holding in Hufvudstaden: 29,166 shares. ¹⁾



Anna-Greta Sjöberg

Born 1967. MA, MBA.
Board member since 2006.
President of Olivetta AB.
Chairman of the Board of Marginalen Bank Bankaktiebolag.
Member of the board of Tryggstiftelsen.
Previous positions include Managing Director of the Royal Bank of Scotland, Nordic Branch.
Holding in Hufvudstaden: 3,000 shares.



Ivo Stopner

Born 1962. MSc.
President and Board member since 1999.
No other material assignments outside the Group. Holding in Hufvudstaden: 3,000 shares (own and through related parties), and 49,867 shares within the framework of endowment insurance taken out in respect of an assured direct pension.

AUDITORS

KPMG AB with Joakim Thilstedt

born 1967, Authorized Public Accountant,
as lead auditor.

SECRETARY

Mattias Karlsson

born 1965. Lawyer at Mannheimer Swartling Advokatbyrå AB. Secretary to the Board since 2008.

Senior Executives

Ivo Stopner

Born 1962. MSc.
President. Employed 1990.
Holdings in Hufvudstaden: 3,000 shares (own and through related parties), as well as 49,867 shares within the framework of endowment insurance taken out in respect of an assured direct pension. Ivo Stopner, including his family, has no material shareholding or partnership in companies with which the Company has significant business relations.

Henrik Andreasson

Born 1981. BA. Head of the NK Business Area.
Employed 2018.
Holding in Hufvudstaden: –

John Lethenström

Born 1972. MSc. Head of Property Development.
Employed 2017. Holding in Hufvudstaden: –

Christine Lindgren

Born 1969. BA. Head of Human Resources.
Employed 2017.
Holding in Hufvudstaden: –

Anders Nygren

Born 1970. MSc.
Head of the Stockholm Business Area.
Employed 2006.
Holding in Hufvudstaden: –

Fredrik Ottosson

Born 1972. MSc.
Head of the Gothenburg Business Area.
Employed 2016.
Holding in Hufvudstaden: –

Åsa Roslund

Born 1966. MBA. CFO. Employed 2005.
Holding in Hufvudstaden: –

Bo Wikare

Born 1963. MSc. Vice President and Head of Business Development. Acting President from October 1, 2019, Employed 1994.
Holding in Hufvudstaden: 62 shares.



From the left: Henrik Andreasson, Bo Wikare, Åsa Roslund, Anders Nygren, Ivo Stopner, Christine Lindgren, Fredrik Ottosson, John Lethenström.

SENIOR EXECUTIVES



Multi-year review – Group

	2019	2018	2017	2016	2015
Income Statements, SEK m					
<i>Net revenue</i>					
Property management	1,896	1,797	1,751	1,703	1,611
Parking operations	85	86	90	87	78
	1,981	1,883	1,841	1,790	1,689
<i>Operating expenses</i>					
Maintenance, operation and administration	-316	-307	-299	-291	-291
Ground rents	-	-22	-23	-22	-22
Property tax	-201	-166	-167	-165	-154
Depreciation right-of-use assets	-6	-	-	-	-
Property management, expenses	-523	-495	-489	-478	-467
Parking operations, expenses	-53	-51	-51	-50	-50
	-576	-546	-540	-528	-517
Gross profit	1,405	1,337	1,301	1,262	1,172
– of which Property management	1,373	1,302	1,262	1,226	1,144
– of which Parking operations	32	35	39	37	28
Central administration	-49	-44	-41	-43	-39
Operating profit before changes in value and items affecting comparability	1,356	1,293	1,260	1,220	1,133
Items affecting comparability	-	-	-139	-	-
Changes in value, investment properties	2,727	3,621	2,848	4,160	3,427
Changes in value, interest derivatives	4	26	62	45	12
Operating profit	4,087	4,940	4,031	5,425	4,572
Financial income and expense	-119	-120	-136	-141	-123
Profit before tax	3,968	4,820	3,895	5,284	4,449
Tax	-822	-500	-860	-1,164	-979
Profit for the year	3,146	4,320	3,035	4,120	3,470
Balance Sheets, SEK m					
<i>Assets</i>					
Investment properties	47,681	44,089	39,730	36,517	31,741
Other non-current assets	861	37	20	19	18
Current assets	1,800	1,249	545	1,173	564
Total assets	50,342	45,375	40,295	37,709	32,323
<i>Equity and liabilities</i>					
Equity	31,383	29,000	25,402	23,047	19,567
Interest-bearing liabilities	9,110	7,350	6,200	6,650	5,750
Other liabilities and allocations	9,849	9,025	8,693	8,011	7,006
Total equity and liabilities	50,342	45,375	40,295	37,709	32,323
Property holdings					
Fair value, SEK bn	47.7	44.1	39.7	36.5	31.7
Tax assessment value, SEK bn	20.5	16.7	16.8	16.8	15.5
Rentable floor space, 1,000 sq m	384.2	384.5	384.7	389.0	387.2
Rental vacancy level, %	5.0	2.6	3.9	3.9	4.5
Floor space vacancy level, %	6.7	4.3	5.5	5.3	6.1
Investments in properties, SEK m	865	738	584	617	497
Net operating income, SEK per sq m ¹⁾	3,574	3,386	3,279	3,151	2,955

¹⁾ The calculation was based on the number of square metres at the year-end. Acquired properties are adjusted upwards to the value for the year.

MULTI-YEAR REVIEW – GROUP

	2019	2018	2017	2016	2015
Financial key ratios ¹⁾					
Surplus ratio, %	71	71	71	71	69
Return on equity, %	10.4	14.1	12.5	19.3	19.1
Return on capital employed, %	10.7	14.7	13.2	19.7	19.2
Equity ratio, %	62	64	63	61	61
Interest coverage ratio, multiple	11.4	10.5	9.3	8.6	9.1
Debt/equity ratio, multiple	0.2	0.2	0.2	0.2	0.3
Net loan-to-value ratio, properties, %	15.5	14.2	14.6	15.2	16.7
Cash flow from current operations, SEK m	1,367	1,003	999	1,029	968
Cash flow for the year, SEK m	635	676	-719	671	-31
Average number of employees in the Group	135	127	118	113	105
Share data (no dilution effect) ¹⁾					
Profit for the year, SEK	15.25	20.94	14.71	19.98	16.82
Dividend, SEK	3.90 ²⁾	3.70	3.50	3.30	3.10
Dividend proportion, %	83 ²⁾	83	82	81	81
Equity, SEK	152.15	140.59	123.15	111.74	94.86
Fair value of properties, SEK	231.16	213.75	192.62	177.04	153.92
Cash flow from current operations, SEK	6.63	4.86	4.84	4.99	4.69
Cash flow for the year, SEK	3.08	3.28	-3.49	3.25	-0.15
Share price, series A, at the year-end, SEK	185.10	136.90	131.40	143.90	119.90
P/E ratio, multiple	12.1	6.5	8.9	7.2	7.1
Share price series A/equity, %	121.7	97.4	106.7	128.8	126.4
Yield, %	2.1 ²⁾	2.7	2.7	2.3	2.6
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933
EPRA Performance Measures ¹⁾					
Result from property management after nominal tax (EPRA Earnings), SEK m	1,132	1,064	998	962	908
Result from property management after nominal tax (EPRA EPS), per share, SEK	5.49	5.16	4.84	4.66	4.40
Non-current net asset value (EPRA NAV), SEK m	40,314.1	37,215.9	33,255.3	30,241.8	25,769.7
Non-current net asset value (EPRA NAV), per share, SEK	195.00	181.00	161.00	146.00	125.00
Current net asset value (EPRA NNAV), SEK m	38,146.2	35,218.8	31,447.0	28,535.7	24,253.7
Current net asset value (EPRA NNAV), per share, SEK	185.00	171.00	152.00	138.00	118.00
EPRA Vacancy rate, %	1.7	1.3	2.4	2.6	3.2

¹⁾ Hufvudstaden presents certain financial metrics not defined according to IFRS, what are termed alternative performance measures. The purpose of these measures is to describe the Company's development and improve comparability between periods. The key figures that are classified as alternative performance measures are defined on page 119 and the derivation can be found on pages 102–103.

²⁾ In accordance with a proposal by the Board.

Effects and application of IFRS 16

	2019 incl. IFRS 16	2019 excl. IFRS 16
Performance measures GROUP		
Surplus ratio, %	70.9	69.8
Net debt, SEK m	7,404	6,644
Equity ratio, %	62	63
Interest coverage ratio, multiple	11.4	13.8
Debt/equity ratio, multiple	0.2	0.2
Net loan-to-value ratio, properties %	15.5	13.9

Alternative performance measures

Hufvudstaden applies the European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures. A number of the performance measures presented in the Annual Report on pages 100–101 are

alternative performance measures, i.e. a set of financial metrics not defined in IFRS or the Annual Accounts Act, and which are used to present the Company's development and improve comparability between periods. Definitions of

performance measures are given under Definitions and Glossary, see page 119. Below is the derivation of alternative performance measures.

SEK m	2019	2018	2017	2016	2015
Net debt					
Non-current interest-bearing liabilities	6,700	5,700	3,700	4,000	4,650
Non-current lease liabilities	719	–	–	–	–
Current interest-bearing liabilities	1,650	1,650	2,500	2,650	1,100
Current lease liabilities	41	–	–	–	–
Cash and bank holdings	-1,706	-1,071	-395	-1,114	-443
Net debt	7,404	6,279	5,805	5,536	5,307
Equity ratio					
Equity	31,383	29,000	25,402	23,047	19,567
Total assets	50,342	45,375	40,295	37,709	32,323
Equity ratio, %	62	64	63	61	61
Net loan to value ratio, properties					
Interest-bearing liabilities	9,110	7,350	6,200	6,650	5,750
Interest-bearing assets	-1,706	-1,071	-395	-1,114	-443
Total	7,404	6,279	5,805	5,536	5,307
Carrying amount, properties	47,681	44,089	39,730	36,517	31,741
Net loan to value ratio, properties, %	15.5	14.2	14.6	15.2	16.7
Interest coverage ratio					
Profit before tax	3,968	4,820	3,895	5,284	4,449
Reversal of items affecting comparability and changes in value	-2,731	-3,647	-2,771	-4,205	-3,439
Interest expense	119	123	136	141	124
Total	1,356	1,296	1,260	1,220	1,134
Interest expense	119	123	136	141	124
Interest coverage ratio, multiple	11.4	10.5	9.3	8.6	9.1

ALTERNATIVE PERFORMANCE MEASURES

SEK m	2019	2018	2017	2016	2015
Result from property management after nominal tax (EPRA Earnings)					
Operating profit before items affecting comparability and changes in value	1,356	1,293	1,259	1,219	1,133
Financial income and expense	-119	-120	-136	-141	-123
Result from property management	1,237	1,173	1,123	1,078	1,010
Actual tax, property management result	-105	-109	-125	-116	-102
Result from property management after nominal tax (EPRA Earnings)	1,132	1,064	998	962	908
Number of outstanding shares, million	206.3	206.3	206.3	206.3	206.3
Result from property management after nominal tax (EPRA EPS) per share, SEK	5.49	5.16	4.84	4.66	4.40
Net asset value (EPRA NAV/EPRA NNNAV)					
Equity according to the Balance Sheet	31,382.7	28,999.5	25,401.7	23,047.4	19,566.7
<i>Reversal</i>					
Derivatives according to the Balance Sheet	-	3.7	30.3	91.9	137.4
Deferred tax, investment properties	8,931.4	8,212.7	7,823.3	7,102.5	6,065.6
Non-current net asset value (EPRA NAV)	40,314.1	37,215.9	33,255.3	30,241.8	25,769.7
Number of outstanding shares, million	206.3	206.3	206.3	206.3	206.3
Non-current net asset value (EPRA NAV) per share, SEK	195	181	161	146	125
<i>Deductions</i>					
Derivatives according to the above	-	-3.7	-30.3	-91.9	-137.4
Assessed actual liability, deferred tax 5%	-2,167.9	-1,993.4	-1,778.0	-1,614.2	-1,378.6
Current net asset value (EPRA NNNAV)	38,146.2	35,218.8	31,447.0	28,535.7	24,253.7
Number of outstanding shares, million	206.3	206.3	206.3	206.3	206.3
Current net asset value (EPRA NNNAV) per share, SEK	185	171	152	138	118

Business areas in figures

Property holdings (comparable holdings)	Stockholm Business Area				NK Business Area				Gothenburg Business Area				Property management, total			
	2019		2018		2019		2018		2019		2018		2019		2018	
	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm	SEK m	SEK/ sqm
Gross rent, including charge for consumables (of which property tax supplement)	1,124.5	5,525	1,034.6	5,075	525.0	5,707	491.8	5,352	377.6	4,257	351.0	3,956	2,027.1	5,276	1,877.4	4,883
Rent losses on vacant space	(106.2)	(522)	(90.8)	(445)	(37.3)	(405)	(32.6)	(355)	(30.5)	(344)	(25.1)	(283)	(174.0)	(453)	(148.5)	(386)
Bad debt losses	-67.6	-332	-30.6	-150	-31.5	-342	-23.1	-251	-23.6	-266	-21.6	-243	-122.7	-319	-75.3	-196
Net sales	1,056.4	5,191	1,003.5	4,923	487.9	5,304	465.6	5,067	352.1	3,970	328.0	3,697	1,896.4	4,936	1,797.1	4,674
Maintenance	-16.8	-83	-15.9	-78	-6.3	-68	-5.4	-59	-5.8	-65	-3.2	-36	-28.9	-75	-24.5	-64
Operations	-64.6	-317	-64.9	-318	-86.7	-942	-88.7	-965	-41.5	-468	-40.2	-453	-192.8	-502	-193.8	-504
Administration	-44.7	-220	-42.6	-209	-29.9	-325	-27.8	-303	-19.6	-221	-18.9	-213	-94.2	-245	-89.3	-232
Ground rent	-	-	-13.0	-64	-	-	-8.8	-96	-	-	-	-	-	-	-21.8	-57
Property tax	-116.8	-574	-95.3	-467	-47.1	-512	-40.2	-437	-36.8	-415	-30.4	-343	-200.7	-522	-165.9	-431
Depreciation	-2.0	-10	-	-	-4.5	-49	-	-	-0.3	-3	0.0	-	-6.8	-18	0.0	-
Total property expenses	-244.9	-1,204	-231.7	-1,136	-174.5	-1,896	-170.9	-1,860	-104.0	-1,172	-92.7	-1,045	-523.4	-1,362	-495.3	-1,288
Gross operating profit	811.5	3,987	771.8	3,787	313.4	3,408	294.7	3,207	248.1	2,798	235.3	2,652	1,373.0	3,574	1,301.8	3,386

Property data December 31	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Property management, total	
	2019	2018	2019	2018	2019	2018	2019	2018
Number of properties	22	22	3	3	4	4	29	29
Floor space, sq m	203,530	203,860	92,000	91,898	88,697	88,733	384,227	384,491
Rental vacancy level, %	5.5	1.3	4.7	4.3	4.0	4.4	5.0	2.6
Floor space vacancy level, %	7.8	3.1	4.9	5.2	6.0	5.8	6.7	4.3
Total rentable parking spaces	630	630	800	800	51	51	1,481	1,481

Rentable space and annual rent December 31, 2019	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Property management, total	
	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m
Offices	129,615	767.2	16,200	83.1	50,599	152.7	196,414	1,003.0
Retail and restaurants	42,483	330.6	37,865	380.8	31,178	192.2	111,526	903.6
Storage and miscellaneous	12,100	23.0	13,462	29.4	4,866	10.9	30,428	63.3
Parking	18,837	22.8	24,473	27.8	1,275	1.9	44,585	52.5
Residential	495	0.6	-	-	779	0.8	1,274	1.4
Total	203,530	1,144.2	92,000	521.1	88,697	358.5	384,227	2,023.8

Floor space vacancy level and rental vacancy level 31 december 2019	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Property management, total	
	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m
Offices	10,130	49.0	347	0.9	2,200	5.1	12,677	55.0
Retail and restaurants	908	7.8	2,841	20.3	1,667	6.8	5,416	34.9
Storage and miscellaneous	2,995	3.7	1,314	3.4	1,371	2.1	5,680	9.2
Parking	1,941	2.6	-	-	50	0.3	1,991	2.9
Residential	-	-	-	-	66	0.1	66	0.1
Total	15,974	63.1	4,502	24.6	5,354	14.4	25,830	102.1

BUSINESS AREAS IN FIGURES

Maturity analysis ^{1) 2) 3)}
December 31, 2019

Number of leases	2020	2021	2022	2023	2024	2025 –	Total
Stockholm Business Area							
Offices	33	50	58	53	14	19	227
Retail	27	23	17	22	8	8	105
Other	354	148	69	56	15	49	691
Total	414	221	144	131	37	76	1,023
Proportion, %	40.5	21.6	14.1	12.8	3.6	7.4	100.0
NK Business Area							
Offices	8	2	4	1	1	3	19
Retail	53	29	29	16	13	9	149
Other	53	29	34	21	6	8	151
Total	114	60	67	38	20	20	319
Proportion, %	35.7	18.8	21.0	11.9	6.3	6.3	100.0
Gothenburg Business Area							
Offices	20	16	7	7	5	3	58
Retail	25	28	15	6	7	4	85
Other	56	37	21	10	4	8	136
Total	101	81	43	23	16	15	279
Proportion, %	36.2	29.0	15.4	8.3	5.7	5.4	100.0
Hufvudstaden, total							
Offices	61	68	69	61	20	25	304
Retail	105	80	61	44	28	21	339
Other	463	214	124	87	25	65	978
Total	629	362	254	192	73	111	1,621
Proportion, %	38.8	22.3	15.7	11.8	4.5	6.9	100.0

Annual rent, SEK m	2020	2021	2022	2023	2024	2025 –	Total
Stockholm Business Area							
Offices	77.9	136.2	154.2	177.2	110.7	149.4	805.6
Retail	52.5	36.5	40.4	73.5	20.2	56.3	279.4
Other	18.6	13.7	13.4	4.2	4.2	23.6	77.7
Total	149.0	186.4	208.0	254.9	135.1	229.3	1,162.7
Proportion, %	12.8	16.0	17.9	22.0	11.6	19.7	100.0
NK Business Area							
Offices	14.3	0.4	21.8	7.0	17.9	11.6	73.0
Retail	112.5	39.3	59.0	50.4	36.0	36.9	334.1
Other	5.3	1.8	4.3	11.7	8.0	3.4	34.5
Total	132.1	41.5	85.1	69.1	61.9	51.9	441.6
Proportion, %	29.9	9.4	19.3	15.6	14.0	11.8	100.0
Gothenburg Business Area							
Offices	57.4	37.2	20.7	20.4	22.1	23.8	181.6
Retail	28.4	47.6	31.9	15.7	30.7	19.4	173.7
Other	4.3	12.3	2.4	3.9	1.0	0.8	24.7
Total	90.1	97.1	55.0	40.0	53.8	44.0	380.0
Proportion, %	23.7	25.5	14.5	10.5	14.2	11.6	100.0
Hufvudstaden, total							
Offices	149.6	173.8	196.7	204.6	150.7	184.8	1,060.2
Retail	193.4	123.4	131.3	139.6	86.9	112.6	787.2
Other	28.2	27.8	20.1	19.8	13.2	27.8	136.9
Total	371.2	325.0	348.1	364.0	250.8	325.2	1,984.3
Proportion, %	18.7	16.4	17.6	18.3	12.6	16.4	100.0

¹⁾ Including leases signed for future occupation/implementation, whereupon the corresponding current rent has been excluded.

²⁾ Excluding vacant floor space and floor space (storage and offices) occupied by Hufvudstaden for its own use.

³⁾ Excluding residential leases.

Properties

Property designation	Address	Site area, sq m	Year of purchase	Year of construction/ redevelopment	Tax assessment 2019, SEK m
STOCKHOLM BUSINESS AREA					
Kungsgatan Management Area					
Hästthuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	433.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	488.0
Kåkenhusen 40	Brunnsgatan 1–9, Norrlandsgatan 29–33, Kungsgatan 4–10	4,934	1921/2011	1926/28/30/32/84/85/89/91	1,334.0
Oxhuvudet 18 ¹⁾	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 27–33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	1,585.0
Total		11,830			3,840.0
Norrmalmstorg Management Area					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	257.0
Kvasten 6 ¹⁾	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	459.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	269.0
Norrmalm 2:63 ²⁾	Norrmalmstorg		1992	1993	15.4
Packarhuset 4 ¹⁾³⁾	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	1,220.0
Pumpstocken 10 ¹⁾	Birger Jarlsgatan 13–15, Mäster Samuelsgatan 2–4, Biblioteksgatan 10–12, Jakobsbergsgatan 1–3	2,886	1917/78/91/2000	1865/97/1901/29/84/96/97/2006	964.9
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	221.0
Rännilen 11	Biblioteksgatan 8, Mäster Samuelsgatan 5	775	1958	1902/85	218.0
Rännilen 18 ¹⁾	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986/2009	537.0
Rännilen 19	Norrmalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39/2007	1902/42/64/90/2002	800.0
Skären 9	Smålandsgatan 18–20, Norrlandsgatan 8–10	2,195	1917	1984/2001	730.0
Vildmannen 7 ¹⁾⁴⁾	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	164.0
Total		17,663			5,855.3
West Management Area					
Achilles 1 ⁵⁾	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	1600-talet/1974	182.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	315.0
Kungliga Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	155.0
Medusa 1 ¹⁾⁶⁾	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	90.8
Orgelpipan 7 ⁷⁾	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	1,089.0
Svärdfisken 2 ¹⁾	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	271.0
Total		12,075			2,102.8
Total, Stockholm Business Area		41,568			11,798.1
NK BUSINESS AREA					
NK Management Area, Stockholm					
Hästen 19 ^{1),9)} och 20 ^{8),9)} , Spektern 14 ^{8),9)}	Hamngatan 18–20, Regeringsgatan 36–40	8,875	1998	1915/91	3,231.0
NK Management Area, Gothenburg					
Inom Vallgraven 10:9 ⁹⁾	Östra Hamngatan 42, Kyrkogatan 48–54, Fredsgatan 5–7, Drottninggatan 39–45	4,520	1998	1964/94	777.0
Parkaden Management Area					
Hästskon 10 ¹⁰⁾	Regeringsgatan 47–55, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	972.8
Total, NK Business Area		18,316			4,980.8
GOTHENBURG BUSINESS AREA					
Gothenburg Management Area					
Inom Vallgraven 3:2 ¹¹⁾	Stora Nygatan 17, Lilla Drottninggatan 3	784	2016	1856	32.4
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	372.0
Inom Vallgraven 12:11	Drottninggatan 50–52, Södra Hamngatan 45–47, Fredsgatan 2–4	2,138	1967/2010/11	1875/1929/30	206.8
Nordstaden 8:24	Postgatan 26–32 och 39–43, Nordstadstorget 2–8, Spannmålgatan 19, Nils Ericsonsgatan 17, Götgatan 9–11, Köpmansgatan 28–34, Östra Hamngatan 26–28	12,678	1979/2013	1972/2005/11	2,790.0
Nordstaden GA:5 ¹²⁾	Nordstadstorget med flera				319.5
Total, Gothenburg Business Area		19,757			3,720.7
TOTAL		79,641			20,499.6

PROPERTIES

Rentable space, sq m								
Offices	Retail Restaurants	Cinemas	Storage	Parking	Residential	Other	Total	
4,972	1,899		210				7,081	
6,408	1,809		1,028				9,245	
17,092	2,899	1,676	894				22,561	
20,817	5,069		2,028	1,612		5	29,531	
49,289	11,676	1,676	–	4,160	1,612	–	5	68,418
2,839	372	453		281	726		4,671	
2,808	1,324	2,774		141			7,047	
2,458	493	144		342			3,437	
		194					194	
10,871	4,017		499				15,387	
7,802	3,889	499	75		192	1	12,458	
1,997	750		28				2,775	
1,630	809	474	2				2,915	
4,875	1,529	287		272			6,963	
7,836	2,103		509	836			11,284	
7,861	1,637		399	1,106			11,003	
							–	
50,977	16,923	4,825	–	2,548	2,668	192	1	78,134
4,014	351		593					4,958
7,606	379	263		877				9,125
2,756				8				2,764
1,283	242	271		104		303		2,203
9,961	3,733	1,969		1,349	13,450		1	30,463
3,729	175		1,893	561	1,107			7,465
29,349	4,880	2,503	1,893	3,492	14,557	303	1	56,978
129,615	33,479	9,004	1,893	10,200	18,837	495	7	203,530
11,143	22,021	2,510		3,898			16	39,588
5,057	10,006	640		1,008			4	16,715
	1,973	715		8,535	24,473		1	35,697
16,200	34,000	3,865	–	13,441	24,473	–	21	92,000
1,230	262			72				1,564
10,438	3,045	589		1,107	1,275			16,454
1,823	1,709			393		779		4,704
37,108	23,803	1,770		3,203			91	65,975
								–
50,599	28,819	2,359	–	4,775	1,275	779	91	88,697
196,414	96,298	15,228	1,893	28,416	44,585	1,274	119	384,227

- 1) The property is classified as being of cultural and historical importance.
- 2) The property is held on a lease.
- 3) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.
- 4) The property was ravaged by a fire on November 7, 2017 and much of the building was destroyed.
- 5) The property is a listed building.
- 6) Owned by the subsidiary Fastighetsaktiebolaget Medusa.
- 7) Orgelpipan 7 is a leasehold property. The ground rent is SEK 12.8 million, fixed until October 31, 2024. The tax assessment value of the land is included to the amount of SEK 573.0 million.
- 8) Hästen 20 and Spektern 14 are leasehold properties. The ground rent for Hästen 20 is SEK 3.3 million, fixed until April 30, 2022. The ground rent for Spektern 14 is SEK 1.4 million, fixed until September 30, 2025. The tax assessment value of the land is included to the amount of SEK 77.0 million.
- 9) Owned by the subsidiary AB Nordiska Kompaniet.
- 10) Owned by the subsidiary AB Hamngatsgaraget. Hästskon 10 is a leasehold property and the ground rent is SEK 4.4 million, fixed until August 31, 2024. The tax assessment value of the land is included to the amount of SEK 814.5 million. A review of the tax assessments for 2013 and 2016 has been requested. Part of the rentable floor space is now included in the NK department store in Stockholm.
- 11) Owned by the subsidiary Gbg Inom Vallgraven 3–2 AB.
- 12) The property is jointly owned and includes parking operations, certain leasing of premises, as well as servicing and maintenance of pedestrian precincts, loading areas, cooling systems and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 39.4 per cent, equivalent to approximately 31,000 square metres.

For maps and photographs, see pages 18–20.



“

Hufvudstaden offers office and retail premises in prime locations in Stockholm and Gothenburg.

←

The welcoming entrance to the NK department store in Gothenburg after last year's redevelopment and improvements.

→

Bibliotekstan in Stockholm is the number one fashion destination in Scandinavia in the premium and luxury segments.

CELINE



Detailed sustainability information

Since 2011, Hufvudstaden has reported its sustainability work each year in accordance with the GRI (Global Reporting Initiatives) Sustainability Reporting Guidelines, including GRI's sector-specific supplements for the construction and property sector. This year's Sustainability Report complies with the most recent guidelines for GRI Standards, Core level. Hufvudstaden reports detailed sustainability performance measures based on sBPR (Sustainability Best Practices Recommendations on Sustainability Reporting, third edition) published by EPRA (European Public Real Estate Association).

ORGANISATION

The Hufvudstaden sustainability programme is based on the company's vision and business concept. Read more about our sustainability work on page 36–48.

EMPLOYEES, at year-end

102-7, 102-8

Employees	2019	2018	2017
Total number of employees	135	134	120
<i>Women</i>			
Number of permanent employees	56	56	45
Full-time	54	55	45
Part-time	2	1	0
Number of temporary employees	4	2	1
<i>Men</i>			
Number of permanent employees	75	76	74
Full-time	75	75	73
Part-time	0	1	1
Number of temporary employees	0	0	0

External initiatives endorsed by the organisation

102-12

Building Products Assessment, Global Reporting Initiative (GRI) and European Public Real Estate Association (EPRA).

Values, principles, standards and norms of behaviour 102-16

The documents listed below have been approved by group management.

Hufvudstaden's policy documents

Alcohol and Drug Policy
 Health and Safety Policy
 Fire Safety Policy
 Finance Policy
 Health Policy
 Privacy Policy (GDPR)
 IT and Telephone Policy
 Equal Opportunity Policy
 Remuneration Policy
 Environmental Policy
 Rehabilitation Policy
 Recruitment Policy
 Travel Policy
 Safety and Security Policy
 Code of Conduct
 Whistleblower Policy

Stakeholder engagement

102-40, 102-42, 102-43, 102-44

Hufvudstaden has identified five main stakeholder groups on which we have the greatest direct or indirect impact: tenants, employees, shareholders, suppliers and society. We engage in ongoing dialogue with these groups to further develop our sustainability work and ensure that we are working on the topics that are most material to the company. We also carried specific

stakeholder engagement initiatives in 2018 wherein a number of representatives from each stakeholder group were selected and contacted for an interview. The discussions focused on which sustainability aspects Hufvudstaden has the greatest potential to impact and how the company should improve its sustainability communication.

Stakeholders	Key topics	Approach to stakeholder engagement
Tenants	<ul style="list-style-type: none"> High level of service Energy consumption Climate impact Waste management Social and ethical responsibility within the supply chain Urban development 	<ul style="list-style-type: none"> Customer Satisfaction Surveys Regular tenant meetings Newsletters Green leases
Employees	<ul style="list-style-type: none"> Equal opportunity Social engagement Skills development Health and Safety Leadership 	<ul style="list-style-type: none"> Performance and career development reviews Employee Satisfaction Surveys Employee meetings Conferences
Shareholders	<ul style="list-style-type: none"> Communication related to sustainability topics Social and ethical responsibility within the supply chain Business ethics 	<ul style="list-style-type: none"> Annual general meeting Analyst meetings Annual report Quarterly reports Investor meetings
Suppliers	<ul style="list-style-type: none"> Standards of business ethics and environmental requirements Communication related to sustainability topics 	<ul style="list-style-type: none"> Procurement Contracts Code of Conduct
Society	<ul style="list-style-type: none"> Climate impact Communication related to sustainability topics Social and ethical responsibility within the supply chain 	<ul style="list-style-type: none"> Annual report Website Media

Materiality analysis

102-46, 102-47

A fundamental materiality analysis was performed by Hufvudstaden's sustainability working group in 2018. This is a continuous effort and part of verifying that our company's actual impact and strategic objectives align with stakeholder expectations. No major changes based on the expectations of our principal stakeholders emerged in the context of shareholder engagement during the year. Hufvudstaden's actual impact on the world did not change appreciably during the year. The sustainability topics selected as the most material are listed below.

Responsible business	Sustainable properties	Sustainable employees
<ul style="list-style-type: none"> ▪ Business ethics ▪ Customer relationships ▪ Suppliers 	<ul style="list-style-type: none"> ▪ Energy consumption ▪ Climate impact ▪ Waste management ▪ Urban development 	<ul style="list-style-type: none"> ▪ Health and safety ▪ Skills development ▪ Leadership ▪ Diversity and equal opportunities ▪ Social engagement

Economic value generated and distributed

201-1

As a company, we affect the economy in a variety of ways, including taxes and payments to business partners as well as salaries, pensions and social insurance contributions for our employees. The following table shows how Hufvudstaden's revenue during 2018 was distributed among various stakeholder groups.

Economic value generated and distributed	SEKm	%
Revenue	1,981	100
Retained economic value	332	17
Operations	466	24
Employees	159	8
Interest	119	6
Tax	142	7
Dividends	763	38

Anti-corruption

205-3

Two reports were made to our whistleblower service, but were classified as unqualified within the framework of whistleblowing. The matters were investigated in accordance with applicable internal guidelines.

Membership of associations

102-13

Hufvudstaden participates actively in the following industry-affiliated networks and associations related to sustainable development:

- Building Products Assessment
- Sweden Green Building Council
- Swedish Property Federation
- Swedish Energy Agency Construction Clients Forum for Commercial Premises (BELOK)

Sustainability surveys and awards

Hufvudstaden participates in several sustainability surveys. The Global Real Estate Sustainability Benchmark (GRESB) carries out annual sustainability performance assessments of property companies and funds based on what investors and the industry consider the most material sustainability aspects

This year, 1,005 companies participated in GRESB and Hufvudstaden placed second among European companies its peer group. The peer group against which Hufvudstaden was compared is not official. We achieved a GRESB 5 Star rating, acknowledging Hufvudstaden as an industry leader in sustainability.

We also received a Silver Award in the 2019 European Public Real Estate Association (EPRA) Sustainability Best Practices Recommendations (sBPR). The award measures our performance against EPRA recommendation for sustainability reporting in the property sector.

ENVIRONMENTAL

Energy consumption

302-1, 302-3

Elec-Abs, Elec-Lfl, DH&C-Abs, DH&C-Lfl, Fuels-Abs, Fuels-Lfl

Direct energy consumption

Hufvudstaden has no direct energy consumption. We do not use any fuel oils or gas to heat our properties.

Indirect energy consumption

All data is exclusive of tenant electricity.

Type of energy	EPRA code	Energy consumption		Proportion of non-fossil energy consumption, %	
		2019	2018	2019	2018
District heating, normal year-adjusted, MWh		18,079	19,233	91	88
District cooling, MWh		5,331	7,007	100	100
Total district heating and district cooling, normal year-adjusted, MWh	DH&C-Abs, DH&C-Lfl	23,410	26,240	93	91
Property electricity, MWh	Elec-Abs, Elec-Lfl	21,934	23,815	100	100
Total energy consumption, normal year-adjusted, MWh		45,344	50,055	97	95
Energy intensity, normal year-adjusted, kWh/sq m	Energy-int	104	115	97	95
Total energy consumption, non-normal year-adjusted, MWh		43,804	49,618	97	95

DETAILED SUSTAINABILITY INFORMATION

Climate emissions

305-1, 305-2, 305-4

GHG-Dir-Abs, GHG-Indir-Abs, GHG-Int

Greenhouse gas (GHG) emissions are calculated based on the international guidelines set out in the GHG Protocol. Hufvudstaden's method for calculating GHG emissions has been verified by a third party.

Scope	Conversion factor
Scope 1	Company cars: 200 g/km
Scope 1	Cooling media: IPCC AR5
Scope 2	Origin-labelled renewable electricity 0 tonnes CO _{2e} /MWh ¹⁾
Scope 2	District heating and cooling statistics produced by Stockholm Exergi and Göteborg Energi.

¹⁾ Source: Swedish Energy Markets Inspectorate

Climate emissions	EPRA code	2019	2018
Direct, tonnes	Scope 1 GHG-Dir-Abs	256	265
Indirect, tonnes	Scope 2 GHG-Indir-Abs	1,040	1,368
Carbon dioxide intensity, kg/sq m	GHG-Int	3.00	3.76

Climate emissions from electricity consumption (Scope 2, tonnes CO _{2e})	2019	2018
Market-based valuation ¹⁾	0	0
Location-based valuation ²⁾	3,763	3,971

¹⁾ Climate emissions based on the electricity we actually purchase.

²⁾ Climate emissions based on the Nordic Electricity Mix.

As GHG emissions come from several different sources, these are summarised in the term "climate emissions", which are a conversion to carbon dioxide equivalents (CO_{2e}).

Water

Water-Abs, Water-Lfl, Water-Int

Hufvudstaden reports water data based on EPRA guidelines.

We are party to most water supply agreements used by tenants. Reporting of water consumption thus includes water used in property operation and water used by tenants in their operations.

Water consumption	EPRA code	2019	2018
Municipal water, m ³	Water-Abs, Water-Lfl	208,025	215,139
Water intensity, m ³ /sq m	Water-Int	0.48	0.50

Waste

306-2

Waste-Abs, Waste-Lfl

Hufvudstaden reports waste data based on EPRA guidelines. We report data for waste volumes managed by Hufvudstaden for which the company has waste disposal contracts. As combustible waste is managed mainly by tenants, we do not have complete statistics on the properties' waste management. Complete statistics regarding combustible waste are not available from our suppliers for several properties. Estimated figures are used for these properties. For the properties where we have control of the majority of the waste, we can report a recycling rate of approximately 40 per cent.

Type of waste, tonnes	2019	2018
Non-hazardous waste		
Combustible waste	1,787	1,665
Cardboard	457	464
Organic waste	46	30
Plastic	56	44
Glass	88	74
Recycling of other materials	72	120
Hazardous waste		
Electronics	13	18
Other hazardous waste	4	3
Total waste	2,523	2,418

Environmentally certified properties

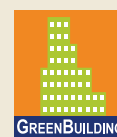
Cert-Tot

At year-end, 51 per cent of Hufvudstaden's property holdings was environmentally certified, of which 15 per cent by the Sweden Green Building Council, 32 per cent BREEAM and 4 per cent by GreenBuilding. In total, we have 220,625 square metre of certified floor space. The NK building in Stockholm and Nordstaden 8:24 (the Fyran and Femman) in Gothenburg were certified during the year under BREEAM In Use.

The certification process provides us an independent audit to determine whether the building meets energy, indoor environment and materials standards. All future major expansion and redevelopment projects will be certified according to one of the generally accepted certification systems.



Hästthuvudet 13
Orgelpipan 7
Oxhuvudet 18



Packarhuset 4



NK Stockholm,
Nordstaden 8:24
(Fyran and Femman)

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Environmental compliance

307-1

No fines or non-monetary sanctions have been imposed on Hufvudstaden for non-compliance with environmental laws and/or regulations.

Supplier environmental assessment

308-1, 414-1

In connection with all building projects and general agreements, other than minor repairs and maintenance, contractors are selected on the basis of social and environmental sustainability criteria. At present, Hufvudstaden does not compile quantitative data regarding supplier assessment and reports only qualitative information.

Environmental targets and environmental criteria in connection with redevelopment, new production, tenant adaption to the premises and maintenance are listed in Hufvudstaden's Environmental Programme. This is aimed at ensuring that Hufvudstaden's environmental criteria are met and that environmental impacts are minimised. Contractors and suppliers that work for Hufvudstaden are responsible for meeting the environmental targets and criteria stated in the Environmental Programme and are required to read and comply with Hufvudstaden's Code of Conduct. Environmental work must be carried out in partnership with the client's project management, planners and contractors and environmental topics must be a standing item on the agenda at planning and construction meetings.

DETAILED SUSTAINABILITY INFORMATION

EMPLOYEES

Employee turnover

401-1

Emp-Turnover

Employee turnover	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
New employee hires, number						
Aged <30	3	2	5	3	0	5
Aged 30–50	6	4	10	2	8	5
Aged >50	1	1	3	1	1	3
Total	10	7	18	6	9	13
Proportion of new employees, %	7	5	13	5	8	11
Employees who have left the company, number						
Aged <30	1	0	0	0	0	2
Aged 30–50	7	4	3	4	8	7
Aged >50	0	4	3	0	0	1
Total	8	8	6	4	8	10
Proportion of employees who have left the company, %	6	6	4	3	7	8
Employee turnover, %		2019		2018		2017
Women		14		12		18
Men		11		5		14
Total		12		8		15

Diversity and equal opportunity

405-1

Diversity-Emp

Diversity and equal opportunity	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
Board of directors, %						
Aged <30	0	0	0	0	0	0
Aged 30–50	22	0	22	11	22	11
Aged >50	11	67	11	56	11	56
Group management, %						
Aged <30	0	0	0	0	0	0
Aged 30–50	12	50	12	50	14	43
Aged >50	12	25	12	25	14	29
Other employees, %						
Aged <30	5	9	6	10	3	11
Aged 30–50	27	28	27	28	25	33
Aged >50	14	17	12	17	12	17

Hufvudstaden does not track diversity indicators such as religious affiliation or ethnicity among employees.

Non-discrimination

406-1

No cases of discrimination were reported during the year.

Health and Safety

403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7

H&S-Emp

As Hufvudstaden complies with the Swedish Work Environment Act, the company has a Health and Safety Group, a Health and Safety Policy and a Health and Safety representative as required under the law. Responsibility and duties are delegated according to established delegation rules. Should any hazardous working situations arise, employees are instructed to contact their line managers first. Systematic health and safety management is also designed to continuously review risks,

recommend actions and promote further development within the physical and psychosocial working environment. Systematic health and safety management includes employee training in CPR and First Aid.

Hufvudstaden also offers individualised skills development, a health and fitness allowance, health checks, occupational health care, health insurance, ergonomics consultations and massage.

For further information about our approach to health and safety among employees and in business relationships, see pages 37–39 and 42–48 on a pleasant work environment, sustainable business and supplier relationships and the information below regarding work-related injuries.

Absenteeism due to illness is reported in the chart on page 38.

Work-related injuries

403-9

No work-related fatalities occurred in 2019 and Hufvudstaden has had no reported cases of occupational accidents of a serious nature within business operations, i.e., including contractors. One case of work-related injuries has been reported among Hufvudstaden's employees.

Work-related injuries and illnesses are managed according to established procedures and must always be reported to the Swedish Social Insurance Agency for review. Serious accidents must be reported directly to the Swedish Work Environment Authority. An external occupational health care provider is also contacted in connection with work-related injuries.

Performance and career development reviews

404-3

Emp-Dev

100 per cent of employees were given performance and career development reviews during the year. As Hufvudstaden's target is for all employees to have performance and career development reviews, the company does not compile or report statistics regarding gender distribution and type of employment contract.

Collective agreements

102-41

All Hufvudstaden employees are covered by collective agreements.

Customer health and safety

416-1, 416-2

H&S-Asset, H&S-Comp

Hufvudstaden assesses 100 per cent of properties according to Swedish health and safety regulations. This applies to areas including systematic fire protection and sprinkler inspections, mandatory ventilation inspections, inspections of lifts and electric gates, energy declarations and electrical safety inspections and audits.

There were no non-conformances with laws, regulations or procedures regarding customer health and safety reported in 2019.

Socioeconomic compliance

419-1

Hufvudstaden was not sentenced or ordered to pay any fines during the year.

GRI and EPRA index

GRI Standards	Description	EPRA	Page
General disclosures			
Organizational profile			
102-1	Name of the organization		53
102-2	Activities, brands, products and services		2, 8, 121
102-3	Location of the headquarters		53, 121
102-4	Location of operations		2, 8
102-5	Ownership and legal form		50–51
102-6	Markets served		14–31
102-7	Scale of the organization		2, 4, 53–54, 110
102-8	Information on employees and other workers		38, 110, 113–114
102-9	Supply chain		44
102-10	Significant changes to the organization and its supply chain		No changes
102-11	Precautionary Principle or approach		44, 57–58
102-12	External initiatives		110
102-13	Membership of associations		111
Strategy			
102-14	Statement from senior decision-maker		6–7
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102-16	Values, principles, standards and norms of behaviour		36–38, 42–44, 110
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102-18	Governance structure		43, 92–95
102-22	Composition of the highest governance body and its committees	Gov-Board	93–97
102-24	Nominating and selecting the highest governance body	Gov-Selec	93
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Stakeholder engagement			
102-40	List of stakeholder groups		110
102-41	Collective bargaining agreements		114
102-42	Identifying and selecting stakeholders		110
102-43	Approaches to stakeholder engagement		110
102-44	Key topics and concerns raised		110
Reporting practice			
102-45	Entities included in the consolidated financial statements		84 (Note 18)
102-46	Defining report content and topic Boundaries		110–111
102-47	List of material topics		111
102-48	Restatements of information		Non
102-49	Changes in reporting		111
102-50	Reporting period		70 (Note 1)
102-51	Date of most recent report		February 2019
102-52	Reporting cycle		110
102-53	Contact point for questions regarding the report		120
102-54	Claims of reporting in accordance with the GRI Standards		110
102-55	GRI content index		115–116
102-56	External assurance		Not confirmed

GRI Standards	Description	EPRA	Page
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201-1	Direct economic value generated and distributed		111
Anti-corruption			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–45, 58
205-3	Confirmed incidents of corruption and actions taken		111
Energy			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43, 46–48
302-1	Energy consumption within the organization	Elec-Abs Elec-Lfl DH&C-Abs DH&C-Lfl Fuels-Abs Fuels-Lfl	111
302-3	Energy intensity	Energy-Int	111
Emissions			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43, 46–48
305-1	Direct greenhouse gas emissions (Scope 1)	GHG-Dir-Abs	112
305-2	Indirect greenhouse gas emissions (Scope 2)	GHG-Indir-Abs	112
305-4	Intensity of greenhouse gas emissions	GHG-Int	112
Water			
	Total water consumption	Water-Abs Water-Lfl	112
	Building water intensity	Water-Int	
Waste			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43, 47–48
306-2	Waste by type and disposal method*	Waste-Abs Waste Lfl	112
Environmental certification			
	Type and number of environmental certifications	Cert-Tot	112
Environmental compliance			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–48
307-1	Non-compliance with environmental laws and regulations		112
Supplier environmental assessment			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–45
308-1	New suppliers that were screened using environmental criteria*		112

GRI AND EPRA-INDEX

GRI Standards	Description	EPRA	Page
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103-1 103-2 103-3	Explanation of the material topic and its Boundary		36–39
401-1	New employee hires and employee turnover	Emp-Turnover	113
Occupational health and safety			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		36–39, 44–45
403-1 403-2 403-3 403-4 403-5 403-6 403-7	Health and safety governance	H&S-Emp	113
403-9	Work-related injuries*		114
Training and Education			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		37–38
404-3	Percentage of employees receiving regular performance and career development reviews	Emp-Dev	38, 114
Diversity and equal opportunities			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		36–39
405-1	Diversity of governance bodies and employees	Diversity-Emp	113

GRI Standards	Description	EPRA	Page
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103-1 103-2 103-3	Explanation of the material topic and its Boundary		36–39
406-1	Incidents of discrimination and corrective actions taken		113
Supplier social assessment			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–45
414-1	New suppliers that were screened using social criteria*		112
Customers' health and safety			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–45
416-1	Assessment of the health and safety impacts of product and service categories	H&S-Asset	114
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	H&S-Comp	114
Socioeconomic compliance			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		43–45
419-1	Non-compliance with laws and regulations in the social and economic area		114

*The indicator is not reported in full.

EPRA

EPRA Performance Measures

Hufvudstaden reports sustainability performance measures for 25 EPRA indicators: sBPR Performance Measures. Performance measures are reported for energy, greenhouse gas emissions, water, waste, number of environmentally certified buildings, and corporate governance, as well as social aspects according to the most recent EPRA guidelines; sBPR third edition, September 2017.

Energy consumption is reported in MWh, greenhouse gas emissions in tonnes CO₂e, water consumption in m³, waste volume in tonnes, energy intensity in kWh/square metre, emission intensity in kg CO₂e/square metre, and water intensity in m³/square metre.

EPRA Overarching Recommendations**Organizational Boundary**

Hufvudstaden limits the reporting to properties over which it has operational control according to the principles set out in the Greenhouse Gas Protocol. Hufvudstaden thus reports statistics for all the property holdings although with a limit on electricity used by tenants in the course of their business operations, and for the NK department stores, Hästskon 10 and the Nordstaden 8:24 property.

We have not purchased or sold any property during the past two years, and consequently absolute and like-for-like values are the same. The most recent property purchased was Inom Vallgraven 3:2 in 2016.

Coverage

Hufvudstaden reports measurement data for all 29 properties, with a total rentable floor space of 384,227 square metre, i.e. 100 per cent of our properties.

Estimation of landlord-obtained utility consumption

All measured data reported has been assessed and assured. However, estimates have been made using standard values for combustible material in those properties where suppliers are unable to report any data.

Third party assurance

Hufvudstaden's indicators for energy and emissions that are reported according to EPRA have been verified by a third party according to the international guidelines set out in the Greenhouse Gas Protocol. Other indicators have not been verified by a third party.

Boundaries – reporting on landlord and tenant consumption

Hufvudstaden reports the energy purchased by the landlord, i.e. Hufvudstaden. Hufvudstaden does not have access to statistics regarding electricity used by tenants, and consequently this is not reported. As Hufvudstaden does not have any direct influence over tenants' electricity consumption, this figure is to a certain extent less relevant.

In the case of water, we report total water consumption for all properties, i.e. including the tenants' water consumption.

Normalization

Hufvudstaden reports intensities by dividing absolute values by the total Atemp floor area for the buildings. In the case of normalization of district heating, Hufvudstaden uses SMHI degree days.

Segment analysis (by property type, geography)

Hufvudstaden reports sustainability data according to building type, i.e. office premises and retail premises.

Disclosures on own offices

Hufvudstaden's own offices in Stockholm and Gothenburg are included in the statistics but are not reported separately. Hufvudstaden's own offices comprise 0.7 per cent of the total rentable floor space in the property holdings.

Narrative on performance

Hufvudstaden reports in accordance with EPRA. For further information about developments within each sustainability area, see pages 36–39 and 42–48.

Reporting period

The annual EPRA tables are presented on a calendar year basis, i.e. January 1 – December 31.

Materiality

Hufvudstaden's Materiality Analysis, which was conducted during 2018 based on the guidelines in GRI Standards, is reported on pages 110–111.



Definitions and glossary

Hufvudstaden applies the European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures.

Certain performance metrics below are defined as alternative performance measures, i.e. a financial metric that is not defined according to IFRS, and which is used to describe the Company's development and to improve comparability between periods. As not all companies calculate financial performance metrics in the same way, these are not always comparable with metrics used by other companies. Derivations of alternative performance measures are presented on pages 102–103.

Finance

Average interest on interest-bearing liabilities.

Interest expense in relation to the average interest-bearing liabilities.

Capital employed. Total assets less non-interest-bearing liabilities and deferred tax liabilities.

Central administration. The costs for the Executive Management and Group staff functions as well as the cost of maintaining the Company's stock exchange listing and other Company costs.

Debt/equity ratio. Net liabilities in relation to equity at the year-end.

EPRA. European Public Property Association. Interest organization for listed property companies in Europe.

EPRA Earnings. Result from property management after nominal tax. The operating profit before items affecting comparability and changes in value with a deduction for financial income and expenses and computed actual tax, excluding a carry-forward of unutilized tax losses. The tax deducted has been calculated with account taken of, among other things, tax-deductible depreciation and investments.

EPRA NAV. Non-current net asset value. Shareholders' equity with a reversal of interest derivatives and deferred tax on investment properties.

EPRA NNAV. Current net asset value. Shareholders' equity following adjustment for actual deferred tax instead of nominal deferred tax on investment properties.

Equity ratio. Equity at the year-end in relation to total assets.

Result from property management. Operating profit before items affecting comparability and changes in value minus financial income and expense.

Interest coverage ratio. Profit after financial items, excluding items affecting comparability and changes in value, plus interest expense, in relation to interest expense.

MTN programme Medium Term Note. A bond programme with a term of 1–15 years.

Net liabilities. Interest-bearing liabilities, including the decided dividend, minus current investments and cash and bank holdings.

Net loan-to-value ratio, properties. Net liability in relation to the carrying value of the properties.

Net profit from current operations. Profit before tax, excluding changes in value and items affecting comparability, charged with corporate tax for the year as a standard.



One of our retail tenants in Bibliotekstan, Stockholm that renovated the premises during the year and extended the floor space across two levels.

Return on capital employed. Profit before tax plus interest expense in relation to the average capital employed.

Return on equity. Profit for the year after tax in relation to the average equity.

Return on equity, adjusted. Profit after tax, excluding changes in value, in relation to average equity.

Surplus ratio. Gross profit in relation to net revenue.

Tax. The Group's total tax comprises current tax and deferred tax.

Shares

Cash flow for the year per share. Cash flow for the year in relation to the average number of outstanding shares during the year.

Cash flow from current operations per share. Cash flow from current operations in relation to the average number of outstanding shares during the year.

Dividend. The total dividend is calculated on the total number of outstanding shares as at the date on which the annual accounts are published. The amount could change depending on any buy-back of Company shares during the period up to the record date.

Dividend proportion. Dividend in relation to net profit from current operations.

Equity per share. Equity in relation to the number of outstanding shares at the year-end.

EPRA EPS. EPRA Earnings in relation to the average number of outstanding shares during the year.

Free Float. Shares available for trading, excluding shares held by a shareholder with a controlling interest.

Outstanding shares. The total number of shares reduced by the shares bought back by the Company.

P/E ratio. The share price at the year-end in relation to profit per share for the year.

Profit per share. Profit for the year after tax in relation to the average number of outstanding shares during the year.

Yield. Dividend per share in relation to the share price at the year-end.

Properties

Annual rent. Gross rent, including supplements, at the end of the year, calculated on an annual basis. Vacant premises are reported at the market rent.

Bibliotekstan. The area between Norrmalmstorg, Birger Jarlsgatan, Stureplan and Norrlandsgatan, which contains stores with high-class brands as well as restaurants and cafes.

CBD. Central Business District. The most central part of a city for office and retail properties.

Comparable holdings. Properties disposed of during the year are excluded. Properties acquired during the year are included and the previous year is adjusted for the equivalent period.

EPRA Vacancy rate. Estimated Market Rental Value (ERV) of vacant space divided by the ERV of the whole portfolio. Current development projects are excluded.

Fair value. The estimated market value of the properties.

Fair value, properties. The amount for which the properties could be assigned on condition that the transaction takes place between parties that are independent of each other and which have an interest in the transaction being implemented. In accounting terms, this is known as fair value.

Floor space vacancy level. Vacant floor space in square metres in relation to the total rentable floor space.

Fredstan. The area around Fredsgatan, between Brunnsparken and Trädgårdsföreningen, with the vision of offering a unique range of stores, cultural attractions and restaurants.

Gross rent. Defined as the contracted rent, excluding supplements for utility charges, and including assessed market rent for vacant premises.

Net operating profit. Net turnover from property management minus costs for maintenance, operation, administration, ground rents, property tax, and depreciation of equipment and right-of-use assets.

New leases. Leases signed during the year with a new tenant other than the tenant that leased the property previously, or for premises that were previously vacant.

Property tax supplement. Reimbursement of property tax by tenants.

Renegotiated leases. New or extended leases with existing tenants whose earlier leases have come to an end.

Rentable floor space. Total floor space available for renting.

Rental losses. Loss of revenue as a result of vacant premises.

Rental vacancy level. Vacant floor space at an estimated market rent in relation to the total annual rent.

Turnover-based rent supplement. Rent in addition to the guaranteed minimum rent, based on the turnover of a store or restaurant.

Yield, properties. Net operating income in relation to the fair value of properties.

In some cases there has been rounding off, which means that tables and calculations do not always tally.

Annual Meeting

The Annual Meeting will take place at 3.30pm on Thursday, 19 March 2020 at the Grand Hôtel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual Meeting will be published on the Post- och Inrikes Tidningar website www.bolagsverket.se/poit and on the Company's website www.hufvudstaden.se. Notification that a summons has been issued will be published in Dagens Nyheter.

Notification

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by Euroclear Sweden AB by Friday, 13 March 2020, whereupon shareholders who have their shares registered with nominees must have the shares re-registered temporarily in their own name at Euroclear Sweden AB to be entitled to attend the meeting. Registration must be completed by 13 March 2020.

- notify Hufvudstaden by Friday, 13 March 2020, preferably before 4pm. Notification must be sent using the Company's website www.hufvudstaden.se, by e-mail at anm@hufvudstaden.se, by telephone on +46 8 762 90 00, or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

Notification must include the name, civic registration number, or company registration number, daytime telephone number, the number of shares, and the names of any assistants who will be attending. Shareholders attending through a representative must issue a proxy to the representative. If the proxy is issued by a legal entity, a copy of the registration certificate for the legal entity (or, if such a document does not exist, an equivalent authorization document) must be enclosed. To facilitate admission to the meeting, the proxy and authorisation documents ought to be received by the Company at the above address by 13 March 2020 at the latest. A proxy form is provided on request and is available on the Company's website.

Dividend

The Board of Directors proposes that a dividend of SEK 3.90 per share, totalling SEK 804.4 million, be paid for 2019, with the record date set as 23 March 2020. Payment is expected to be made on 26 March 2020.

Change of address

Shareholders who are legal entities or who are not registered as resident in Sweden, and who have changed name, address or account number, should notify Euroclear Sweden AB of the change as soon as possible through the institution at which their account is registered.

Calendar

Interim Report, Jan–Mar 2020	7 May 2020
Interim Report, Jan–June 2020	26 August 2020
Interim Report Jan–Sept 2020	6 November 2020
Year-End Report 2020	18 February 2021
Annual Report 2020	March 2021

Contact persons

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This information is also published on www.hufvudstaden.se. The Annual Report is distributed to all new shareholders and to other shareholders on request.

Addresses

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Telephone: +46 8 762 90 00
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Website: www.nk.se

GROUP BRANDS

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This document is in all respects a translation of the original Swedish Annual Report.

In the event of any differences between this translation and the Swedish original, the latter shall prevail.

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HUFVUDSTADEN

www.hufvudstaden.se