

# HUFVUDSTADEN 2018



Matcha 47  
Ört 48  
Dagens Soppa. 95  
Soppa + bröd, smör.  
Frukost:  
Fralla + Bryggkaffe 75  
Fralla + valfri varm dryck. 80  
Grötfrukost 79  
Oat meal + Kompott + Skummad mjölk



# KLARABERGSGATAN

Stockholm

Cover: Bibliotekstan,  
Smålandsgatan, Stockholm



**NORDISKA KOMPANIET**

Hamngatan, Stockholm



**NORDSTAN**

Östra Hamngatan, Gothenburg

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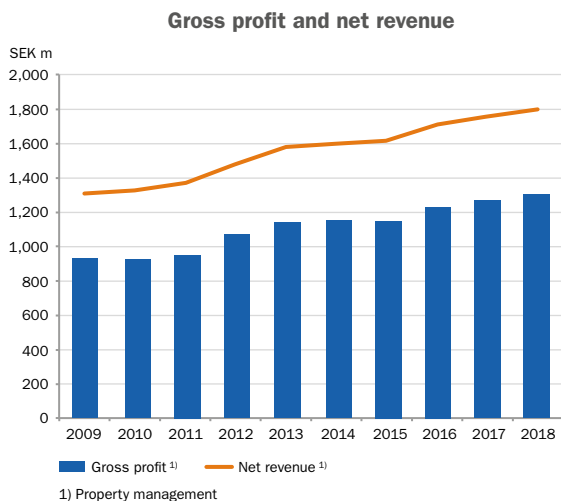
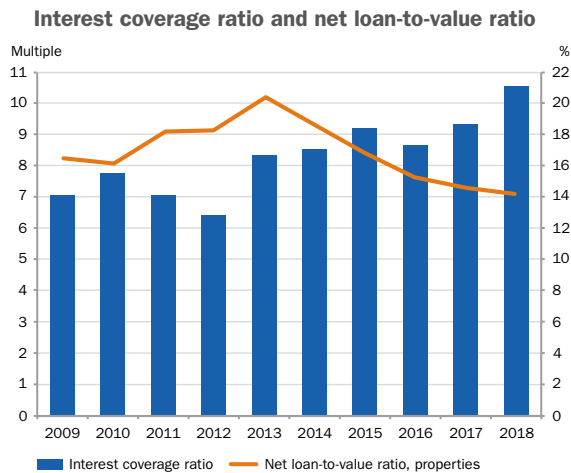
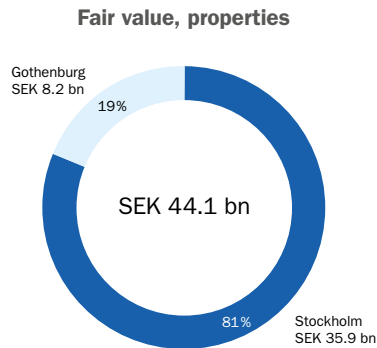
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**Reference to the statutory Annual Report and CSR Report.** The statutory Annual Report comprises pages 8–10, 28–36, 54–84 and 88–91. Comparisons in brackets refer to the corresponding figures for the previous year. The statutory CSR Report according to the Annual Accounts Act can be found on pages 8–10 and 28–36.

## THIS IS HUFVUDSTADEN



Hufvudstaden is a property company that owns 29 properties in the most central areas of the two largest cities in Sweden, Stockholm and Gothenburg. The property holdings are commercial and comprise mainly office and retail space. At the end of 2018, the properties were valued at SEK 44.1 billion. We have been operating in Stockholm for more than 100 years and for more than 60 years in Gothenburg. The Group includes the wholly owned subsidiary AB Nordiska Kompaniet, which owns the NK brand and has department stores in Stockholm and Gothenburg.

### Business model

The Hufvudstaden business model is to be a long-term property owner with a focus on the customer and strict quality standards in both management and development of the Company's holdings. Property acquisitions are being sought that complement existing holdings.

*We will generate a good return over time with limited risk for the shareholders*

In order to bring the Company and its properties into the future, and with the aim of further increasing earnings on current operations, we have intensified our focus on developing both physical and digital projects, although still retaining our long-term approach to property management and a consistently high level of quality within the framework of our sound financial position. We will continue to achieve our financial objectives and in doing so generate a good return over time with limited risk for the shareholders.

### Sustainable development

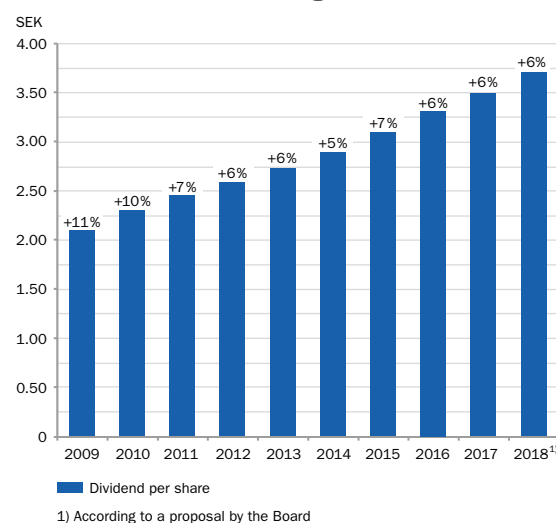
The long-term approach adopted by Hufvudstaden is unique, and the sustainability work that is being conducted is an integral part of our operations, regardless of whether the focus is on financial development or on environmental and social issues. Good relations, a healthy working environment, and strict observance of good business ethics are crucial to our sustainable enterprise.

## YEAR IN BRIEF

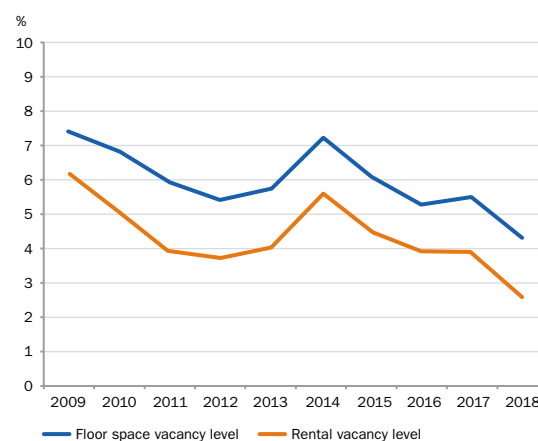
- Gross profit rose by 3 per cent to **SEK 1,337 million** (1,301). The increase can be attributed mainly to higher rental revenue, although it has been counteracted by costs related to vacant space that arose in conjunction with development projects.
- Profit before tax for the year was **SEK 4,820 million** (3,895). The increase can be attributed mainly to higher unrealized changes in the value of the property holdings.
- Profit for the year after tax totalled **SEK 4,320 million** (3,035), equivalent to **SEK 20.94** per share (14.71). Recalculation of deferred tax following a reduction in the corporation tax rate has had a positive impact on profit.
- The Board proposes an increase in the dividend to **SEK 3.70** per share (3.50).
- The fair value of the property holdings at the year-end was **SEK 44.1 billion** (39.7), resulting in a net asset value of **SEK 171** per share (152).
- The rental vacancy level at the year-end was **2.6 per cent** (3.9). Excluding current development projects, the rental vacancy level was **1.3 per cent** (2.4).

Financial summary		
SEK m	2018	2017
Net revenue, property management	<b>1,797</b>	1,751
Gross profit, property management	<b>1,302</b>	1,262
Changes in value, investment properties	<b>3,621</b>	2,848
Operating profit	<b>4,940</b>	4,031
Profit for the year	<b>4,320</b>	3,035
Net profit from current operations	<b>915</b>	876
Fair value, properties, SEK bn	<b>44.1</b>	39.7
Rental vacancy level, %	<b>2.6</b>	3.9
Net loan-to-value ratio, properties, %	<b>14.2</b>	14.6
Interest coverage ratio, multiple	<b>10.5</b>	9.3

### Dividend growth



### Vacancy level



## BUSINESS CONCEPT, OBJECTIVES AND STRATEGIES

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 long-term thinking in the management and development of the Company's 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.

### 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.** First-rate quality and environmental systems will ensure the highest possible level of quality in all the Company's products and services.

**Competence development.** Systematic development of the knowledge and competence of the personnel will be ensured with a focus on professional knowledge and values.

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

## FINANCIAL OBJECTIVES

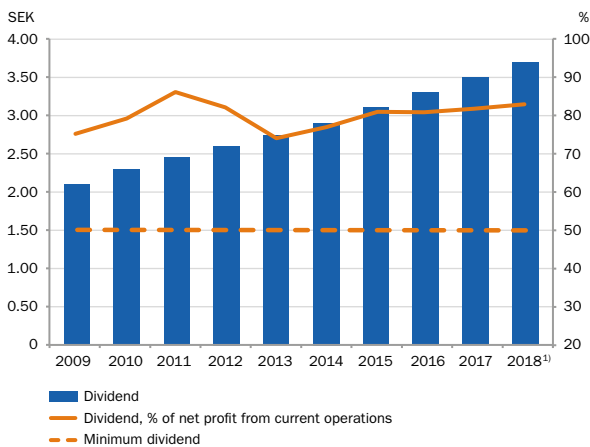
### Dividend and dividend share

#### 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 of Directors proposes an increase in the dividend to SEK 3.70 per share, or a total of SEK 763.2 million. The proposal means that the ordinary dividend will be raised for the 18th year in succession. The dividend is equivalent to 83 per cent of the net profit from current operations.



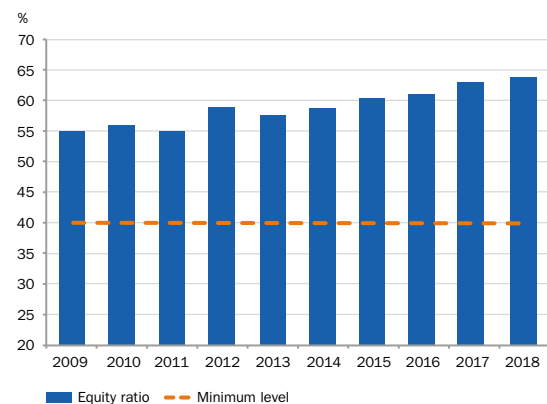
### Equity ratio

#### Objective

The equity ratio will be at least 40 per cent over time.

#### Outcome

The equity ratio at the end of 2018 was 64 per cent.





## OPERATING AND SUSTAINABILITY OBJECTIVES

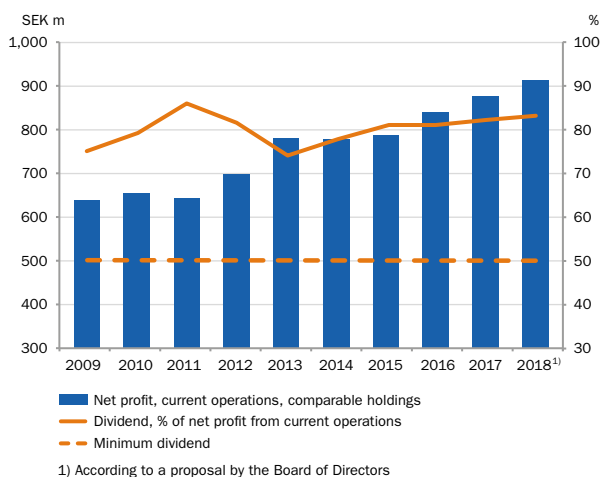
### Net profit and dividend share

#### Objective

Hufvudstaden will gradually increase profit from current operations.

#### Outcome

Net profit from current operations increased by 4 per cent during the year.



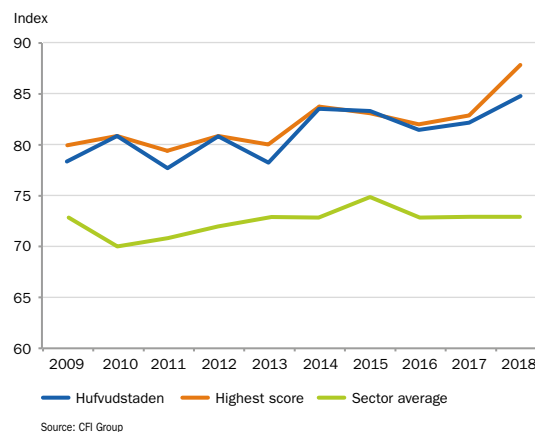
### Customer Satisfaction Survey

#### Objective

Hufvudstaden will have the most satisfied customers in the industry.

#### Outcome

Hufvudstaden takes part in the annual *Fastighetsbarometern* Customer Satisfaction Survey, which takes place among office tenants. In this year's Survey, we came top in the Large Company category and second overall.



### Well-developed property holdings

#### Objective

Hufvudstaden will have the most developed property holdings in the industry.

#### Outcome

Several major projects continued during 2018 and a total of 31,000 square metres of floor space were adapted.

The Customer Satisfaction Survey includes questions dealing with how the office tenants perceive our properties. This year's survey produced the following results:

Subject	Hufvudstaden	Sector average	Maximum
Location	89	82	100
Service	88	76	100
Fault response	86	77	100
Premises	81	71	100
Indoor climate	70	58	100
Adaptation	84	73	100

Source: CFI Group

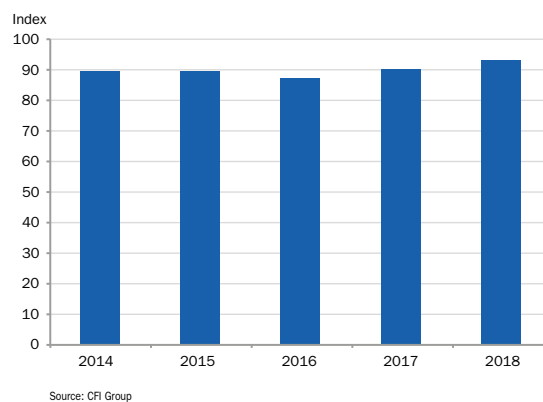
### Professional employees

#### Objective

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

#### Outcome

Each year, Hufvudstaden asks our office tenants how they perceive our employees based on established objectives. The outcome for the year improved from an already high level.



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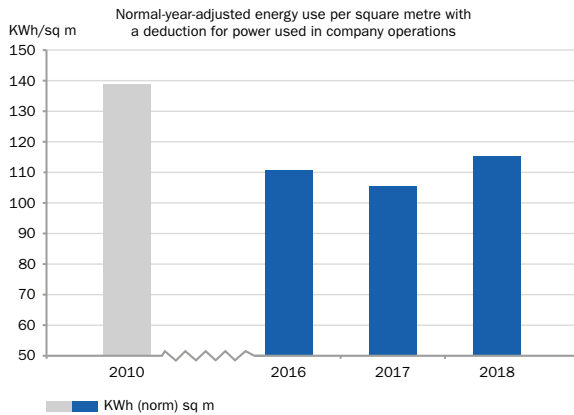
### Energy use

#### Objective

By 2020, energy use will have fallen by 30 per cent compared to 2010.

#### Outcome

During 2018, energy use increased by 9 per cent compared with the previous year, due in part to the cold winter and an unusually hot summer. Energy use was also affected by extensive redevelopment work. Despite this, we have succeeded in reducing energy use by 17 per cent since 2010.



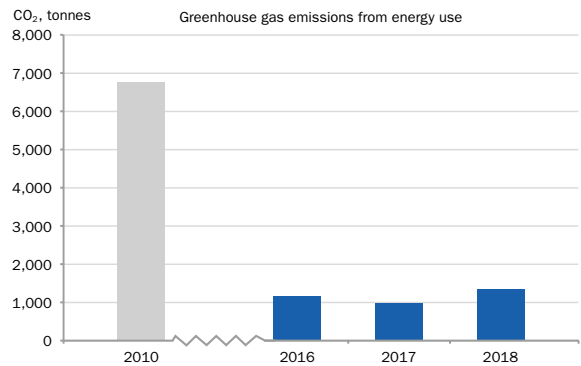
### Climate impact

#### Objective

By 2020, greenhouse gas emissions from property operations will have fallen by 90 per cent compared to 2010.

#### Outcome

Greenhouse gas emissions from the operation of properties increased by 35 per cent during 2018 compared with the previous year. The increase can be attributed to a rise in the use of district heating following a cold winter, and the fact that district heating was produced using a high proportion of fossil fuels. Overall, emissions have fallen by 80 per cent since 2010.



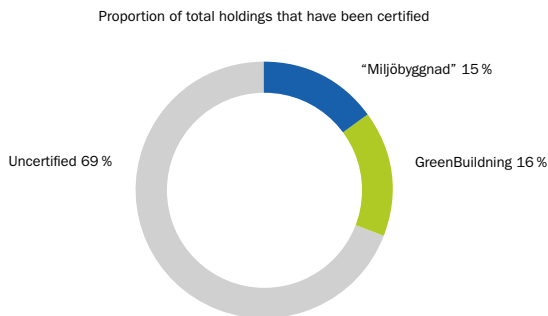
### Environmentally certified properties

#### Objective

Hufvudstaden's ambition is to environmentally certify its property holdings, focusing on major redevelopment and new construction projects.

#### Outcome

No major projects were completed during the year and no further properties were certified.



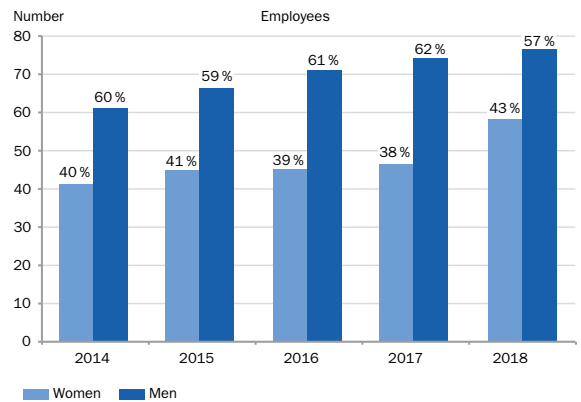
### Equality

#### Objective

Hufvudstaden will seek to achieve equality within the Company.

#### Outcome

During the year we established a Sustainability Group, and one of the focus areas is Equality and Diversity. Together with the Group we devised an expanded system for measuring equality in conjunction with our Employee Satisfaction Survey.



As at December 31, 2018

IKBOK



FEMMAN

Nordstan, Gothenburg



## STATEMENT BY THE PRESIDENT

**Positive development at Hufvudstaden**

Throughout most of 2018 the global economy developed well, with sustained growth in many of the leading regions, including the USA, China and Europe. However, political upheaval on several fronts, with the impending Brexit, strained trade relations between the USA and China, and geopolitical instability, has led to uncertainty regarding the future economic climate.

In Sweden, there was good growth although with a slight slow-down after the summer. Uncertainty on the housing market was balanced by a stable economy, strong export growth, rising employment, and increased consumption. With inflation at around two per cent, the Swedish Central Bank raised what was a very low key rate for the first time in seven years.

A conducive Swedish economy and Hufvudstaden's well-defined business concept, with a focus on the most attractive marketplaces in Sweden in the office and retail sectors, have contributed to yet another year of improved earnings and rising property values.

**Improved earnings**

Hufvudstaden reported stable growth in current operations. Property management revenues totalled SEK 1,302 million, a rise of just over 3 per cent and on a par with the figure for 2017. This can be attributed mainly to higher rents in conjunction with new and renegotiated leases, which were offset by a loss of income due to current projects.

Earnings after tax increased by SEK 1,285 million to SEK 4,320 million, largely as a result of unrealized changes in value in the property holdings and recalculation of deferred tax following a reduction in corporation tax.

**Higher property values**

A transparent and liquid property market in Sweden has proved attractive to both



Swedish and international investors. From an historical perspective, low interest rates, rent growth, a lack of good alternative investments, and good access to capital have helped make the 2018 property year one of the strongest ever with net revenue of around SEK 160 billion.

Hufvudstaden's property holdings were valued at the year-end at SEK 44.1 billion (39.7), a rise of approximately 11 per cent. The increase can be attributed to rising rents, slightly lower yield requirements and investments. The net asset value at the year-end was SEK 171 per share (152) and the share price SEK 136.90.

**Historically strong office market**

Stockholm and Gothenburg are two rapidly growing regions, both reporting good economic growth for several years, and with extensive infrastructure investments that are attracting attention from both private individuals and companies. The creation of new office space has been limited for a number of years, leading to a considerable shortfall between supply and demand and with rising market rents as a result.

In Stockholm, market rents for offices in prime locations rose by around 5 per

cent during 2018, and in Gothenburg by around 10 per cent. New all-time highs in excess of SEK 9,000 per square metre were noted in Stockholm and around SEK 4,000 per square metre in Gothenburg. These levels were unprecedented. Vacant space in the CBD continued to remain low at 2–3 per cent. Hufvudstaden's rent renegotiations for office premises resulted in an increase of around 40 per cent, and for the renegotiation stock as a whole the increase was around 25 per cent.

**Diversified retail trade**

Consumption rose during the year by approximately 2.5 per cent, which is in line with 2017.

However, growth stemmed mainly from the rapid expansion in online retailing, which currently accounts for around 10 per cent of the retail turnover in Sweden. Shifting purchasing patterns among consumers are exerting pressure on both property owners and retailers to review the nature and development of physical and digital marketplaces.

There is a wide disparity between the different retail segments, with much of the mid-price segment, for the most part chain stores, finding it difficult to sustain profitability. Strong, unique brands in prime city locations, and with a clearly defined profile, have continued to report good earnings and the same applies to much of the low-price segment.

Hufvudstaden's properties are located in prime city centre locations and with excellent potential to develop into even more attractive meeting points in the future, offering consumers purchasing experiences that go beyond the norm.

The NK department store in Stockholm is undergoing an extensive upgrade of the physical environment, and at the same time we are examining ways in which we can enhance our digital presence. The possibility of offering NK customers the opportunity to purchase online is being examined. Bibliotekstan

has developed well during the year and there is still considerable interest among international brands in establishing operations in Bibliotekstan and at NK Stockholm.

### Project investment continues

Hufvudstaden has for several years made focused investments in business development and projects. Our project portfolio is made up of current and planned projects, and at present stands at SEK 3–4 billion. We estimate that over the next 5–10 years we can invest SEK 7–9 billion in projects or property acquisitions without jeopardizing our strong financial position or raising the risk level at the Company to any significant extent.

Foundation work and store projects continued during the year on the lower ground floor of the NK department store in Gothenburg, resulting in improved customer areas and a broader range of restaurant facilities. At NK Stockholm, a major project is in progress where the neighbouring Parkaden property has already been connected to the NK department store and another large entrance has been added. The floor space has been increased by around 20 per cent, which will facilitate the establishment of more exclusive brands and improve the level of service to our NK customers even further. A new market hall is due to be opened on the lower ground floor in spring 2019. The NK project is expected to continue through to 2020.

On the Skären block at Norrmalmstorg, a redevelopment and expansion project has commenced, and the majority of the floor space has already been leased to Advokatfirman Vinge. The property will be expanded with the addition of 2,600 square metres of attractive office space, and the entire building will undergo complete renovation. The project will continue through to 2020.

The Vildmannen 7 property in Bibliotekstan was ravaged by fire in November 2017 and much of the building was destroyed. Our assessment is

that the external facades can be saved but everything behind will need to be demolished. Working closely with the City of Stockholm, we have commenced local planning work with the aim of creating an attractive building, both for our customers and other visitors to Bibliotekstan, as soon as possible.

*Revenue flows from the retail and office sectors complement each other well across different business cycles*

### Sustainable enterprise

Hufvudstaden's sustainability work is ongoing and is vital to the Company's revenue growth over time.

Since 2010, the Company's energy use has fallen by around 20 per cent and our climate impact by around 80 per cent, even though more people spend time in our properties. On the Kåkenhusen block in Stockholm we have commenced work on a geothermal heating project that will reduce energy use significantly.

We measure employee and customer satisfaction on a regular basis. In this year's Customer Satisfaction Survey for office tenants, Hufvudstaden came top in the Large Company category and reported a significant improvement in Environmental Consideration. In this year's Employee Satisfaction Survey we also received high scores although there is still potential for improvement in certain areas.

In the GRESB international sustainability survey for property companies, we came third among Swedish listed companies and Hufvudstaden's shares have been approved for investment in the Swedbank Robur and Nordea sustainability funds.

### The future

Hufvudstaden has unique and very well-located commercial property holdings in two of the most rapidly growing regions in Europe. Our business concept has been tried and tested over many years and remains stable. With a strong financial position, we are very well placed to take advantage of the opportunities that arise and to meet the challenges that are emerging in a rapidly changing world.

Our tenants are among the most successful in their sectors and we have extremely knowledgeable and committed employees. Revenue flows from the retail and office sectors complement each other well across different business cycles, and we have identified physical and digital projects that will contribute to improving profitability, increasing the net asset value, and retaining good dividend growth over time. Property acquisitions are being sought that complement existing holdings.

During 2019, the focus will be mainly on developing NK operations and pursuing our projects and business development initiatives optimally, the underlying aim being to create added value in the property holdings.

I am firmly convinced that we have excellent prospects for improving Hufvudstaden's results over the next few years.

Finally, I would like to thank all Hufvudstaden employees for their invaluable work during the past year.

Stockholm, February 2019



Ivo Stopner  
President



Rodebjer

HOPE

Filipina K.

**BIBLIOTEKSTAN**

Smålandsgatan, Stockholm

CAFÉ & BISTRO

# MAZZARINI

EST. 2005

SLUSSPLAN

Stockholm

## PROPERTY MARKET

### External events

The US economy continued to strengthen in 2018, despite strained trade relations on several fronts, mainly with China. This positive trend resulted in the United States central bank, the Federal Reserve, increasing the key rate four times, closing the year at 2.25–2.50 per cent. In Europe, economic growth slackened although this was compensated for by a stronger labour market with a rise in employment and good wage growth. China’s economy slowed down slightly and to remedy the situation, political leaders in Beijing allowed the Chinese currency, the yuan, to fall in value against the dollar, backed by a series of tax cuts.

In Sweden, the widespread availability of more expensive cooperative-owned apartments in the larger cities, together with stricter amortization and financing requirements, led to uncertainty on the housing market, with a resulting fall in investment in new housing. The high level of activity in industry and the service sector failed to compensate fully for this downturn and GDP growth in 2018 was around 2 per cent – on a par with both the previous year and the annual average throughout the 2000s. Despite this, the labour market remained strong even if growth in employment fell slightly following the strong upturn in 2017. A resilient labour market has contributed in part to driving up wages in several sectors in which labour shortages

are greatest. A high level of resource utilization and rising energy prices put inflation according to CPIF at around 2 per cent. After a couple of years during which the key rate remained static at -0.50 per cent, the Swedish Central Bank decided in December to raise the rate to -0.25 per cent. In summary, the economic climate in 2018 had a positive impact on Hufvudstaden’s sub-markets, both with regard to the investor market and rental market.

### Hufvudstaden’s sub-markets

Hufvudstaden’s property holdings comprise 24 properties in Stockholm and 5 properties in Gothenburg. In Greater Stockholm, the population is approximately 2.3 million and in Greater Gothenburg it is around 1.0 million. Population growth is significant in both regions, matched by a high rate of economic growth. Preliminary figures published by Statistics Sweden show that, on average, economic growth in Greater Stockholm between 2001–2017 was around 3.0 per cent per annum, and in Västra Götaland, an area slightly larger than Greater Gothenburg, the figure was around 2.5 per cent. This can be compared with GDP growth for the whole country of about 2.2 per cent during the same period.

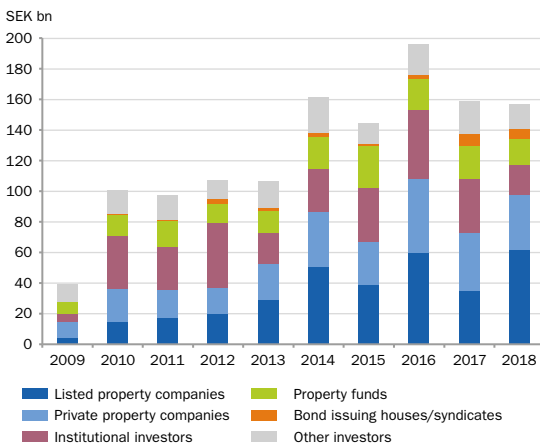
The tourist sector has an important role to play in the Swedish economy. According to the most recently published figures from the Swedish Agency

for Economic and Regional Growth/ Statistics Sweden, the tourist sector in Sweden reported revenue of around SEK 317 billion in 2017, an increase of around 7 per cent compared with 2016. Although the figures cannot be broken down to the regional level, preliminary hotel night figures for 2018 reveal a rise in Greater Stockholm and Greater Gothenburg by 3 per cent and 2 per cent respectively compared with 2017, which is in line with the country as a whole.

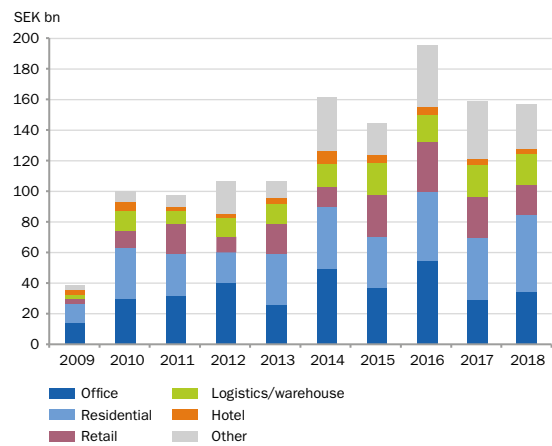
To deal with the growing population in both Stockholm and Gothenburg effectively, infrastructural investments are required. In Greater Stockholm, plans are in place to invest SEK 100 billion over the next 10 years, including investments in both the road and rail systems. The biggest projects include the Förbifart Stockholm road scheme and expansion of the underground system. In Gothenburg, the largest investment is the West Sweden Agreement, worth around SEK 35 billion. Other significant infrastructure projects include the Marieholm Tunnel under the Göta Älv river, a new Hisingen Bridge, and West Link.

There are more than 5 million square metres of office space in the Stockholm inner city, of which around 1.8 million square metres are within the CBD. The Stockholm CBD covers the Central Station area, Norra Bantorget, Hötorget, Stureplan, Norrmalmstorg, Kungsträdgården and Sergels Torg. In the Gothenburg area, there are around 3.4 million

Transaction volume per investor category



Transaction volume according to type of property





square metres of office space, of which 0.9 million square metres are located in the Gothenburg CBD.

**Investor market**

Demand for property investments in Sweden remained high throughout 2018. This can be attributed to good financing potential on a highly efficient capital market, low interest rates, rising market rents, mainly for office space, and an attractive yield in relation to other investment options. The transaction volume was approximately SEK 160 billion, and it was mainly Swedish investors, such as listed property companies, private property investors and institutions, that

Largest property owners in the Stockholm CBD	
	Rentable floor space sq m
Vasakronan	369,000
AMF	294,000
Hufvudstaden	263,000
Skandia Fastigheter	119,000
Pembroke Real Estate	103,000
SEB Trygg Liv	103,000

Source: Nordano

lay behind the majority of the acquisitions. There was considerable interest among international investors, accounting for almost 30 per cent of the volume.

There was widespread activity on the Stockholm and Gothenburg markets, with keen competition for the properties that came onto the market in central Stockholm and central Gothenburg. This has led to stable or slightly lower yield requirements, which for modern office and retail properties in the Stock-

holm CBD were 3.25–3.90 per cent, and in the Gothenburg CBD 3.90–4.50 per cent at the end of 2018.

**Rental market in Stockholm**

*Offices*

The availability of office space continued to be limited during 2018 with record-low vacancy levels. Coupled with a high level of demand for modern, space-efficient offices, primarily in attractive locations such as the CBD, this resulted in further rises in market rents. The annual increase was approximately 5 per cent within the CBD, and at the end of 2018 market rents were SEK 6,000–8,700 per square metre per year, excluding the property tax supplement.

During 2018, a large number of project investments continued in order to further modernize the office property holdings in the Stockholm CBD. There is a clear willingness to pay for this type of office space with top rents in excess of SEK 9,000 per square metre per year, excluding the property tax supplement. The investment in and development of office holdings in Stockholm has proved positive. This has resulted in both Swedish and international companies being offered modern, space-efficient office space, which is what is mainly in demand on the current market. The majority of the larger property owners in the CBD are highly capitalized, long-term owners who are seeking to develop their properties. Modernization of older office space and the addition of new space, in combination with limited availability and a significant and sustained willingness to pay, have led to rising

market rents. To a certain extent this has had a knock-on effect, with an increase in market rents for offices in less modern properties.

A growing trend on the rental market is the rise in the number of co-working facilities, which in recent years have absorbed much of the vacant space that was available on the market. Co-working is a good alternative for start-ups, freelancing consultants and growth companies, although in recent years established and traditional companies have also bought into the concept. Co-working facilities account for around 6 per cent of the rentable floor space in the Stockholm CBD.

The level of vacant space at the end of the year was 2–3 per cent (2–3) in the CBD. Even in adjacent sub-markets, such as Östermalm and Gamla Stan, the level of vacant space continued to be low.

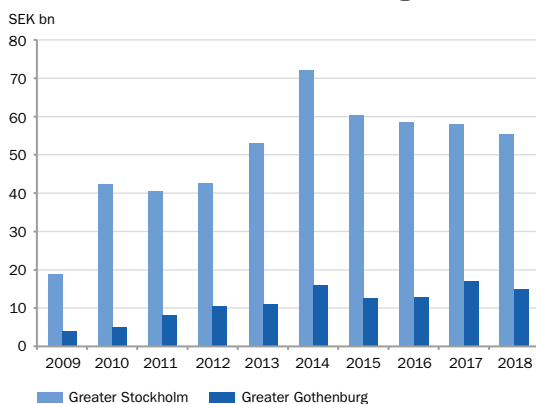
*Stores*

The retail trade has been going through a process of change that is gathering momentum. Sales in physical stores are being affected increasingly by rising competition from online retailing, where the market share is growing. During 2018,

Largest property owners in the Gothenburg CBD	
	Rentable floor space sq m
Vasakronan	266,000
Wallenstam	215,000
Balder	109,000
Hufvudstaden	106,000
Bygg-Göta Göteborg	91,000
SEB Trygg Liv	83,000

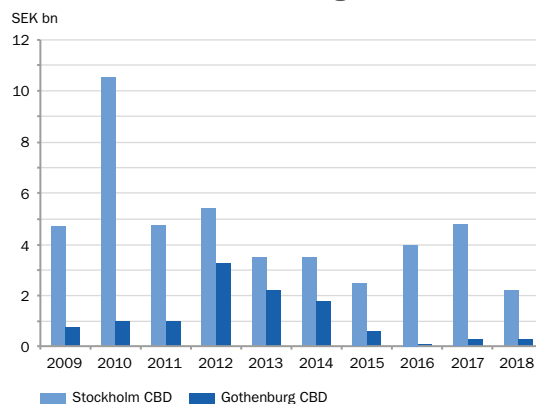
Source: Nordano

**Transaction volume in Greater Stockholm and Greater Gothenburg**



Source: Nordano

**Transaction volume in the Stockholm CBD and Gothenburg CBD**



Source: Nordano

**Stockholm**

The map shows Hufvudstaden's property holdings with the construction year and rentable space. For further information, see property list, pages 100–101.

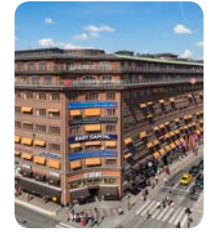
----- Central Business District (CBD)



**Hästhuvudet 13**  
Construction year: 1919  
Rentable space: 7,121 sq m



**Grönlandet Södra 11**  
Construction year: 1911  
Rentable space: 9,112 sq m



**Oxhuvudet 18**  
Construction year: 1931  
Rentable space: 29,506 sq m



**Medusa 1**  
Construction year: 1878  
Rentable space: 2,203 sq m



**Achilles 1**  
Construction year: 17th century  
Rentable space: 4,975 sq m



**Svärdfisken 2**  
Construction year: 1851  
Rentable space: 7,465 sq m



**Järnplåten 28**  
Construction year: 1958  
Rentable space: 9,240 sq m



**Orgelpipan 7**  
Construction year: 1964  
Rentable space: 30,463 sq m



**Hästen 19 (NK)**  
Construction year: 1915  
Rentable space: 39,406 sq m



**Hästskon 10**  
Construction year: 1964  
Rentable space: 35,697 sq m



**Kåkenhusen 40**  
Construction year: 1926  
Rentable space: 22,800 sq m



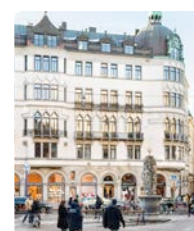
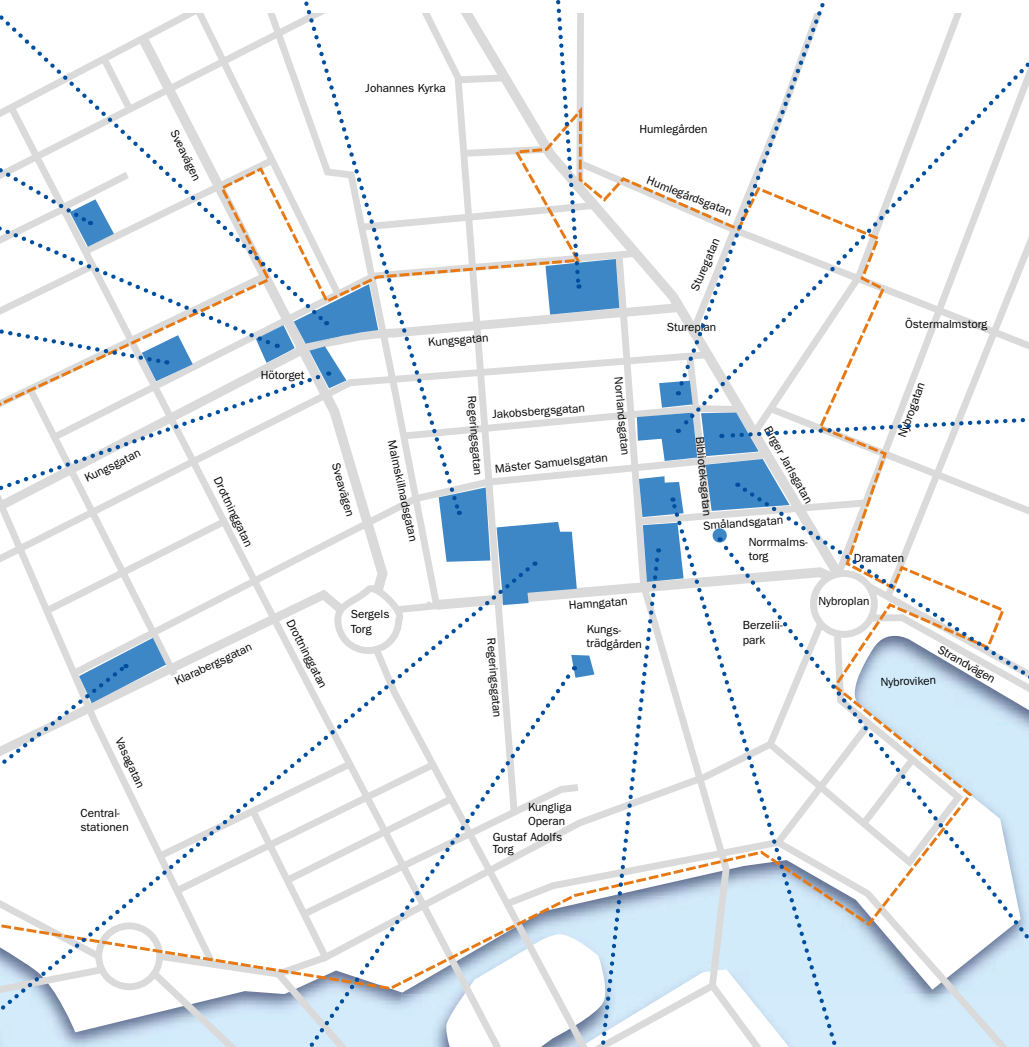
**Vildmannen 7**  
Construction year: 1897  
Rentable space: 0 sq m



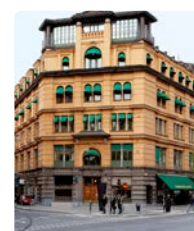
**Kvasten 2**  
Construction year: 1987  
Rentable space: 4,671 sq m

**Kvasten 6**  
Construction year: 1917  
Rentable space: 7,047 sq m

**Kvasten 9**  
Construction year: 1978  
Rentable space: 3,437 sq m



**Pumpstocken 10**  
Construction year: 1865  
Rentable space: 12,451 sq m

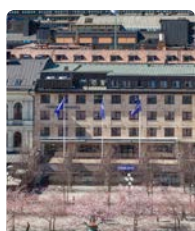


**Rännilen 8**  
Construction year: 1900  
Rentable space: 2,774 sq m

**Rännilen 11**  
Construction year: 1902  
Rentable space: 3,018 sq m

**Rännilen 18**  
Construction year: 1888  
Rentable space: 6,935 sq m

**Rännilen 19**  
Construction year: 1902  
Rentable space: 11,282 sq m



**Kungliga Trädgården 5**  
Construction year: 1984  
Rentable space: 2,764 sq m



**Packarhuset 4**  
Construction year: 1932  
Rentable space: 15,399 sq m



**Skären 9**  
Construction year: 1984  
Rentable space: 11,003 sq m



**Norrmalm 2:63**  
Construction year: 1993  
Rentable space: 194 sq m



**Nordstaden 8:24 (Fyran)**  
 Construction year: 1972  
 Rentable space: 21,201 sq m



**Nordstaden 8:24 (Femman)**  
 Construction year: 1972/2011  
 Rentable space: 44,804 sq m



**Inom Vallgraven 10:9 (NK)**  
 Construction year: 1964  
 Rentable space: 16,795 sq m



**Inom Vallgraven 12:11**  
 Construction year: 1875/1929/30  
 Rentable space: 4,704 sq m  
**Inom Vallgraven 12:10**  
 Construction year: 1975  
 Rentable space: 16,460 sq m

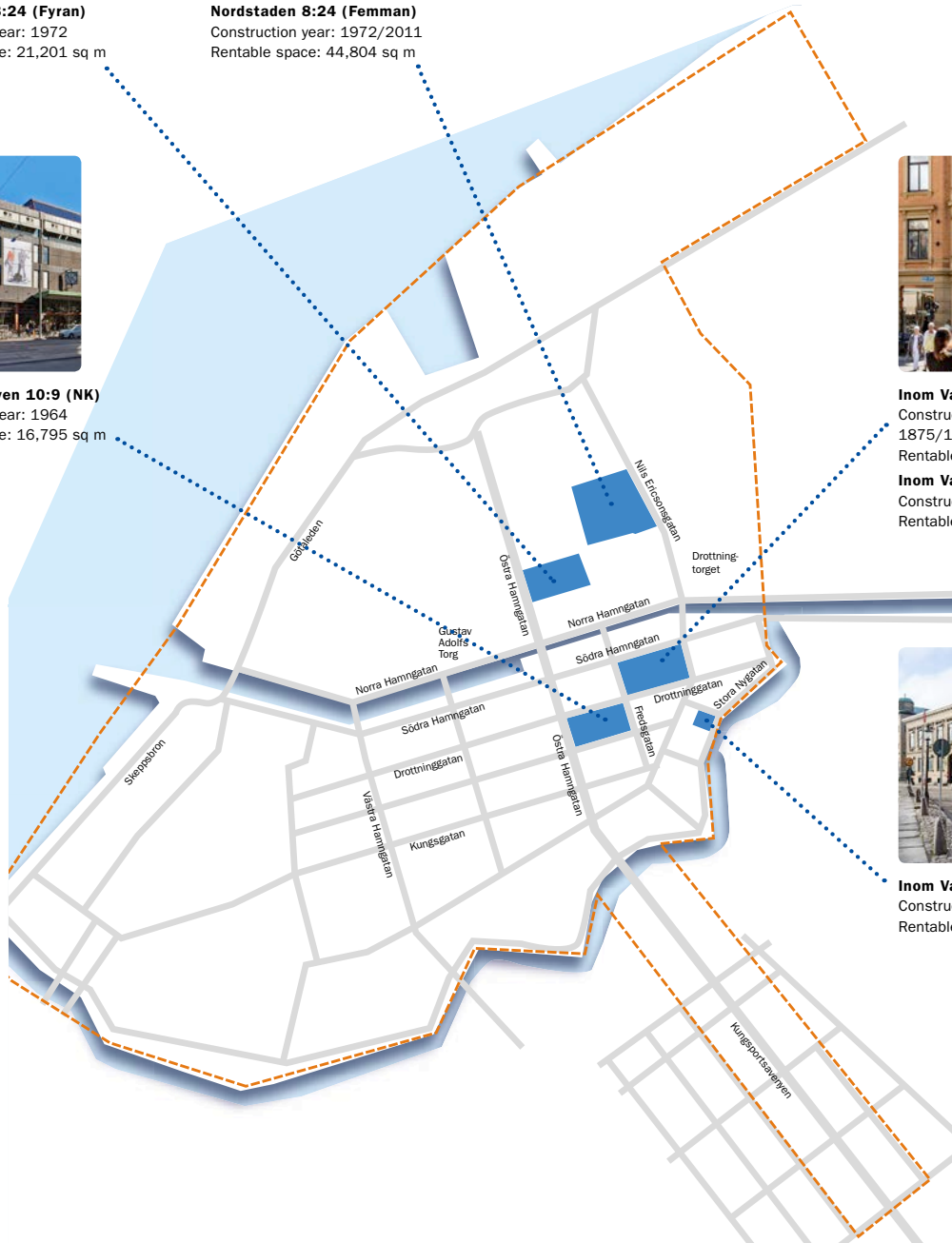


**Inom Vallgraven 3:2**  
 Construction year: 1856  
 Rentable space: 1,564 sq m

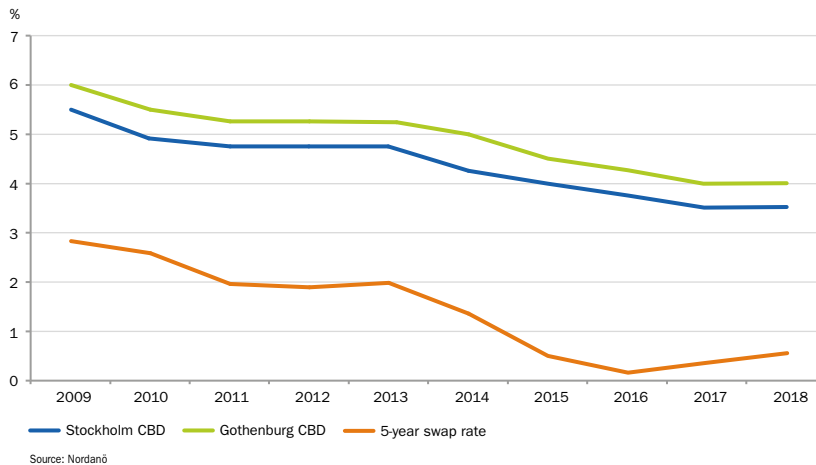
**Gothenburg**

The map shows Hufvudstaden's property holdings with the construction year and rentable space. For further information, see property list, pages 100–101.

--- Central Business District (CBD)



Yield requirement, Stockholm CBD and Gothenburg CBD



the retail trade index, DHI, rose by 2.5 per cent compared with 2017. The sale of durable goods rose by 1.8 per cent, whilst clothing sales fell by 0.8 per cent.

Both as a property owner and a retailer, it is important to address new consumer patterns as they emerge. If they are to strengthen their marketplaces, property owners must work even more actively with property management, including store range, experiences, activities, restaurants and cafeterias, combined with a strong digital presence. The same applies to retailers, who need to be more receptive to what is being demanded and offer consumers benefits that online retailing is struggling to offer. There is also a trend where pure online companies are opening physical stores in an effort to combine the advantages of online and physical retailing.

Demand for well-located retail premises in the most central sub-markets in

Stockholm, particularly Bibliotekstan, Hamngatan, Kungsgatan, and Drottninggatan, continued during the year. Bibliotekstan and the NK department store have acquired the distinction of being the most exclusive store locations. Market rents for prime retail space in these areas is SEK 14,000–25,000 per square metre per year, excluding the property tax supplement.

**Rental market in Gothenburg**

*Offices*

The office rental market in Gothenburg remained positive throughout 2018. Demand was greatest for modern, space-efficient office premises in prime locations, although there is limited availability in Gothenburg. This has resulted in market rents rising by up to 10 per cent in 2018, currently standing at SEK 2,600–3,700 per square metre per year, excluding the property tax supplement.

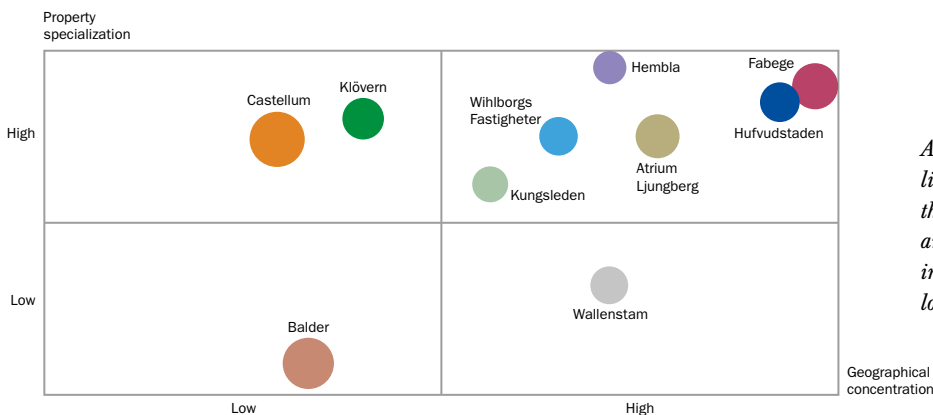
Gothenburg has major plans for the future, including the construction of several new office buildings in the central areas of the city. When and to what extent these will be completed remains unclear. The best locations for office space in central Gothenburg are considered to be the Inom Vallgraven areas, particularly around Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan, Kungsporsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. The level of vacant space in the Gothenburg CBD was 2–3 per cent (3) at the close of the year.

*Stores*

Although the retail trade in Gothenburg has also been affected by new consumer patterns, net sales during 2018 had a stable or slightly positive impact on market rents in the central areas of the city.

The best locations for stores in central Gothenburg are considered to be Östra Nordstan, Fredstan, and Kungsgatan between Östra and Västra Hamngatan. Rents for prime retail space in these locations were SEK 6,000–15,000 per square metre per year, excluding the property tax supplement.

Positioning among larger property companies

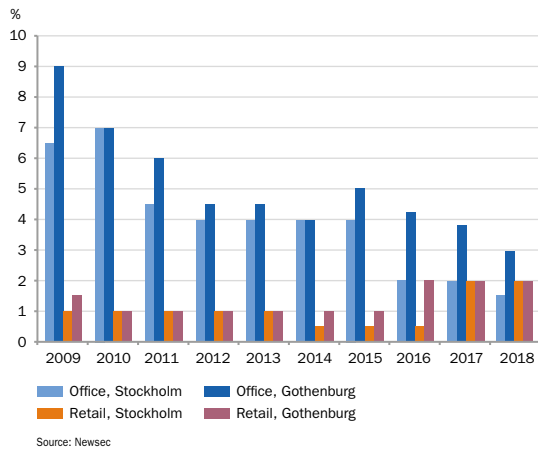


*A comparison with other major listed property companies reveals that Hufvudstaden’s property holdings are among the most concentrated, both in terms of type and geographical location.*

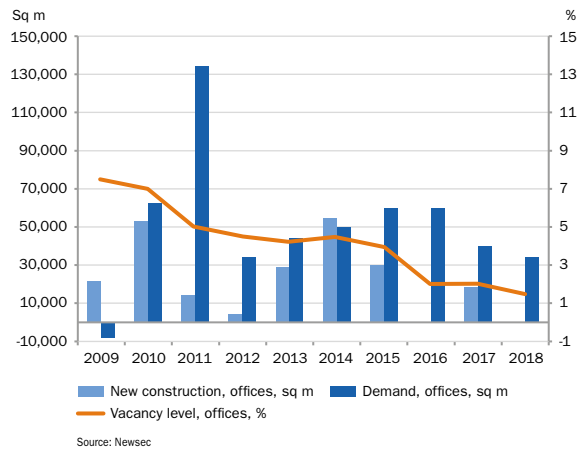
The size of the circles reflects the standard calculated property value as at September 30, 2018.

Source: Nordanö

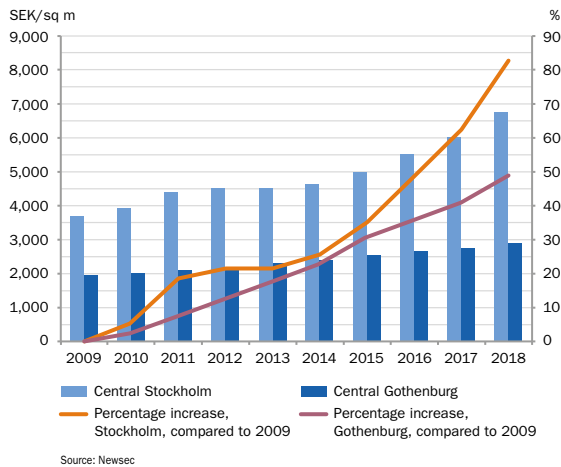
**Vacant office and retail space in prime locations**



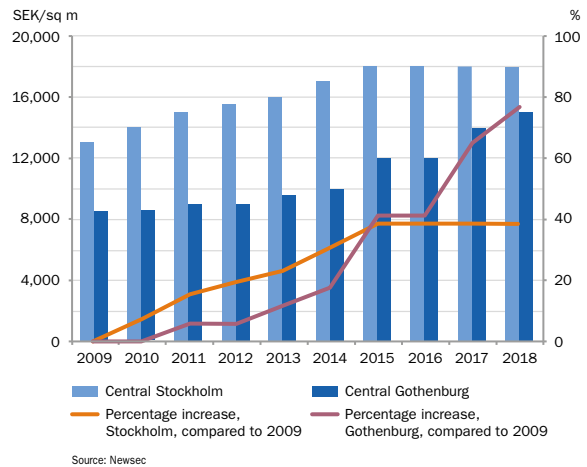
**New construction, demand and vacancy level, office premises in Central Stockholm**



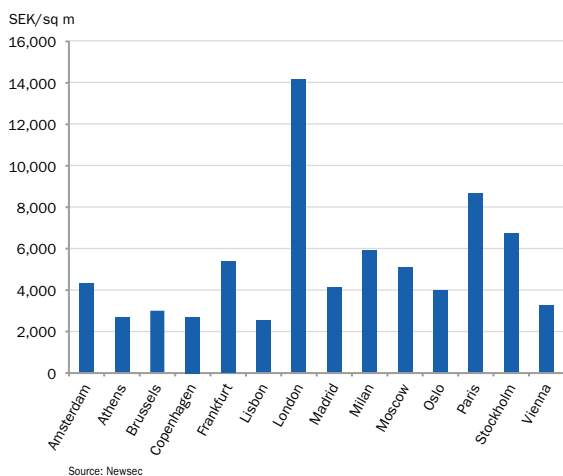
**Market rent trend, prime-location offices, nominal (excluding the property tax supplement)**



**Market rent trend, prime-location stores, nominal (excluding the property tax supplement)**



**Office rents in European cities, December 2018 Premises in prime locations**



**Market rents, December 2018 (excluding the property tax supplement)**

Stockholm	Offices, SEK/sq m per year	Stores, SEK/sq m per year
Bibliotekstan/NK	7,000 – 8,700	14,000 – 25,000
Rest of CBD	6,000 – 8,700	4,000 – 14,000
Östermalm	3,500 – 6,800	3,000 – 11,000
Gamla Stan	3,200 – 4,500	2,500 – 5,000
Södermalm	2,700 – 4,500	2,500 – 6,000
Kungsholmen	3,200 – 6,000	2,000 – 8,000
Liljeholmen	2,200 – 3,100	2,000 – 6,000
Globen	2,200 – 3,200	3,500 – 6,000
Arenastaden	2,500 – 3,300	3,000 – 11,000
Kista	1,900 – 2,500	4,000 – 10,000
<b>Gothenburg</b>	<b>Offices, SEK/sq m per year</b>	<b>Stores, SEK/sq m per year</b>
Inom Vallgraven	2,600 – 3,700	6,000 – 15,000



**BIBLIOTEKSTAN**  
Smålandsgatan, Stockholm

## SHARES AND SHAREHOLDERS

### Share capital

Hufvudstaden AB was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. At the end of 2018, the share capital amounted to SEK 1,056.4 million, with a par value of SEK 5 per share.

### Share structure

Hufvudstaden has two share series, series A and series C. Both series are listed in the Nasdaq Stockholm Large Cap list. Series A shares carry one vote per share and series C shares carry 100 votes per share. There is no limit on how many votes each shareholder may cast at a general meeting. Series A shares were first listed in 1938, on what was at the time the Stockholm Stock Exchange, whilst series C shares were first listed in 1998.

The Articles of Association include what is termed a conversion provision.

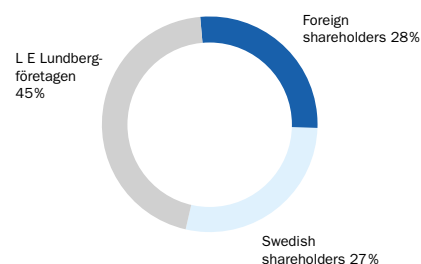
This means that the holders of series C shares are entitled, if they wish, to request conversion of their series C shares into series A shares. No such conversion took place during the year.

At the end of the year, the total number of outstanding shares 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.

### Shareholder structure

The number of shareholders at the year-end was 24,079. The largest shareholder was LE Lundbergföretagen AB with 45.3 per cent of the outstanding shares and 88.1 per cent of the votes. The second largest was State Street Bank and Trust with 6.4 per cent of the outstanding shares and 1.3 per cent of the votes.

### Ownership structure



Source: Euroclear Sweden

As at December 31, 2018, institutions and companies with holdings of 100,000 shares or more held 181,127,905 shares, equivalent to 87.8 per cent of the total number of outstanding shares and 96.6 per cent of the votes. Of these, 58 were Swedish institutions and companies, which together held 127,455,595 shares, equivalent to 61.8 per cent of the outstanding shares and 91.4 per cent of the votes. There were 66 foreign institutions and companies with holdings of 100,000 shares or more. Their holdings amounted to 53,672,310 shares, equivalent to 26.0 per cent of the outstanding shares and 5.2 per cent of the votes. In addition, eight Swedish private individuals each held 100,000 shares or more. The number of shareholders increased during the year by 1,459. The proportion of foreign ownership during the

### Ownership structure as at December 31, 2018

Number of shares	Number of shareholders	Proportion of shareholders, %	Number of issued shares	Proportion of shares, %
1 – 999	20,464	85.0	3,415,454	1.6
1,000 – 9,999	3,090	12.8	6,981,654	3.3
10,000 – 99,999	393	1.6	11,800,183	5.6
100,000 –	132	0.6	184,068,642	87.1
Outstanding shares	24,079	100.0	206,265,933	97.6
Hufvudstaden			5,006,000	2.4
Total number of issued shares			211,271,933	100.0

Source: Euroclear Sweden

### Largest shareholder groups as at December 31, 2018

	Serie A shares	Serie C shares	Total number of shares	Outstanding shares, %		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	13,156,306	0	13,156,306	6.4	1.3	6.3	1.3
JP Morgan Funds	10,793,778	0	10,793,778	5.2	1.1	5.1	1.1
AMF Funds	9,081,137	0	9,081,137	4.4	0.9	4.3	0.9
BNY Mellon Funds	8,118,479	0	8,118,479	3.9	0.8	3.8	0.8
Citi Bank	8,111,458	0	8,111,458	3.9	0.8	3.8	0.8
Fjärde AP-fonden	5,546,595	0	5,546,595	2.7	0.5	2.6	0.5
BNP Paribas	5,127,287	0	5,127,287	2.5	0.5	2.4	0.5
SEB Funds	3,342,149	6	3,342,155	1.6	0.3	1.6	0.3
Other shareholders	49,513,680	97,378	49,611,058	24.1	5.7	23.5	5.7
Outstanding shares	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
Total number of issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0

Votes (excl. own holdings)	197,990,869	827,506,400	1,025,497,269
Votes (incl. own holdings)	202,996,869	827,506,400	1,030,503,269

Source: Euroclear Sweden



year decreased from 30.3 per cent to 28.1 per cent of the outstanding shares.

**Buy-back of shares**

Since the Annual Meeting in 2003, the Board has had the mandate of the 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 2018 Annual Meeting. At the end of the year, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the issued shares. No shares were bought back during 2018.

**Market capitalization and trading**

At the end of 2018, Hufvudstaden's total market capitalization was SEK 33,459

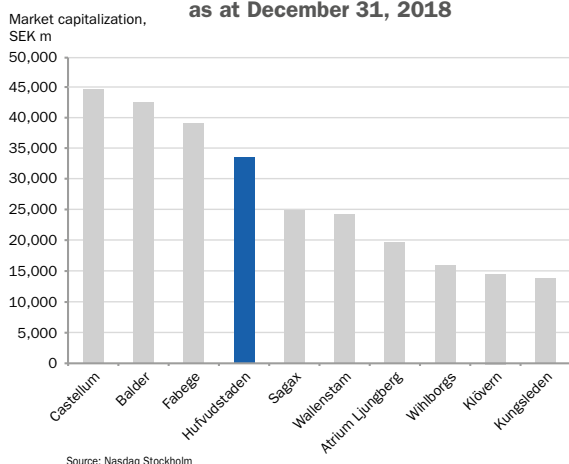
million. The yield was 2.7 per cent based on the stock market price as at December 31, 2018. During the year, 165 million shares were bought and sold, equivalent to 80 per cent (78) of the outstanding shares. The rate of turnover in relation to the shares available for trading, what is termed free float, was 146 per cent (142). On average, 666,000 Hufvudstaden shares were traded on each trading day (645,000). Since the introduction of the EU's MiFID, trading in Swedish shares is taking place to an increasing extent on marketplaces other than Nasdaq Stockholm. During 2018, 51 per cent (61) of Hufvudstaden's shares were traded outside the Stockholm Stock Exchange, e.g. Cboe 41 per cent, LSE 4 per cent, and

Turquoise 2 per cent. The graphs below shows the price trend and trading in Hufvudstaden's series A shares during the year.

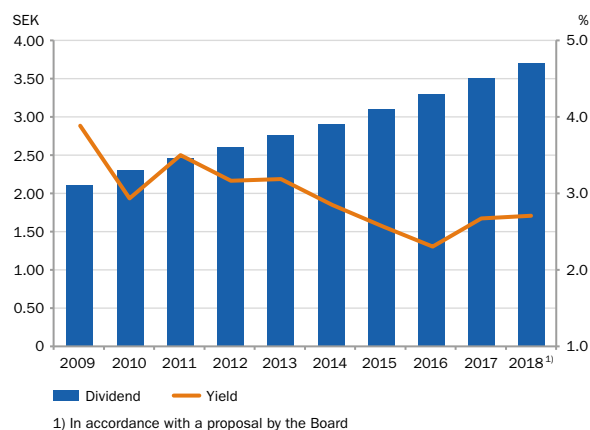
**Dividend**

Hufvudstaden shares will have good dividend growth over time, and the dividend will be more than half the net profit from current operations unless investments or the Company's financial position in general justify a deviation. A dividend of SEK 3.70 per share is proposed for 2018, equivalent to 83 per cent of the net profit from current operations. (See Definitions, page 108 Dividend).

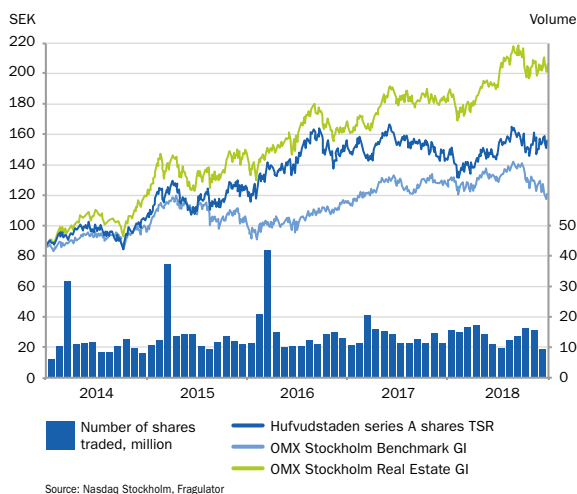
**Ten largest listed property companies as at December 31, 2018**



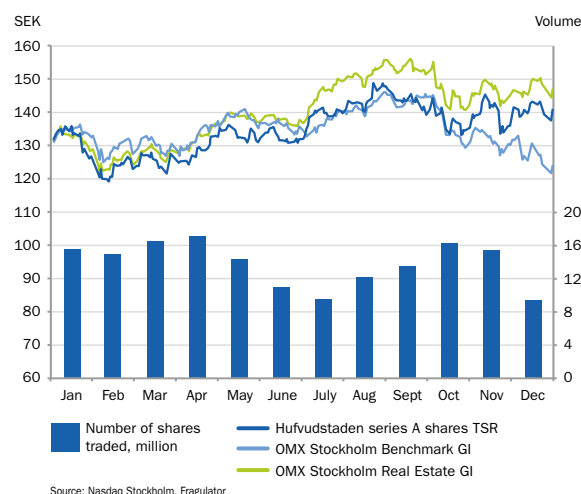
**Dividend and yield**



**Share price trend, including dividend, and trading in relation to Stockholm Benchmark GI and Stockholm Real Estate GI**



**Share price trend, including dividend, and trading during 2018 in relation to Stockholm Benchmark GI and Stockholm Real Estate GI**





# NORRMALMSTORG

Bibliotekstan, Stockholm



**BIBLIOTEKSTAN**

Smålandsgatan, Stockholm

## Value-driven corporate culture

*Hufvudstaden's corporate culture is characterized by a strong level of employee involvement, with a clear and broadly accepted value base that permeates everything we do. Our values are one of our most important tools in the endeavour to lead and control operations in accordance with the Company's vision and goals. They are also a prerequisite if we are to be in a position to drive operations forward in pursuit of responsible enterprise. Our values are quality, honesty, attentiveness and commitment.*

### **Quality**

It is important for us that we have the right level of quality and adopt a long-term perspective. This involves meeting the exacting standards that our customers expect within the framework of our business concept. It applies equally to our property holdings, service offering, customer relations and in-house cooperation. We act rather than react, the aim being to develop operations effectively and to pre-empt problems.

### **Honesty**

We always act professionally and reliably. Honest intent is the basis for successful business and long-term relationships. It means that we stand by our word and abide by our agreements. We observe the fundamental principle of honesty between colleagues, and we are careful to preserve an environment where everyone can present their views and stand by their thoughts and ideas.

### **Attentiveness**

We are attentive and open to impressions from outside the Company, and we actively embrace and evaluate new ideas. We endeavour in every respect to satisfy our colleagues' need for support and consideration. We are there to support each other, we are attentive to the needs of our customers, and we strive continuously to remain one step ahead.

### **Commitment**

We are proud of our history and our success, and we are very much involved in every aspect of our work. We regard ourselves as a key partner for our customers, and we show an active interest in their operations and their success. We are interested in our colleagues, we derive satisfaction from the progress they make, and we help each other to develop and succeed.

## SUSTAINABLE ENTERPRISE

The Hufvudstaden sustainability programme is based on assuming long-term responsibility with regard to financial, environmental and social development. We comply with the principles set out in the UN Global Compact, and we work in line with our Code of Conduct and established sustainability goals. Our strategies and values provide a firm basis for achieving established sustainability goals and contributing to developing the structure and framework of society. With a focus on long-term thinking and quality, we create sustainable properties, strong customer relations, responsible business practices, and motivated employees.

Hufvudstaden takes part in a number of sustainability surveys, including the Global Real Estate Sustainability Benchmark (GRESB). GRESB conducts an annual global review of the sustainability performance of property companies and funds based on what investors and industry consider to be key sustainability issues.

This year, 903 companies took part in GRESB. Despite the fact that Hufvudstaden was taking part for the first time, we came third among Swedish listed companies and we were awarded GRESB 5 Stars in recognition of being a sector leader in sustainability.



Hufvudstaden shares have been approved for investment by the Swedbank Robur and Nordea sustainability funds.

### Sustainability management

Sustainability work is integrated into the control and follow-up processes that are in place for the Company's business operations. Detailed process descriptions are available for everything – from how buildings should be constructed to how lease agreements should be drafted. Hufvudstaden's Head of Sustainability reports to the Head of Property Development, who is a member of the Executive Management.

Hufvudstaden's main stakeholders are our tenants, employees, shareholders, suppliers and society, and we maintain an ongoing dialogue with them. In 2018, discussions took place with the various stakeholders, and we conducted a materiality analysis to develop the Company's sustainability work. For

further information about the stakeholder dialogues and management of our sustainability work, see page 102.

### UN Global Goals

The UN Global Goals are the result of an agreement between UN member states to bring about economically, socially and environmentally sustainable development throughout the world by 2030. This is communicated through 17 goals and 169 sub-targets.

Even if overall responsibility for implementation and follow-up of the goals rests with the governments of the member states, they cannot be achieved without a concerted effort in every area of society. Hufvudstaden has established long-term goals for areas that include energy use, carbon emissions, equality, and health and well-being, all of which are in line with the Global Goals.

### Sustainable properties

Our ability to promote sustainable development and create value for our stakeholders is embodied in our business concept, which covers the long-term management and development of commercial properties in central Stockholm and central Gothenburg. Examples include creating flexible, energy-efficient

### UN Sustainable Development Goals



The goals that have been prioritised by Hufvudstaden are marked above

solutions for different operating areas, and participating in urban development projects with other organizations in society.



### Energy and climate

Improving energy efficiency and reducing climate impact are a top priority for Hufvudstaden in the light of the fact that a large proportion of society's total energy use and greenhouse gas emissions derive from the property industry. We are therefore working towards achieving established sustainability goals through an ongoing follow-up system. We are also seeking to contribute to realizing the Swedish objective of establishing a fossil fuel-free Sweden by 2045.

Examples of measures taken during the year include modernization of the technical systems at NK Parkaden to improve energy efficiency. In the Femman property in Nordstan, we installed lighting control systems and commenced a

project to replace all the windows, which will double the energy efficiency. In several properties we have carried out rebuilding work to facilitate heat recycling from restaurant kitchens. There are also a number of smaller energy projects, including the switch to LED lighting and adjustment of ventilation times.

The year was marked by a cold winter and an unusually hot summer, which resulted in energy use for 2018 increasing by 9 per cent compared with the previous year. The energy increase is also the result of extensive redevelopment of the Kvasten 2, Kvasten 6, and Kvasten 9 properties in Bibliotekstan, and the NK department stores.

Overall, Hufvudstaden's energy use has fallen by 17 per cent since 2010. According to Statistics Sweden figures for non-residential premises, Hufvudstaden's energy use for heating is approximately 65 per cent lower than the average.

At the end of 2018, an expansion and redevelopment project began on the Skären 9 property, which is located in Bibliotekstan in Stockholm. The project

will be marked by a distinct focus on sustainability, including the installation of more efficient heating and ventilation systems and solar panels. The aim is to environmentally certify the property once the project has been completed.

Greenhouse gas emissions in 2018 increased by 35 per cent compared with the previous year, which can be attributed mainly to an increase in the use of district heating due to the cold start to the year, but also to the fact district heating was produced using a higher proportion of fossil fuel. Overall, emissions have fallen by 80 per cent since 2010. The decrease is largely a result of the switch to origin-labelled water power, what is termed green electricity, and the fact that district cooling and heating are being produced using a lower proportion of fossil fuels.

Commuting by bicycle in the cities is becoming increasingly common, with a growing demand from our tenants for bicycle-adapted solutions. This year we have increased the number of bicycle parks and we have made it possible to recharge electric bicycles.

### CHARGING POINTS FOR ELECTRIC CARS

The number of electric vehicles on the roads is on the increase and they offer many advantages. Not only are they quieter compared with other vehicles, they do not emit nitric oxide or particles into the air. They also contribute to reducing greenhouse gas emissions.

The growing use of electric vehicles has given rise to an increase in the demand for charging points. This has become very noticeable at our centrally located parking facilities. With the aid of *Klimatklivet*, a government initiative to support measures designed to reduce greenhouse gas emissions on the local level, Hufvudstaden has developed access to vehicle charging points at our parking facilities.

At our multi-storey car parks in Stockholm, NK Parkering and Continentalgaraget, around 70 charging points are available, the majority of which were installed this year. During 2019, the number of charging points at the Stockholm parking facilities will more than double. In our jointly owned parking facility in Nordstan in Gothenburg, we offer around 30 charging points. In addition, there are around 20 charging points at our non-public parking facilities, and they are being installed in line with the increase in demand from tenants.



### Long-term thinking and quality

Long-term thinking and quality are two pillars in the Hufvudstaden vision of being consistently perceived as, and being, the most attractive property company in Sweden. We are very much aware of the need to construct sustainable buildings and create solutions that are flexible and robust over time. By choosing design and functionality combined with quality, there is less risk of them needing to be replaced in conjunction with a change of tenant.

Innovative thinking and energy-efficient technology are prioritized when choosing products as part of the undertaking to reduce energy use. When we carry out an environmental examination of building products, we make use of the BVB system, which is the property industry's environmental assessment database for construction materials.

During the year, a number of courtyards and roof terraces underwent major changes to create what could be described as 'urban oases' for our employees and tenants. Choosing natural materials and creating green spaces leads to areas that help to increase well-being, and at the

Hufvudstaden is actively involved in different sector networks and associations related to sustainable development, including:

- Building Products Assessment (BVB)
- Sweden Green Building Council Certification Committee
- Swedish Energy Agency Non-Residential Premises Orderer Group, BELOK

same time contribute to promoting biodiversity in the urban environment through the creation of habitats for insects and birds.

### Urban development

In order to create secure, vibrant cities and contribute to urban development, Hufvudstaden cooperates with a number of other property owners, as well as the City of Stockholm and the City of Gothenburg, in a range of projects. One of the projects is the refurbishment of Vasagatan in Stockholm. The project commenced in 2018 and will continue for several years. Vasagatan will acquire wider pavements, new street lighting, improved cycle paths, and trees and flowers.

In Gothenburg, we have spent the past two years enclosing arcades on Drottninggatan and Östra Hamngatan in order to modernize and improve security.

Hufvudstaden is involved in the collaborative Purple Flag project for the Fredstan and Nordstan areas in Gothenburg. Purple Flag certifies cities and city centres based on factors such as safety, accessibility and range of activities during the evening and at night. The project aims to create secure, vibrant cities, regardless of the time of day or night. This collaborative venture, which is taking place in partnership with local authorities, the police, the business community, and a number of other bodies, also helps to reinforce the city brand and contributes to sustainable growth.



### Waste management

Increased recycling of waste is a sustainability issue that has been prioritized both by us and our tenants. In all our properties there are sorting rooms that present potential to improve the system by sorting waste into a number of fractions, and by coordinating in a way that the number of transport movements to and from the properties is reduced.

### Customer relations

In order to meet the goal of having the most satisfied customers in the industry, we work continuously to maintain high standards when it comes to product

quality, service and the way we treat customers. We want our customers to feel secure and satisfied in their premises and their local environment.

### Satisfied customers

Work is in progress to develop and improve premises in line with the wishes and needs of the tenants, and Hufvudstaden is striving on a daily basis to ensure that service provision takes place in accordance with what has been agreed and expected. We are also working proactively to inform and support our tenants in a range of matters relating to their premises and their safety and security.

### WINNER – CUSTOMER SATISFACTION SURVEY 2018

Hufvudstaden's customers have had their say and placed us top in the *Fastighetsbarometern* Customer Satisfaction Survey 2018 in the large company category\*. By focusing firmly on customer relations and long-term thinking, we have improved our score in seven of the ten quality areas compared with last year's survey. We were also higher than the index average by several points in all quality areas. Environmental concern, indoor climate, service and position are just some of the areas in which we were particularly strong. *Fastighetsbarometern* was founded in 1997 and since then Hufvudstaden has been consistently among the top three.

\* A large company is defined as a property company with more than 100 tenants.

During the year we have worked to bolster the sense of community among our customers by arranging various events, including breakfast meetings and film shows. The overall theme has been health, well-being, and the environment.

Contact with customers is facilitated by the fact that we are within walking distance of our properties and we have a team of property managers, operating technicians and customer service staff who look after and maintain the properties. This helps to enhance the customers' business potential, competitiveness and image, creating the confidence and strong long-term customer relations that we are striving to achieve.

Nine out of ten Hufvudstaden customers are very positively disposed towards our collaboration. In addition, more than half of Hufvudstaden customers are what could be described as ambassadors. An ambassador is a customer who speaks highly of Hufvudstaden as a company and its good reputation.

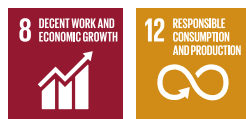
Over time, around 80 per cent of customers choose to continue leasing their premises after their current lease comes to an end. This is an indication that there is good concurrence between the customer's expectations, experiences, and willingness to pay for our products.

### Green leases

We can see greater willingness and ambition among our tenants to work with Hufvudstaden to bring about a more sustainable society. That is why we offer Green leases, whereby the tenant, together with Hufvudstaden, draws up an action plan with a series of measures that will contribute to a better environment. During 2018, green leases covered 24 per cent of the total rentable office space.

### Responsible business

Hufvudstaden's corporate culture is marked by strong level of commitment among employees and with a clear and firmly accepted value base that permeates everything we do. Our values are quality, honesty, attentiveness and commitment. These values are one of our most important means of managing and controlling operations in accordance with the Company's vision and goals.



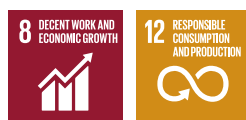
### Business ethics

Hufvudstaden's Code of Conduct clarifies our responsibility and our actions in our dealings with internal and external stakeholders. The Code of Conduct is based on our values and sets out how we take ethical, social and environmental factors into account in our operations. The Code of Conduct sets out the manner in which our stakeholders can expect Hufvudstaden's employees to behave, but also what we expect of our suppliers, customers and partners. Our Code of Conduct is in the public domain and is enclosed with all major agreements.

All employees undergo ongoing training related to the Code of Conduct. On induction days and at staff conferences, departmental meetings and other similar events, discussions take place around common dilemmas and problems.

In order to counteract the risk of corruption, bribes and other breaches, Hufvudstaden has a control system in place with a clear allocation of responsibility and duties, as well as structured processes that ensure that business is conducted in a manner that can be deemed correct and appropriate. As regards the Company's processes, control documents and guidelines have been drawn up, covering areas such as project work, leasing, and property management.

During 2018, Hufvudstaden introduced a whistleblower function that can be reached via the Company's website and intranet. This offers the opportunity, via an external party, to report suspected corruption, bribes and other breaches.



### Supplier relations

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 in order to build up long-term collaboration. When signing general agreements, procuring redevelopment

projects, and purchasing goods and services, strict sustainability stipulations are included. The Code of Conduct forms the basis for these stipulations, supplemented by stipulations relating to the environment, working environment, and terms and conditions of employment. Working environment issues are a particular priority as building and maintenance work could be hazardous. 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 our established demands in project operations and in day-to-day operations, we have our own project managers and property managers who work according to the precautionary principle. They procure and check construction work and ensure compliance with our demands regarding quality, professionalism, long-term thinking and the environment, as well as adherence to legal requirements. To further examine and ensure compliance with the demands, we carry out audits of major construction projects, and during the year the focus was on the work environment.

### Sustainable employees

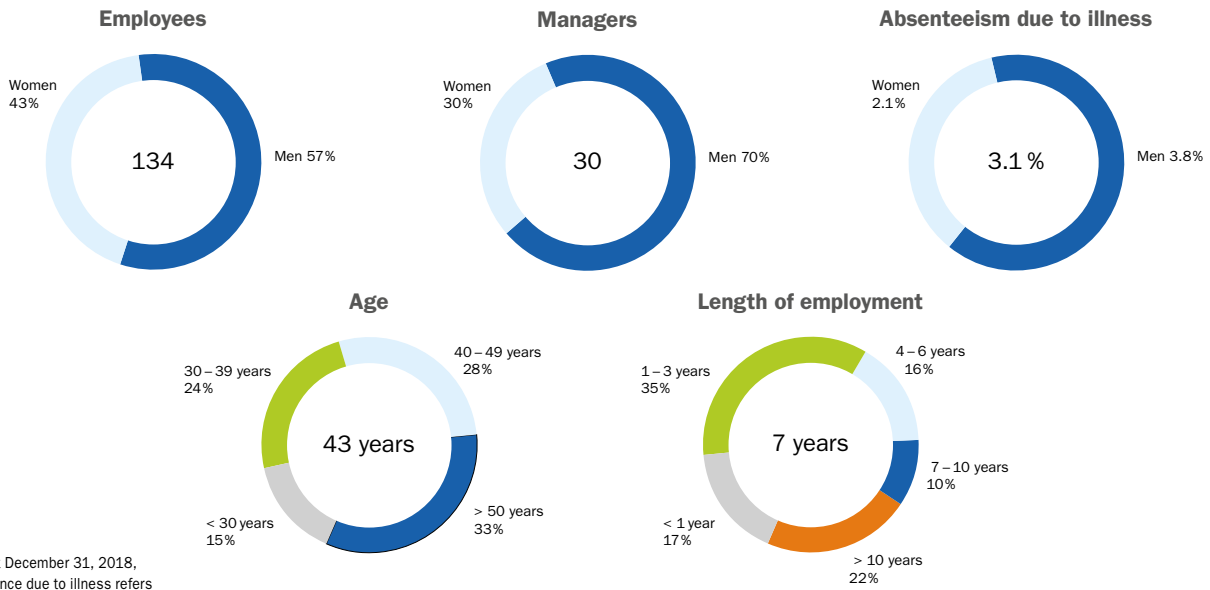
Committed, proud employees have a central role to play in Hufvudstaden's corporate culture and success. With our values as a foundation, the ambition is to attract, develop and retain employees who are involved and contribute to the Company's future development.



### Sustainable work environment

We are mindful at all times to ensure there is a good work environment, both physically and psychosocially, and that all employees are covered by collective agreements. All employees are offered health insurance, which is taxed as a benefit. This ensures rapid, expert care in the event of illness. We offer an annual health and fitness allowance, which has been taken up by a large number of our employees. To maintain a low level of absenteeism due to illness, we encourage physical activity, both during and outside





As at December 31, 2018, absence due to illness refers to the whole of 2018.

working hours. To promote good health and improve the organization’s ability to counteract ill-health, Hufvudstaden works preventatively with health, including the offer of regular health checks as well as massage and naprapathic treatment at the workplace.

At the annual staff conference, all employees at the Company have a chance to meet with the aim of exchanging experiences and enhancing the sense of community. The general theme at this year’s staff conference was the need to develop and cooperate in a rapidly

changing world. Internal communication takes place via an active intranet and regular staff meetings.

Systematic work environment initiatives are handled within a work environment group comprising representatives from different parts of the organization.

### SUSTAINABILITY REQUIREMENTS AT NORDISKA KOMPANIET

Hufvudstaden owns AB Nordiska Kompaniet, which in turn owns the NK properties in Stockholm and Gothenburg as well as the NK brand. The departments at NK are run by different proprietors and they collaborate within the framework of the NK Proprietors’ Association. A joint NK strategy has been produced regarding range, packaging and other operational issues with the aim of developing a sustainability programme at the department stores.

One of the most important sustainability issues at NK is ensuring that the range has been produced under correct and appropriate conditions, both human and environmental. Based on the strategy, the NK Standard has been formulated, which sets out joint demands that all the departments should make on their suppliers. These demands are based on Swedish and EU legislation, international conventions, general frameworks and principles, and common practice within the industry.

During the year, the departments took part in training programmes dealing with demands, after which follow-up meetings were held to ensure compliance with the demands.

Introduced on January 1, 2018, the NK Standard is considered to be an important tool in our sustainability work.



**HUFVUDSTADEN**  
Regeringsgatan, Stockholm



**HUFVUDSTADEN**

Kyrkogatan, Gothenburg

The aim of the Company's work environment programme is to carry out a risk review, present proposals for measures that need to be taken, and promote ongoing development. We also have a sustainability group with four sub-groups: equality and diversity, communication, energy, and societal involvement. We are also working on a number of policies. These include an equality and diversity policy aimed at creating an equal opportunities workplace that encourages people to be different, as well as a work environment policy, where one of the aims is to counteract discrimination and denigrating behaviour. Together with the sustainability group, an expanded, quantified examination of equality was carried out in conjunction with this year's Satisfied Employee Survey.

#### **Competence development**

New challenges are a means for employees to grow within the Company whilst at the same time they can acquire broader knowledge of the Company's operating areas. We therefore strive to ensure that as many vacant positions as possible are filled through in-house recruitment, both at management level and other levels. To succeed with this, we are working continuously to review the need for the development of skills and know-how on the Company level. As part of our strategic work, we have broadened the level of competence during the year within certain roles through a project management training initiative.

During the year we commenced work on developing our leadership and employeeship by becoming more situation-oriented. This should be reflected in employee discussions where aspects such as goals, goal fulfilment, values and skills development are discussed, after which an action plan should be drawn up for each individual.

We place considerable emphasis on attracting employees who aim to stay with us for the long term. All new employees are offered a solid, individual induction programme adapted to their role. We have also created a digital induction element where all new employees can guide themselves through those areas that are of importance when getting to know the Company.

#### **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 seek leadership marked by courage, inspirational conduct, forward thinking and acting as a role model. These criteria also act as a starting point when we review the way our managers have developed and the results they have achieved. A prioritized area within the Company is to continuously identify and develop employees with leadership qualities. Hufvudstaden focuses consciously on giving young employees the opportunity at an early stage to grow into the role of manager. We run training programmes on an ongoing basis for our managers, focusing on Hufvudstaden's leadership ethos. A management conference is arranged each year where, among other things, the opportunity is offered to share experiences and discuss leadership issues. At this year's management conference, a training programme was run on situation-adapted leadership, which has been followed up by two further training sessions.

#### **Attractive employer**

Our ambition is for Hufvudstaden to be an attractive employer and that our employees should feel proud of the Company. To measure how we are perceived as an employer, we make use of the Attractive Employer Index, produced by the Institute of Human Resource Indicators. Hufvudstaden has for many years received a high score in this survey. We also run an Employee Satisfaction Survey to measure how our employees perceive Hufvudstaden as an employer. In this year's survey, leadership and competence development were the areas that received the highest scores. The number of employees who recommend Hufvudstaden as an employer increased from an already high level.

Hufvudstaden offers stimulating duties with good potential for development and a variable remuneration system in the form of a bonus. Interviews with our employees highlight the fact that the possibility of working in a value-governed corporate culture, with attractive properties in central locations, is particularly appreciated.

This year we have worked more closely on marketing Hufvudstaden on social media. The aim is to utilize social media to mediate how our employees view Hufvudstaden and to continue to build up interest in us as a company.

In order to facilitate future recruitment, Hufvudstaden develops relationships with students. We try as far as possible to offer trainee positions to students, and we view students as a key resource when making appointments to vacant positions. Marketing to students is one of our strategies to find the most professional employees in the industry, whilst at the same time reinforcing our brand.

In the main, recruitment takes place in-house. By doing so we have the opportunity to retain full control of the process and ensure that we carry out value-governed, competence-based recruitment in combination with building up a candidate base made up of individuals who have shown an interest in Hufvudstaden.

#### **Sustainability risks**

Based on a risk assessment, we have noted that the biggest sustainability risks for the Company are to be found in project operations within property development and in the purchasing process within the operational organization. The risks that have been identified are mainly within the environment, work environment, terms and conditions of employment, and corruption. These risks are minimized as a result of the demand for compliance with procurement routines set out in the Code of Conduct, and we regularly carry out audits at our major suppliers. Hufvudstaden has not identified any significant risks linked to human rights in our operations, although there are risks further down the supply chain. With global warming, which is a result of society's greenhouse gas emissions, we can also see an increased risk of a change in precipitation patterns and flooding in the inner-city areas. Using this as a starting point, we have embarked on a series of risk analyses of our property portfolio.



**NORDISKA KOMPANIET**

Östra Hamngatan, Gothenburg

## PROPERTY DEVELOPMENT

Growth in the market in Stockholm and Gothenburg continues to be strong, and there is a demand for office premises that offer a high degree of efficiency and flexibility, as well as retail premises in attractive locations. Hufvudstaden is working actively to develop its properties and create new development rights with the aim of increasing the rentable floor space. We are also developing the environments outside our properties, in many instances together with other property owners and the city authorities, to raise the general attractiveness of the areas in which we operate. The goal is to create good growth in value for the Company over time.

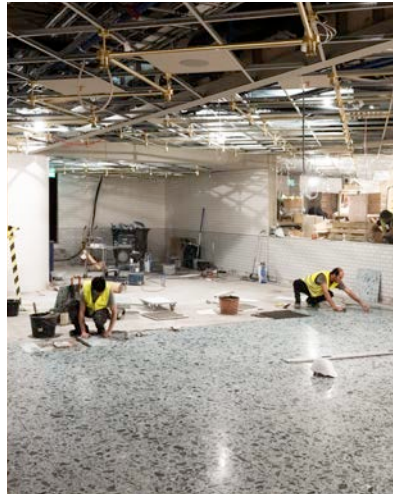
### Business development

The purpose of the business development unit is to initiate and run commercial projects. The unit has identified around 20 projects, varying in size, within office, retail and digital development. A number of the projects are at the enquiry or implementation stage, some of which were completed during the year, including a digital gift voucher for NK, which was launched in time for the Christmas season.

There is a growing demand among office customers for a higher level of service and greater flexibility. This has led to a continued rise in the number of co-working facilities during the year. In response, Hufvudstaden has developed the Redo concept, where tenants are offered turnkey office premises with flexible leases. The need for flexibility has also increased in the retail sector, where there is growing interest in testing the marketplace for a limited period. With this in mind, Hufvudstaden is working to a greater degree with 'pop-up stores', allowing retail tenants to take on attractive premises on a short lease.

The rapid emergence of digitalization in society in recent years is continuing, leading to a greater degree of change in customer needs, behaviour and expectations. Hufvudstaden is working at full pace to boost the Company's ability to continuously adapt its working approach, operations and business processes. In an effort to remain up to date with new trends and new customer requirements, we are working continuously with external monitoring. Insights from this

work are passed on to a change management group, where new thoughts and ideas are evaluated. We then run prioritized change projects in order to create added value for our tenants.



*A new floor being laid at NK Saluhall.*

### Property development

The Property Development department is responsible for refurbishment and development projects in our properties. Operations can be divided principally into maintenance projects and adaptation of premises, as well as major development projects involving existing or new development rights. Adaptation of a number of premises took place during the year in order to offer a product adapted to customer requirements and wishes.

Development projects are run in close collaboration with the business development and property management organization. Sustainability is a priority in all aspects of development, with a considerable emphasis on improved environmental performance, a higher technical standard, and effective and flexible planning solutions. Environmental impact will decrease over time, inbuilt materials will be examined, waste will be sorted at source, and technical solutions will be selected to ensure low energy use. There will also be a focus on creating a product that is easy to maintain from a long-term management point of view. Overall, this gives a feeling of a high standard of quality that leads to the

properties being perceived as attractive both now and well into the future. Hufvudstaden's project managers procure and control the running of development projects together with partners. The project leaders are involved in all phases of the project, and deal on a daily basis with issues relating to the work environment, project management, and coordination with the tenant. This is crucial to meet Hufvudstaden's strict demands with regard to quality, flexibility and long-term thinking.

During the past five years, Hufvudstaden has on average invested more than SEK 500 million per year in its projects. In 2018, investment in existing properties amounted to just over SEK 750 million (580). Large-scale development projects account for 50 per cent, adaptation of premises for 35 per cent, and maintenance projects for 15 per cent.

### Current major projects

#### *NK department stores*

At the NK department store in Stockholm, the development project has continued with the aim of further reinforcing the marketplace and creating a clearer link with the neighbouring Parkaden property. A new entrance to the NK department store has been opened up from Regeringsgatan. The floor space is being expanded and more exclusive brands will be offered to NK customers, backed by an even higher level of service. Work on the new NK market hall continued during the year and will be completed at the beginning of 2019. The whole NK project, which is expected to continue until 2020, will enhance the overall customer experience and reinforce trade.

At the NK department store in Gothenburg, an extensive development project, involving structural work and reinforcement of the foundations, has been completed. The commercial floor space on the lower ground floor has been upgraded considerably, and during the autumn NK Glas, Porslin & Kök opened in new, improved premises. A completely new restaurant, Swedish Taste, has opened in the old cellar, which with its vaulted ceilings dates back to the 18th century.

The floor layout has been changed with increased accessibility and im-

proved customer areas on both the ground floor and lower ground floor. The entrance from Fredsgatan also underwent major changes during the year.

#### *Inom Vallgraven 12 block*

Local planning work for the Inom Vallgraven 12 block continued during the year in what has proved to be a successful collaborative venture with the City of Gothenburg. The referral and consultation process has now been completed, and according to the City of Gothenburg timetable the plans are expected to be passed during 2019.

#### *Bibliotekstan*

In the Skären 9 property an extensive redevelopment and expansion project has commenced. The project will create around 2,600 square metres of floor space and there will be extensive renovation of existing parts of the property. There is a considerable focus on sustainability work within the project, and the property's energy performance will be improved significantly.

At the end of 2017, the Vildmannen 7 property was hit by a major fire and large parts of the building were totally destroyed. The local plan from the 1930s does not concur with the building that was actually constructed. In close consultation with the City of Stockholm, work continued throughout 2018 to produce a new local plan. The aim is to erect an attractive building on the site as soon as possible.

#### **Adaptation of premises**

Adaptation of premises takes place within Hufvudstaden's holdings on behalf of new or existing tenants. When premises become vacant, an evaluation



*An expansion and redevelopment project has commenced on the Skären 9 block, resulting in a further 2,600 square metres of floor space.*

is made of the technical standard in order to assess the need for possible renovation. Following the initial renovation of the premises, adaptation takes place in accordance with the requirements of the new tenant. Tenants often demand open areas where more efficient use is made of floor space, thus increasing the need for ventilation and cooling in the premises. Older installations often need to be replaced with the latest technology to ensure an optimal indoor climate. Hufvudstaden owns many properties that are located adjacent to each other, facilitating integration of premises with

adjoining floor space to ensure maximum flexibility. During all redevelopment work, there is considerable emphasis on preserving the character and architectural value of the building.

Renovation and adaptation of around 31,000 square metres of floor space took place during 2018. The adaptations were made on behalf of new and existing tenants in conjunction with new and renegotiated leases or expansion of the leased floor space. Tenants for whom we have adapted premises include White & Case, Lidl, and the Alektum Group.

#### **Major current and planned projects**

City	Property	Status	Type of premises	Project floor space (sq m)	Of which added floor space (sq m)	Estimated investment <sup>1)</sup> (SEK m)	Estimated completion
Stockholm	NK Stockholm, Hästskon 10	Current	Retail, restaurant and parking	50% of the department store floor space and a 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	Local planning	Office and retail	-	-	-	-
Gothenburg	NK Gothenburg	Current	Retail and restaurant	2,100 and foundation reinforcement	-	150	2018/2019
Gothenburg	Inom Vallgraven 12 block	Local planning	Office, retail and restaurant	-	-	-	-

1) Includes estimated costs for rental losses and financing that are continuously charged to profit and loss as well as costs for evacuation.



# PARKADEN

Regeringsgatan, Stockholm





# PARKADEN

Regeringsgatan, Stockholm

## STOCKHOLM BUSINESS AREA

**Property holdings**

The Stockholm Business Area, which has 22 properties, is divided between three management areas: Norrmalmstorg, Kungsgatan and West. The Norrmalmstorg Management Area covers the properties in Bibliotekstan. The Kungsgatan Management Area covers the properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The West Business Area covers the properties located on Drottninggatan, Klarabergsgatan, in Gamla Stan, and at Kungsträdgården. The properties are entirely commercial and include both office and retail premises.

**Development of holdings**

The task of developing Bibliotekstan into the foremost fashion area in Scandinavia for Swedish and international fashion within the premium and luxury segments continued during 2018. Swedish and international brands continue to show considerable interest in establishing operations in the area, despite the fact that the retail trade is in a state of transition. High demand and stable revenue levels have contributed to in-

creasing rents within Hufvudstaden's retail holdings. The luxury brand Cartier and the Canadian yoga brand lululemon chose Bibliotekstan for their first store openings in the Nordic region.

Largest tenants	
Office	Sq m
Danske Bank	10,800
Advokatfirman Vinge	7,900
Swedish Financial Supervisory Authority	7,200
KG10	4,500
Knowit	3,700
Retail and Restaurants	
	Sq m
Zara	2,900
Eataly	2,700
Alewalds	1,300
McDonald's	1,200
Adidas	1,200

Other strong brand establishments during the year were made by the French fashion house Sandro, the exclusive shoe brand Jimmy Choo, and the Swedish fashion brands Nividas and AVAVAV. During the year, the restaurant and food market Eataly opened its doors with a wide selection of Italian

delicacies and a range of customer concepts in an historic and inviting environment. Eataly has grown into a vibrant meeting place for visitors to Bibliotekstan. Participation in the fashion week in August and the Christmas activities are just two examples of events that took place during the year. The restaurant chain Pinchos opened a new restaurant on Norrlandsgatan.

The office rental market during the year was strong and a large number of new and renegotiated leases were signed. The level of vacant space as at the year-end was low at 1.3 per cent. Major office tenants who moved in during the year are Aberdeen, Influence, tretton37, Vostok and Zmarta. A number of existing tenants have expanded their floor space, including companies such as Genova, Stella Advisors and Öhman.

In 2017, a major fire broke out in the Vildmannen 7 property and much of the building was destroyed. Fortunately, no one was seriously injured, although many tenants in and outside the property were affected. The aftermath of the fire was handled during the year, and work has continued to create a safe and

Property holdings		
	2018	2017
Number of properties	22	22
Rentable floor space, sq m <sup>1)</sup>	203,860	203,721
– of which offices	129,543	129,939
– of which retail and restaurants	42,715	42,248
Annual rent, SEK m <sup>1)</sup>	1,058	978
Rental vacancy level, % <sup>1)</sup>	1.3	3.1
Floor space vacancy level, % <sup>1)</sup>	3.1	4.3

1) Vildmannen 7 is not included due to a fire in which much of the building was destroyed.

Profit, property management <sup>1)</sup>		
SEK m	2018	2017
Net revenue	1,003.5	951.9
Maintenance	-15.9	-21.3
Operation and administration	-107.5	-106.1
Other costs	-108.3	-109.7
Total costs	-231.7	-237.1
Gross profit	771.8	714.8

1) Comparable holdings.

New leases and renegotiations		
	2018	2017
New leases, sq m	8,600	12,100
New leases, annual rent SEK m	60	72
Renegotiations, sq m	30,500	27,800
Renegotiations, annual rent SEK m	177	149

secure street environment for visitors in Bibliotekstan. The current local plan does not concur with the building that was constructed. A new local planning process for the property has commenced.

**Rental market**

The rent trend for offices in the Business Area during the year was positive. Considerable interest has been shown in all the premises in the Business Area. Market rents for office space in the CBD at the end of the year were SEK 6,000–8,700 per square metre per year, excluding the property tax supplement.

Rents for retail premises remained stable or rose slightly. Rents for prime locations ranged from SEK 14,000–25,000 per square metre per year, excluding the property tax supplement.

**Customers**

The office tenant structure within the Business Area mainly comprises companies that value centrally located, high-quality premises. The predominant sectors are banks, finance institutions, and law firms, as well as recruitment, IT, management and media companies.

Office customers that have been tenants for a long time include Brummer & Partners, Danske Bank, Erik Penser Bank, the Swedish Export Credit Agency, JKL, and the law firms Alrutz, Vinge and White & Case. There are 366 customers in the Business Area. The ten largest customers lease 50,000 square metres (50,000), representing annual rental revenue of SEK 276 million (263).

Store tenants include both domestic and international companies that have strict demands with regard to store design and marketplace. The tenants often represent very well-known brands that only establish operations in a small number of selected locations. The tenants in Bibliotekstan are mostly younger Scandinavian brands, such as Byredo, Hope, Our Legacy and Rodebjer, alongside major international brands and retail chains such as By Marlene Birger, Chanel, Céline, Filippa K, Gant, Michael Kors, Prada, Ralph Lauren, Sandro and Zara. The larger store tenants along Kungsgatan are mostly chain stores such as Adidas, Alewalds, Cervera, Haglöfs, Naturkompaniet, Nespresso, Stadium, Ströms, Telenor and Telia.

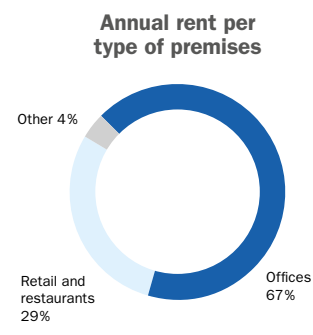
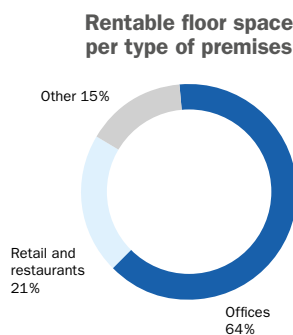
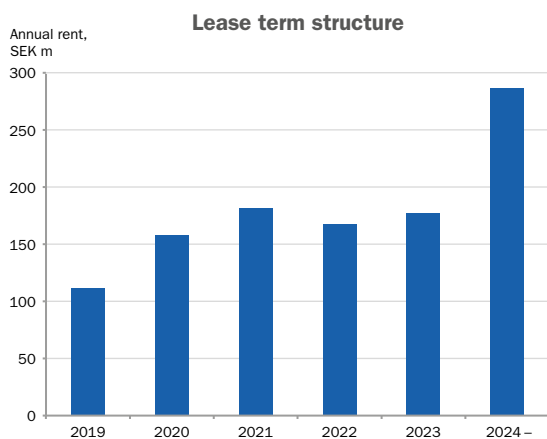
The Business Area has a number of Stockholm's more high-end restaurants and cafeterias, including Bianchi Café, Eataly, Prinsen, Vau De Ville, and Wienercaféet. These units have a key role to play in maintaining the attractiveness of the area.

**Brands within the Business Area**

*Bibliotekstan.* The area between Norrmalmstorg, Birger Jarlsgatan, Stureplan and Norrlandsgatan, which contains stores specializing in high-class brands, as well as restaurants and cafeterias.

*Birger Jarlspassagen.* The passage, located between Birger Jarlsgatan and Smålandsgatan, is of considerable cultural, historical and architectural value.

*Norrmalmstorg 1.* The building is a unique icon property and a commercial hub in central Stockholm.





# BIBLIOTEKSTAN

Smålandsgatan, Stockholm



# KLARABERGSGATAN

Stockholm

## NK BUSINESS AREA

### Property holdings

The NK Business Area covers the NK properties in Stockholm and Gothenburg as well as the Hästskon 10 property in Stockholm. Apart from the NK department stores, the NK Business Area also includes modern, space-efficient office premises, as well as parking operations within Parkaden AB.

### Development of holdings

An extensive development project has been in progress at the NK department store in Stockholm, including a merger with the Hästskon 10 property, also known as NK Parkaden. A new entrance has been opened up from Regeringsgatan, and the floor space at the store has been expanded.

A number of new enterprises were launched during the year, including Art Bakery, NK Beauty, NK Skomakare, and NK Skrädderi.

Many more launches are planned during 2019, including a number of new luxury brands, as well as the new market hall, NK Saluhall, which will open under new management. The project is proceeding according to plan, and also includes a number of updates of existing departments as well as re-distribution of certain floor space. In summary, the project will comprise development of half of the floor space in the department store, which during the project will

affect the earning capacity for the entire business area. The aim, however, is that the project, following completion in 2020, will successfully address the changes that are taking place in the retail sector.

Largest tenants	
Office	Sq m
Starbreeze	3,400
AG Advokat	2,500
Forsman & Bodenfors	1,600
Bain & Co Nordic	1,400
STS Student Travel Schools	1,100
Retail and Restaurants	Sq m
Departments & Stores	12,000
Harjak & Månsson	1,600
Cervera	1,600
Sea Life	1,400
Rizzo	1,300

The office terrace at the NK property has also been developed to increase the well-being among the office tenants even further.

During the year, the Hästskon 10 property was also the subject of a major maintenance programme, including sand-blasting of the facade and upgrading of the roadways and public areas.

A development project involving reinforcement of the foundations and structural work has been completed at the NK department store in Gothenburg. As part of the process, we have added

new floor space, and the vaulted areas on the lower ground floor, which date from the 18th century, have been renovated. Two new departments were opened: a restaurant, Swedish Taste, as well as NK Glas, Porslin & Kök. The new floor plan has increased accessibility and improved customer areas on the ground floor and lower ground floor.

During 2018, NK Gothenburg has been enhanced with a rebuilt entrance on Fredsgatan where both the general setting and the customer areas have been redesigned.

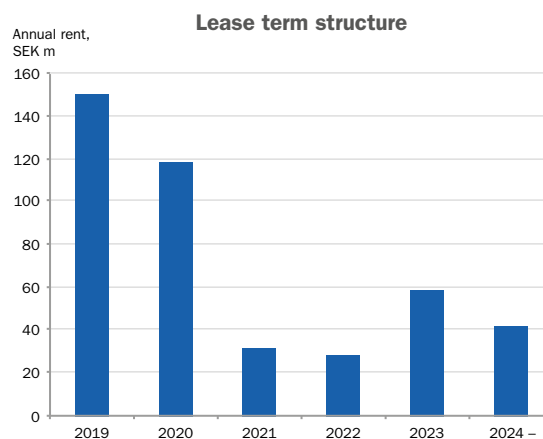
### Rental market

The positive rent trend for retail premises continued during the year, and there was considerable interest in establishing operations at NK. In conjunction with new and renegotiated leases at NK Stockholm, market rents were SEK 14,000 – 25,000 per square metre per year, excluding the turnover-based rent supplement and the property tax supplement. The corresponding figures for NK Gothenburg were SEK 6,000 – 15,000 per square metre.

Market rents for office premises in the Stockholm CBD showed good growth, and at the end of the year stood at SEK 6,000 – 8,700 per square metre per year, excluding the property tax supplement. The corresponding figures in Gothenburg were SEK 2,600 – 3,700 per square metre.

Property holdings		
	2018	2017
Number of properties	3	3
Rentable floor space, sq m	91,898	92,319
– of which offices	16,751	16,765
– of which retail and restaurants	37,526	37,526
Annual rent, SEK m	461	484
Rental vacancy level, %	4.3	3.0
Floor space vacancy level, %	5.2	4.2

New leases and renegotiations		
	2018	2017
New leases, sq m	11,600	1,500
New leases, annual rent SEK m	98	10
Renegotiations, sq m	10,200	18,400
Renegotiations, annual rent SEK m	69	131



### Customers

The ten largest customers lease 31,000 square metres (30,000), representing annual rent revenue of SEK 247 million (257). Of the Business Area's 107 customers, the majority operate within the NK department stores. These comprise both domestic and international companies with strict demands in terms of store design and marketplace.

### AB Nordiska Kompaniet

The NK properties in Stockholm and Gothenburg, as well as the NK brand, are owned by the wholly-owned subsidiary AB Nordiska Kompaniet, which is part of the NK Business Area.

Investment in business development increased during the year with the addition of further resources to promote project, retailing and digital expertise. The aim is to reinforce the brand and the department stores in order to meet changing consumer patterns and to increase and clarify the Company's digital presence.

The NK Gala was held for the third year in succession, and it has evolved into one of the most important events in the Swedish fashion calendar, reinforcing NK's position in the fashion world.

The year ended with a unique initiative for NK's traditional Christmas display with the addition of a completely new dimension in Augmented Reality. With the NK Christmas app, visitors could experience added life in the displays.

### The NK brand

NK is one of Sweden's strongest and most well-known brands among both Swedish and international consumers. The vital task of preserving and implementing the long-term build-up of the brand forms the basis of NK's ability to support retail operations in the department stores, generating increased rental revenue and raising the value of the properties. This success is founded on close cooperation between the property owner and the proprietors through the Proprietors' Association. Cooperation is

developed even further by having a suitable mix of proprietors, a lively and attractive marketplace, and continuous marketing directed at the right target groups.

### Parking operations

The wholly owned subsidiary Parkaden AB runs parking operations in two Hufvudstaden properties in Stockholm: NK Parkering on the Hästskon 10 property, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget in the Orgelpipan 7 property near the Central Station, which has 435 parking spaces.

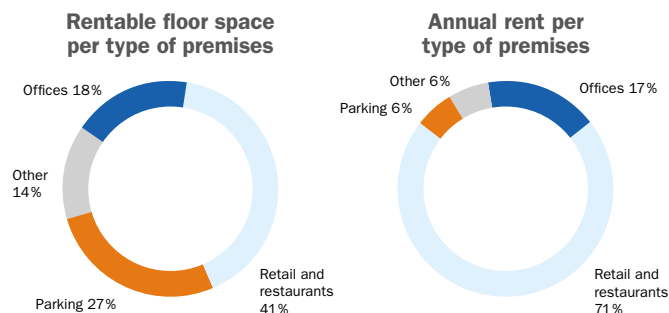
At both NK Parkering and Continentalgaraget, the number of electric cars continues to increase, resulting in a greater need for charging points when the vehicles are parked. To meet this demand, the number of charging points at NK Parkering has been increased even further and now totals 48. At Continentalgaraget 20 charging points have been installed.

Profit, property management <sup>1)</sup>		
SEK m	2018	2017
Net revenue	465.6	487.5
Maintenance	-5.4	-3.7
Operation and administration	-116.5	-106.5
Other costs	-49.0	-49.8
Total costs	-170.9	-160.0
Gross profit	294.7	327.5

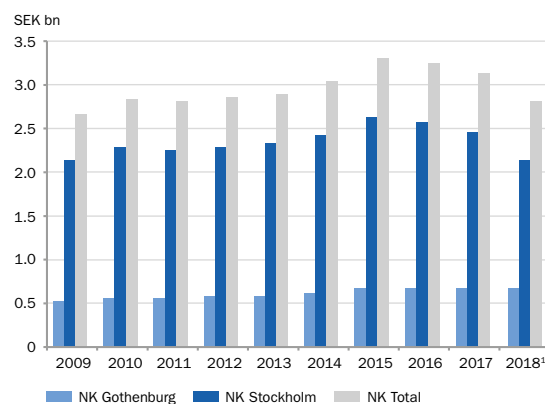
1) Comparable holdings

NK Department stores		
	2018	2017
<i>NK Stockholm<sup>1)</sup></i>		
Rentable retail space, sq m	25,180	24,214
Rentable storage space, sq m	5,886	3,552
Number of departments	104	101
Number of restaurants	9	9
Sales, including VAT, SEK m	2,136	2,465
<i>NK Gothenburg</i>		
Rentable retail space, sq m	10,542	10,160
Rentable storage space, sq m	1,093	1,313
Number of departments	48	49
Number of restaurants	3	2
Sales, including VAT, SEK m	667	656

1) New NK departments in NK Parkaden are included from autumn 2018.



### Sales, NK Department stores





**NORDISKA KOMPANIET**

Östra Hamngatan, Gothenburg





**NORDISKA KOMPANIET**

Hamngatan, Stockholm

## GOTHENBURG BUSINESS AREA

### Property holdings

Property holdings within the Gothenburg Business Area are located in the Gothenburg CBD and are divided into two areas, Fredstan and Nordstan. The holdings in Fredstan comprise the Inom Vallgraven 12 block and the development property Inom Vallgraven 3:2. The property in Nordstan comprises two units: Fyran, opposite Östra Hamngatan, and Femman, opposite the Central Station.

Hufvudstaden is one of the larger individual partners in the Nordstan Cooperative Association, which owns and manages the Nordstan multi-storey car park as well as the adjoining stores, squares and pedestrianized streets. Nordstan is one of the largest and busiest shopping centres in Sweden, with attractive stores, parking facilities and modern offices in the best commercial location. Around 13 million people visited the Femman Precinct in 2018. Retail revenue in Nordstan was just over SEK 4 billion, of which Femman accounted for more than SEK 860 million, and Fyran for almost SEK 370 million.

### Development of the holdings

Hufvudstaden, together with the City of Gothenburg and other property owners, has established the name Fredstan for the business district around the Fredsgatan shopping area. The ambition is for the

Largest tenants	
<i>Office</i>	
	Sq m
Swedish Customs	7,900
Alektum Group	5,100
Swedish Social Insurance Agency	4,600
Advokatfirman Vinge	3,600
Grant Thornton	2,800
<i>Retail</i>	
	Sq m
H&M	2,300
Lager 157	1,800
KappAhl	1,800
Lidl	1,600
Nilson Group	1,500

area to offer a unique range of stores and restaurants, combined with modern offices, cultural establishments and attractive meeting places. During the year, brand promotion work continued, and

the name Fredstan is now becoming established in Gothenburg. In December 2018, Hugo Boss opened a large store, spread over two floors, adjacent to Chanel. The store opened on Fredsgatan in 2017. On Södra Hamngatan, Fredstan has acquired a cultural element in the form of the Nordic Exhibitions. The popular exhibitions include among other the display of Louis Vuitton bags.

The planning process behind the development of the Inom Vallgraven 12 block in Fredstan has continued, and during the summer a new local plan for the block was presented for referral. According to the City of Gothenburg timetable, the proposed local plan is expected to be passed in 2019. It currently makes provision for expanded development rights within the block totalling 10,000 – 15,000 square metres.

The Femman Precinct comprises approximately 16,000 square metres of retail space on three floors. Several new stores opened in Femman during the year, including the fashion concept Aim Apparel and ONLY. Lidl opened a food

Property holdings		
	2018	2017
Number of properties	4	4
Rentable floor space, sq m	88,733	88,620
– of which offices	50,669	50,683
– of which retail and restaurants	31,143	31,008
Annual rent, SEK m	327	320
Rental vacancy level, %	4.4	7.7
Floor space vacancy level, %	5.8	9.5

New leases and renegotiations		
	2018	2017
New leases, sq m	10,900	6,700
New leases, annual rent SEK m	33	21
Renegotiations, sq m	16,500	14,300
Renegotiations, annual rent SEK m	49	42

Profit, property management <sup>1)</sup>		
SEK m	2018	2017
Net revenue	328.0	311.2
Maintenance	-3.2	-4.8
Operation and administration	-59.1	-56.8
Other costs	-30.4	-30.4
Total costs	-92.7	-92.0
Gross profit	235.3	219.2

1) Comparable holdings

store on the lower ground floor during the autumn according to a new concept, and the range of restaurants on the upper floor was reinforced with the establishment of the Zócalo restaurant.

In Nordstan, the Cooperative Association, working in collaboration with the property owners, has continued to plan for how the shopping centre and the parking facility can be developed to incorporate the planned West Link entrance at the Central Station. The work also includes a long-term plan to renew the existing marketplace.

During 2018, adaptation of premises has taken place for a number of office tenants in conjunction with the signing of new and renegotiated leases. The premises have been adapted in line with the customers' needs and wishes. Tenants who have moved into new or redeveloped premises include Alektum, the Second Swedish National Pension Fund, Bravura and Invativa.

The level of vacant space in the Business Area fell during the year and the figure, excluding current projects, stood at 2.3 per cent at the year-end.

**Rental market**

The rental market for office premises developed positively during the year with a low level of vacant space and a rise in rent levels. Market rents for office space in prime locations were SEK 2,600–3,700 per square metre per year, excluding the property tax supplement. The rent trend for retail premises was stable. Prime location premises attracted rents of SEK 6,000–15,000 per square metre per year, excluding the property tax supplement.

**Customers**

Gothenburg is a market with customers who work locally, outside the region, and internationally. The Business Area's office customers are principally companies that appreciate centrally located, high-quality premises. The predominant sectors are law firms, accountancy firms and finance companies, as well as public authorities and organizations. The retail customers value attractive, centrally located market and commercial locations, and during the year several new Swedish and international companies showed

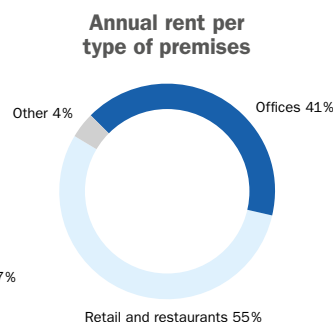
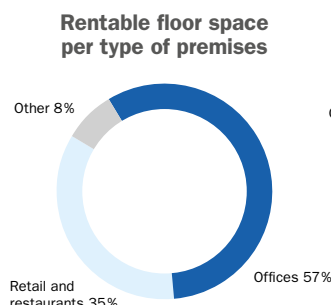
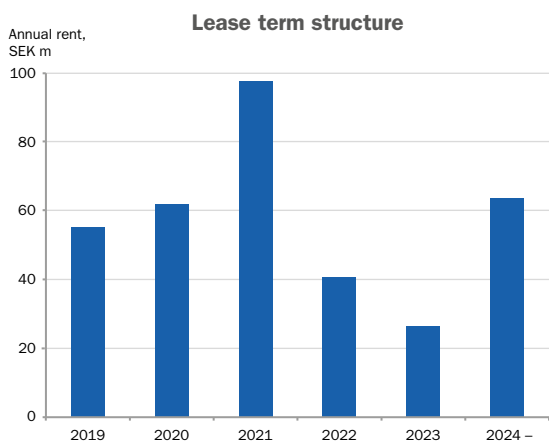
an interest in Gothenburg. There are 151 customers in the Business Area. The ten largest customers lease 34,000 square metres (32,000), representing annual rental revenue of SEK 116 million (110).

**Brands within the Business Area**

*Femman.* Femman is one of the strongest brands in the retail sector in western Sweden and offers a wide range of products in the clothing and durable goods sectors.

*Fredstan.* Fredstan comprises the block around Fredsgatan, between Brunns-parken and Trädgårdsföreningen. Hufvudstaden, Vasakronan and the City of Gothenburg have drafted a planning programme aimed at developing the area.

*Nordstan.* Nordstan is one of Sweden's largest indoor shopping centres in terms of visitor numbers. Hufvudstaden is one of the two largest individual partners in the Nordstan Cooperative Association with a share of approximately 40 per cent.





Flordsta

# FREDSTAN

Fredsgatan, Gothenburg



SÖDRA HAMNGATAN  
Gothenburg

10

## 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 21, 2019.

The Corporate Governance Report is part of the Administration Report and is presented on pages 88–91. Remuneration guidelines for senior executives are also presented there.

### 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

During 2018, the global economy remained relatively positive albeit with a slight downturn, mainly in Europe and China. A similar trend was noted in Sweden, where uncertainty on the housing market had an impact on economic growth, which stood at around 2 per cent in 2018. On the labour market, however, employment was on the rise, and inflation according to CPIF was around 2 per cent, which led to the Swedish Central Bank raising the record-low key rate to -0.25 per cent.

There was a high level of economic activity in both Stockholm and Gothenburg, largely due to infrastructural investments, a dynamic business and commercial sector, growth in population, and a rise in tourism. Demand for office space was positive during the year and the vacancy level space in the Stockholm

CBD at the end of the year was 2–3 per cent. This resulted in a rise in market rents of around 5 per cent, which towards the end of the year stood at SEK 6,000–8,700 per square metre per year, excluding the property tax supplement. In the Gothenburg CBD, the vacancy level for office space was low at 2–3 per cent, and market rents rose by almost 10 per cent to SEK 2,600–3,700 per square metre per year, excluding the property tax supplement.

Both property owners and retailers need to adapt to the transition that is taking place in the retail sector. Work on further reinforcing Bibliotekstan continued during the year, and several companies opened new stores. The focus on business development and projects intensified, and extensive investments continued in the NK department stores. At NK Stockholm, the neighbouring property, Parkaden, is being linked to the NK department store and in the process it has acquired another large entrance. Floor space at the department store has been increased by around 20 per cent, which will facilitate the establishment of more exclusive brands. At NK Gothenburg, a foundation project was completed, and at the same time a store project resulted in improved customer areas and a new restaurant.

On the Skären 9 property in Bibliotekstan, an expansion and development project commenced, covering 10,700 square metres of office space, of which around 2,600 square metres will be completely new. Approximately 75 per cent of the floor space has been rented out to Advokatfirman Vinge. On the Vildmannen 7 property in Stockholm, which was ravaged by fire in 2017 resulting in a large part of the building being totally destroyed, a new local planning process has commenced. Some 31,000 square metres of premises were adapted during the year.

Operating profitability has increased and Hufvudstaden's financial position continues to be good. The net loan-to-value ratio was 14 per cent, the equity ratio was 64 per cent, and the interest coverage multiple was 10.5. The Company's property holdings increased in

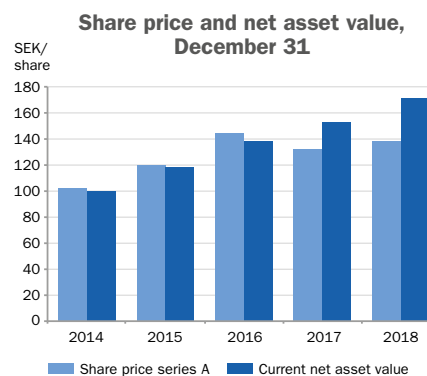
value to SEK 44.1 billion, due mainly to higher rents and slightly lower yield requirements.

### Property holdings

At the end of the year, Hufvudstaden owned 29 properties (29). Rentable floor space was 279,000 square metres in Stockholm and 105,500 square metres in Gothenburg, making a total of 384,500 square metres (384,700).

The total rental vacancy level in the Group as at December 31, 2018 was 2.6 per cent (3.9) and the floor space vacancy level was 4.3 per cent (5.5). Excluding current development projects, the rental vacancy level was 1.3 per cent (2.4). In Stockholm, the rental vacancy level was 2.0 per cent and in Gothenburg 4.4 per cent. Excluding current projects, the figures were 1.0 per cent and 2.1 per cent.

During the year, 57,200 square metres (60,500) were renegotiated at a total value of SEK 295 million per year, and new leases were signed for 31,100 square metres (20,300).



### 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, 2018. 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 36 per cent of the fair value, and the corresponding proportion at the mid-year point was 38 per cent.

**Net asset value, December 31, 2018**

	SEK million	SEK/share
Equity according to the Balance Sheet	28,999.5	141
<i>Reversal</i>		
Derivatives according to the Balance Sheet	3.7	0
Deferred tax, investment properties	8,212.7	40
Non-current net asset value (EPRA NAV)	37,215.9	181
<i>Deduction</i>		
Derivatives according to the above	-3.7	0
Assessed actual liability, deferred tax, 5%	-1,993.4	-10
Current net asset value (EPRA NNNAV)	35,218.8	171

The fair value of the property holdings as at December 31, 2018 was set at SEK 44.1 billion (39.7). The unrealized change in value was SEK 3,620.8 million (2,848.2).

**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 18.

**Net asset value**

Based on the valuation of the property holdings, the long-term net asset value (EPRA NAV) was SEK 37.2 billion or SEK 181 per share. The actual net asset value (EPRA NNNAV) was SEK 35.2 billion or SEK 171 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 1,650 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 hedging the interest level with interest

derivatives for SEK 450 million of the total borrowing of SEK 7,350 million. SEK 4,700 million carry 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 6,000 million, and a commercial paper programme for short-term borrowing totaling SEK 3,000 million.

**Opportunities and risks**

Our value-governed corporate culture means that we identify operating opportunities and risks and we continually assess the Company's financial risks. Hufvudstaden's potential to influence profits in current operations in the short term is limited. Revenue is governed by relatively long leases – normally three to five years – and operating costs are difficult to change in the short term without sacrificing service and quality. Hufvudstaden's profitability and operations are affected mainly by macro-economic factors, such as the business climate, interest rates, regional development in Stockholm and Gothenburg, and political decisions. Long-term planning and clear strategies are vital if a property company is to handle opportunities and risks successfully. The Company has identified material risks and uncertainty factors as described below.

**Changes in value of the property holdings**

Changes in the fair value of the properties due to fluctuations in the economy and other factors represent both a risk and an opportunity. However, the risk is limited by the concentration of the properties in the most attractive commercial locations.

**Rent trend**

The rent trend involves both risks and opportunities. The rent levels for vacant office premises are affected quickly in the event of a strengthening or weakening of the economy. Rents for central retail locations are more stable, although they are affected by the current transition taking place within the retail sector. However, the risk is limited by Hufvudstaden's concentration on properties in the most interesting commercial locations. The rent level for leased premises with lease terms of three years or more are linked to the consumer price index, and many agreements also have a minimum indexation level. Rent changes take place when the leases are renegotiated.

**Property tax**

Property tax increases constitute a risk although this risk is limited as a significant proportion of the property tax is passed on to Hufvudstaden's tenants.

**Rent losses on vacant space**

In the event of a slowdown in the economy, the risk of an increase in vacant space is greater. There should always be some vacant office space in order to offer the customers potential for expansion, to permit redevelopment to take place, and to test the market's willingness to accept higher rent levels.

**Lease term**

A long average lease term is an advantage when market rents are falling and a disadvantage when they are rising. Excessively frequent relocation and vacation of premises give rise to adaptation costs. These costs cannot always be compensated for by increased rents. Normally, Hufvudstaden seeks to sign leases with long lease terms.

**Turnover-based rent**

Turnover-based rent is mainly applied at the NK department stores but also in other retail premises located in other properties. Hufvudstaden is striving to have a high guaranteed minimum rent, which limits the risk of a fall in rents, supplemented by revenue potential from the turnover-based rent supplement.

**Operation and maintenance**

Hufvudstaden is working actively to optimize the properties' energy use and

**Sensitivity analysis, property valuation <sup>1)</sup>**

	Change +/-	Impact on profit before tax, SEK million
Rental revenue	SEK 100/sq m	+/- 1,030
Property costs	SEK 50/sq m	-/+ 515
Rental vacancy level	1.0 percentage points	-/+ 570
Yield requirement	0.25 percentage points	-/+ 2,900

1) Valuation date 31-12-2018.

in doing so reduce operating costs. Electricity procurement takes place regularly through forward agreements to reduce sensitivity to fluctuations in energy prices.

Hufvudstaden's property holdings are well maintained. The Company is focused firmly on the way it works with follow-up and control of costs in each individual property, thus reducing the risk of unforeseen cost increases.

#### *Concentration on central Stockholm and central Gothenburg*

The concentration of a property portfolio in a geographical market area could involve a potential increase in risk because of reduced diversification. In Hufvudstaden's case, however, the risk is limited as the assessment is that in time Stockholm and Gothenburg will be the country's strongest market areas and the most interesting growth markets.

#### *Financial risks*

Apart from its own funds, the Company's operations are also financed through loans. Consequently, the Group is exposed to financing, interest rate and credit risks. A presentation of the Company's Finance Policy and the manner in which financial risks are handled, as well as credit risks attributable to accounts receivable and rent receivables, can be found in Note 2.

#### **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.

#### **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 8–10 and 28–36.

#### **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.

#### **The future**

The property and rental markets have enjoyed a number of good years, which has had a positive impact on Hufvudstaden. At the end of 2018, there were signs of an impending slowdown in the economy. However, it is assumed that interest rates will continue to be favourable, despite a second rise in the key rate being forecast for 2019. In the immediate future we can still foresee a good level of demand, mainly for offices, and both implemented and future renegotiations and new leases are expected to result in an increase in rents. The transition that is taking place in the retail sector is gathering momentum, and sales growth is stemming largely from online

retailing. The work that has commenced to adapt our business processes to changing customer consumer patterns will be intensified, with a particular focus on the NK department stores.

Hufvudstaden has a secure financial position and the property holdings are located in the more central parts of the two largest cities in Sweden. This creates a basis for good earning capacity for the Company at different phases in the business cycle. Quality and long-term thinking in property management will be maintained. Major development projects are continuing, and we are striving to make acquisitions that complement our existing holdings. Investment will take place within the framework of the Company's sound financial position and the established financial goals will continue to be achieved in the future.

#### **Dividend and allocation of unappropriated earnings**

The Board of Directors has proposed a dividend of SEK 3.70 per share, or a total of SEK 763.2 million. The Board of Directors proposed allocation of unappropriated earnings is presented in full in Note 25 and on page 84.

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 on request.

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 <sup>1)</sup>	1 percentage point	-/+	20
Operation and maintenance	10 per cent	-/+	14
Property tax <sup>2)</sup>	1 percentage point	-/+	18
Interest rate	1 percentage point	-17	+11

1) Vacant floor space is estimated at SEK 5,100 per square metre.

2) Taking into account the fact that the costs are largely passed on to the tenants within the framework of the lease agreements.





**BIBLIOTEKSTAN**  
Biblioteksgatan, Stockholm

## INCOME STATEMENTS – GROUP

SEK m	Note	2018	2017
<i>Net revenue</i>			
Property management	3–5	1,797.1	1,750.6
Parking operations		85.8	89.9
		<b>1,882.9</b>	<b>1,840.5</b>
<i>Property management costs</i>			
– Maintenance		-24.5	-29.8
– Operations and administration		-283.1	-269.4
– Ground rents		-21.8	-22.6
– Property tax		-165.9	-167.3
<b>Property management expenses</b>		<b>-495.3</b>	<b>-489.1</b>
Parking operations, costs		-51.1	-50.7
<b>Cost of operations</b>	6–11	<b>-546.4</b>	<b>-539.8</b>
<b>Gross profit</b>		<b>1,336.5</b>	<b>1,300.7</b>
– of which Property management		1,301.8	1,261.5
– of which Parking operations		34.7	39.2
Central administration	7–11	-43.5	-41.3
<b>Operating profit before changes in value and items affecting comparability</b>		<b>1,293.0</b>	<b>1,259.4</b>
Items affecting comparability	12	–	-138.6
Changes in value, investment properties		3,620.8	2,848.2
Changes in value, interest derivatives		26.6	61.6
<b>Operating profit</b>		<b>4,940.4</b>	<b>4,030.6</b>
<i>Financial income and expense</i>			
Financial income	13	2.9	0.1
Financial expense	14	-123.4	-135.8
		<b>-120.5</b>	<b>-135.7</b>
<b>Profit before tax</b>		<b>4,819.9</b>	<b>3,894.9</b>
Tax	16	-500.2	-859.9
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>4,319.7</b>	<b>3,035.0</b>
Other comprehensive income		–	–
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>4,319.7</b>	<b>3,035.0</b>
Profit for the year per share before and after dilution, SEK	25	20.94	14.71
Dividend per share, SEK (proposed)		3.70	3.50

## COMMENTS

### Property management

Net revenue from property management during the year totalled SEK 1,797.1 million (1,750.6), equivalent to an increase of 3 per cent, where office premises increased by 6 per cent and retail/restaurants remained unchanged. Net revenue was affected by a loss of income attributable to current projects, mainly at the NK department store in Stockholm. During the year, Hufvudstaden renegotiated leases equivalent to SEK 295 million in annual rental revenue. Renegotiations for both office and retail premises resulted in an average increase in rent levels of 26 per cent (12), of which offices rose by 43 per cent and retail by 4 per cent. Renegotiations include the offices on 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 2.6 per cent (3.9). The rental vacancy level excluding current development projects was 1.3 per cent (2.4). The turnover-based rent supplement was SEK 12.1 million (15.7), of which the NK properties accounted for SEK 9.3 million (12.9). Turnover at the NK department stores was SEK 2,804 million (3,121). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents. Maintenance costs amounted to SEK 24.5 million (29.8). Operating costs totalled SEK 193.8 million (183.0). Administration costs totalled SEK 89.3 million (86.4).

Property tax amounted to SEK 165.9 million (167.3). The cost of property tax has mainly been passed on to the tenants. The total cost for property management amounted to SEK 495.3 million (489.1).

The gross profit for the year was SEK 1,301.8 million (1,261.5).

### Parking operations

Parking operations comprise operations at Parkaden AB.

Net revenue was SEK 85.8 million (89.9). The decrease can be attributed mainly to lower short-term parking revenue as a result of construction projects in the NK Parkering multi-storey car park and its surroundings. Costs totalled SEK 51.1 million (50.7) and gross profit totalled SEK 34.7 million (39.2).

### Items affecting comparability

Items affecting comparability totalled SEK 0 million (-138.6). The amount the previous year refer to disposal, change in value, and estimated insurance compensation relating to the building on the Vildmannen 7 property, much of which was destroyed by fire. Final insurance settlement is still pending.

### Changes in value

Unrealized changes in the value of investment properties totalled SEK 3,620.8 million (2,848.2). The unrealized increase in value can be attributed mainly to the effect of higher market rents and a slightly lower yield requirement. The average yield requirement in conjunction with the above valuation was 3.8 per cent (3.8).

Changes in the value of interest derivatives totalled SEK 26.6 million (61.6). Hufvudstaden uses interest derivatives to reduce the impact on profit of changes in interest rates by achieving fixed interest periods that take into account the lease renewal structure. See also Interest risk section in Note 2.

### Financial items

Financial income was SEK 2.9 million (0.1). Financial expense was SEK -123.4 million (-135.8). Interest expense fell as a result of a lower rate of interest on borrowings.

### Tax

The Group's tax expense was SEK -500.2 million (-859.9), of which SEK -147.1 million (-160.2) was current tax and SEK -353.1 million (-699.7) was deferred tax.

In June, 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 the second quarter, 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 4,319.7 million (3,035.0). The increase can be attributed mainly to higher unrealized changes in the value of the property holdings and the tax effect following a decision to reduce Swedish corporation tax.

## BALANCE SHEETS – GROUP

SEK m	Note	31-12-2018	31-12-2017
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets	17	11.9	–
Investment properties	18	44,088.5	39,730.0
Tangible fixed assets	19	9.5	7.3
Non-current receivables	21	15.7	13.0
<b>Total fixed assets</b>		<b>44,125.6</b>	<b>39,750.3</b>
<b>Current assets</b>			
Accounts receivable	22	17.5	18.0
Other receivables		0.9	2.0
Prepaid expense and accrued income	23	160.5	129.7
Cash and bank holdings	24	1,070.7	394.9
<b>Total current assets</b>		<b>1,249.6</b>	<b>544.6</b>
<b>TOTAL ASSETS</b>		<b>45,375.2</b>	<b>40,294.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
	25		
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Profit brought forward, including profit for the year		27,315.0	23,717.2
<b>Total equity</b>		<b>28,999.5</b>	<b>25,401.7</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	26	5,700.0	3,700.0
Deferred tax liabilities	27	8,293.0	7,939.9
Other non-current liabilities		50.1	56.9
Other provisions	28	19.6	16.3
<b>Total non-current liabilities</b>		<b>14,062.7</b>	<b>11,713.1</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	26	1,650.0	2,500.0
Accounts payable		161.9	130.6
Income tax liability		9.7	24.8
Other liabilities	29	107.2	132.0
Accrued expenses and prepaid income	31	384.2	392.7
<b>Total current liabilities</b>		<b>2,313.0</b>	<b>3,180.1</b>
<b>Total liabilities</b>		<b>16,375.7</b>	<b>14,893.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>45,375.2</b>	<b>40,294.9</b>

## COMMENTS

### Investment properties

The carrying amount for properties in the Group was SEK 44,088.5 million (39,730.0). The increase in the properties' fair value can be attributed to unrealized changes in value totalling SEK 3,620.8 million (2,848.2) and investments in current development projects in the property holdings during the year totalling SEK 737.7 million (583.7). 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 18. The properties' fiscal residual value was SEK 3.3 billion (3.3).

### Cash and cash equivalents

Cash and cash equivalents amounted to SEK 1,070.7 million (394.9). 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.

### Interest-bearing liabilities

The Group's liabilities to credit institutions amounted to SEK 1,000 million (1,200). At the year-end, Hufvudstaden's commercial paper totalled SEK 1,650 million

(1,300) and bond loans totalled SEK 4,700 million (3,700). Borrowing totalled SEK 7,350 million (6,200). The average fixed interest period was 2.6 years (1.8), the capital tie-up period was 3.9 years (3.4), and the average annual equivalent interest cost at the year-end was 1.2 per cent (1.9). Net debt totalled SEK 6,279.3 million (5,805.1).

### Deferred tax liabilities

Deferred tax liabilities amounted to SEK 8,293.0 million (7,939.9). The change can be attributed mainly to deferred tax on unrealized changes in value, which was offset by a recalculation of deferred tax as a result of the cut in corporation tax.

## CHANGES IN EQUITY – GROUP

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
<b>Opening equity 01-01-2017</b>	<b>1,056.4</b>	<b>628.1</b>	<b>21,363.0</b>	<b>23,047.4</b>
Profit for the year			3,035.0	3,035.0
Other comprehensive income for the year			–	–
Comprehensive income for the year			3,035.0	3,035.0
Dividend			-680.7	-680.7
<b>Closing equity 31-12-2017</b>	<b>1,056.4</b>	<b>628.1</b>	<b>23,717.2</b>	<b>25,401.7</b>
<b>Opening equity 01-01-2018</b>	<b>1,056.4</b>	<b>628.1</b>	<b>23,717.2</b>	<b>25,401.7</b>
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
<b>Closing equity 31-12-2018</b>	<b>1,056.4</b>	<b>628.1</b>	<b>27,315.0</b>	<b>28,999.5</b>

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all issued shares. At the Annual Meeting on March 22, 2018, 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 of Directors the opportunity

to adjust the capital structure in order to create increased value for the Company's shareholders and/or to 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 2018. During 2018, a dividend of SEK 3.50

per share was paid to the Company's shareholders, totalling SEK 721,930,766.

The proposed dividend according to the allocation of unappropriated earnings is SEK 763.2 million. (See Definitions, page 108, Dividend).



**NORDSTAN**

Nordstadstorget, Gothenburg

## CASH FLOW STATEMENTS – GROUP

SEK m	Note	2018	2017
<b>Current operations</b>			
Profit after financial items		4,819.9	3,894.9
Depreciation and impairment of assets		8.6	3.7
Items affecting comparability		–	138.6
Unrealized change in value, investment properties		-3,620.8	-2,848.2
Unrealized change in value, interest derivatives		-26.6	-61.6
Other changes		3.4	1.3
Income tax paid		-162.2	-150.6
<b>Cash flow from current operations before changes in working capital</b>		<b>1,022.3</b>	<b>978.1</b>
Cash flow from changes in working capital			
Decrease (+) / Increase (-) in operating receivables		-37.4	-11.5
Increase (+) / Decrease (-) in operating liabilities		18.0	32.5
<b>Cash flow from current operations</b>		<b>1,002.9</b>	<b>999.1</b>
<b>Investments</b>			
Investment in intangible fixed assets		-11.9	–
Investment in properties		-737.7	-583.7
Investment in equipment		-5.6	-3.6
<b>Cash flow from investments</b>		<b>-755.2</b>	<b>-587.3</b>
<b>Financing</b>			
Loans raised	26	7,100.0	4,000.0
Amortization of loans	26	-5,950.0	-4,450.0
Dividend paid		-721.9	-680.7
<b>Cash flow from financing</b>		<b>428.1</b>	<b>-1,130.7</b>
<b>Cash flow for the year</b>		<b>675.8</b>	<b>-718.9</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>394.9</b>	<b>1,113.8</b>
<b>Cash and cash equivalents at the year-end</b>	24	<b>1,070.7</b>	<b>394.9</b>
<b>Supplementary disclosures, cash flow statements</b>			
Interest received		3.5	2.0
Interest paid		100.6	130.2



## COMMENTS

### Cash flow from current operations

Cash flow from current operations before changes in operating capital increased by SEK 44.2 million to SEK 1,022.3 million (978.1). Changes in working capital decreased cash flow by SEK -19.4 million (21.0). Cash flow from current operations thus totalled SEK 1,002.9 million (999.1).

### Cash flow from investments

Cash flow from investments amounted to SEK -755.2 million (-587.3) and refers to investment in existing property holdings, intangible fixed assets, and equipment.

### Cash flow from financing

Cash flow from financing amounted to SEK 428.1 million (-1,130.7). Net borrowing increased by SEK 1,150 million compared to a decrease of SEK 450 million the previous year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK 675.8 million (-718.9).

### Cash and cash equivalents

The Group's cash and cash equivalents totalled SEK 1,070.7 million (394.9) 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, 2018, Hufvudstaden had loan assurances of SEK 4,000 million. At the year-end, SEK 3,000 million was unutilized, of which SEK 1,650 million was reserved to cover outstanding commercial paper. The commercial paper programme totalled SEK 3,000 million, of which SEK 1,650 million was outstanding at the year-end. The unutilized amount is SEK 1,350 million. The Company's MTN programme has a limit of SEK 6,000 million, of which SEK 4,700 million has been issued. The unutilized amount is SEK 1,300 million.

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

## HUFVUDSTADEN AB – PARENT COMPANY

<b>Income Statements</b>			
SEK m	Note	2018	2017
Net revenue	5	1,210.8	1,145.9
Operating costs	6–11	-656.5	-644.8
<b>Gross profit</b>		<b>554.3</b>	<b>501.1</b>
Central administration	7–11	-43.5	-41.3
Items affecting comparability	12	–	0
Changes in value, derivatives		26.6	61.6
<b>Operating profit</b>		<b>537.4</b>	<b>521.4</b>
<b>Profit from financial items</b>			
Group contributions received		158.2	263.0
Financial income	13	2.9	0.1
Financial expense	14	-123.3	-135.8
		<b>37.8</b>	<b>127.3</b>
<b>Profit after financial items</b>		<b>575.2</b>	<b>648.7</b>
Appropriations	15	136.4	144.3
<b>Profit before tax</b>		<b>711.6</b>	<b>793.0</b>
Tax	16	-96.5	-177.7
<b>PROFIT FOR THE YEAR</b>		<b>615.1</b>	<b>615.3</b>

<b>Statement of Comprehensive Income</b>			
SEK m	Note	2018	2017
Profit for the year		615.1	615.3
Other comprehensive income		–	–
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>615.1</b>	<b>615.3</b>

<b>Balance Sheets</b>			
SEK m	Note	31-12-2018	31-12-2017
<b>ASSETS</b>			
<b>Fixed assets</b>			
<i>Intangible fixed assets</i>	17	0.5	–
<i>Tangible fixed assets</i>			
Investment properties	18	7,980.7	8,017.9
Equipment	19	5.3	5.1
<b>Total tangible fixed assets</b>		<b>7,986.0</b>	<b>8,023.0</b>
<i>Financial fixed assets</i>			
Participations in Group companies	20	2,886.9	2,886.9
Non-current receivables	21	15.7	12.9
<b>Total financial fixed assets</b>		<b>2,902.6</b>	<b>2,899.8</b>
<b>Total fixed assets</b>		<b>10,889.1</b>	<b>10,922.8</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Accounts receivable	22	4.5	4.1
Other receivables		1.8	1.9
Receivables from Group companies		509.2	411.5
Prepaid expenses and accrued income	23	135.5	108.5
<b>Total current receivables</b>		<b>651.0</b>	<b>526.0</b>
Cash and bank holdings	24	1,060.0	364.6
<b>Total current assets</b>		<b>1,711.0</b>	<b>890.6</b>
<b>TOTAL ASSETS</b>		<b>12,600.1</b>	<b>11,813.4</b>

<b>Balance sheets, cont'd</b>			
SEK m	Note	31-12-2018	31-12-2017
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>	25		
Share capital		1,056.4	1,056.4
Revaluation reserve		124.2	124.2
Statutory reserve		798.1	798.1
<b>Total restricted equity</b>		<b>1,978.7</b>	<b>1,978.7</b>
<i>Non-restricted equity</i>			
Retained earnings		977.4	1,084.0
Profit for the year		615.1	615.3
<b>Total non-restricted equity</b>		<b>1,592.5</b>	<b>1,699.3</b>
<b>Total equity</b>		<b>3,571.2</b>	<b>3,678.0</b>
<i>Untaxed reserves</i>	30	<b>340.5</b>	516.2
<i>Provisions</i>			
Pension provisions	28	19.5	16.1
Provisions for taxes	27	868.3	918.9
<b>Total provisions</b>		<b>887.8</b>	<b>935.0</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	26	5,700.0	3,700.0
Liabilities to Group companies		0.7	0.7
Other liabilities		44.4	51.3
<b>Total non-current liabilities</b>		<b>5,745.1</b>	<b>3,752.0</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	26	1,650.0	2,500.0
Accounts payable		73.0	83.8
Liabilities to Group companies		1.3	4.9
Income tax liability		6.5	26.2
Other liabilities	29	40.0	60.1
Accrued expenses and prepaid income	31	284.7	257.2
<b>Total current liabilities</b>		<b>2,055.5</b>	<b>2,932.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,600.1</b>	<b>11,813.4</b>

**Changes in equity**

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings including profit for the year	Total
<b>Opening equity 01-01-2017</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,764.7</b>	<b>3,743.4</b>
Profit for the year				615.3	615.3
Other comprehensive income for the year				-	-
Comprehensive income for the year				615.3	615.3
Dividend, Parent Company				-680.7	-680.7
<b>Closing equity 31-12-2017</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,699.3</b>	<b>3,678.0</b>
<b>Opening equity 01-01-2018</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,699.3</b>	<b>3,678.0</b>
Profit for the year				615.1	615.1
Other comprehensive income for the year				-	-
Comprehensive income for the year				615.1	615.1
Dividend, Parent Company				-721.9	-721.9
<b>Closing equity 31-12-2018</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,592.5</b>	<b>3,571.2</b>

**Comments**

Net revenue was SEK 1,210.8 million (1,145.9). 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 1,172.1 million and service revenue SEK 38.7 million. Costs totalled SEK 656.5 million (644.8). Gross profit amounted to SEK 554.3 million (501.1).

Net financial income and expense was SEK 37.8 million (127.3). Financial items include group contributions from subsidiaries totalling SEK 158.2 million (263.0). In June, the Swedish Parliament decided to reduce the corporation tax rate. This resulted in a recalculation, which in accounting terms had a positive impact of SEK 58.9 million.

Cash and cash equivalents at the year-end totalled SEK 1,060.0 million (364.6). Investment in existing property holdings, intangible fixed assets, and equipment totalled SEK 143.1 million (170.6).

**Cash Flow Statements**

SEK m	Note	2018	2017
<b>Current operations</b>			
Profit after financial items		575.2	648.7
Depreciation and impairment of assets		181.4	156.9
Unrealized changes in value, interest derivatives		-26.6	-61.6
Group contribution		-158.2	-258.4
Other changes		3.4	1.3
Income tax paid		-166.7	-150.9
<b>Cash flow from current operations before changes in working capital</b>		<b>408.5</b>	<b>336.0</b>
Cash flow from changes in working capital			
Decrease (+) / Increase (-) in operating receivables		28.2	283.8
Increase (+) / Decrease (-) in operating liabilities		-26.3	-37.3
<b>Cash flow from current operations</b>		<b>410.4</b>	<b>582.5</b>
<b>Investments</b>			
Investment in intangible fixed assets		-0.5	-
Investment in properties		-139.8	-167.1
Investment in equipment		-2.8	-3.5
<b>Cash flow from investments</b>		<b>-143.1</b>	<b>-170.6</b>
<b>Financing</b>			
Loans raised	26	7,100.0	4,000.0
Amortization of loans	26	-5,950.0	-4,450.0
Dividend paid		-721.9	-680.7
<b>Cash flow from financing</b>		<b>428.1</b>	<b>-1,130.7</b>
<b>Cash flow for the year</b>		<b>695.4</b>	<b>-718.8</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>364.6</b>	<b>1,083.4</b>
<b>Cash and cash equivalents at the year-end</b>	24	<b>1,060.0</b>	<b>364.6</b>
<b>Supplementary disclosures, cash flow statements</b>			
Interest received		3.2	1.7
Interest paid		100.6	130.1

## 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 2018 have been approved for publication according to a decision reached by the Board on February 14, 2019. It is proposed that the Annual Report and Consolidated Financial Statements be adopted at the Annual Meeting on March 21, 2019.

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 18.

**New accounting principles**

IFRS 9 Financial Instruments has been applied since January 1, 2018. The standard means that a new model for making provisions for credit losses has

been introduced. Impairment requirements are based on expected credit losses, which mainly arise for Hufvudstaden in conjunction with reporting of bad debts. The Group's bad debt losses have been non-material and will continue to be so after the transition to the new standard. The transition has not had any material impact on the Consolidated Financial Statements.

IFRS 15 Revenue Recognition has been applied since January 1, 2018. The vast majority of Hufvudstaden's revenue comprises invoiced rent, including indexation, supplementary charges for property tax, and investments, which are covered by IAS 17 Leases. Other revenue comprises all other supplementary charges, including heating, cooling, waste management, and water. The application of IFRS 15 has meant that Hufvudstaden's revenue is divided into two parts – Rent revenue and Service revenue. This has no impact on revenue or net profit on application of the standard. IFRS 15 gives rise to expanded disclosure requirements with regard to revenue, as shown in Notes 3 and 4.

Otherwise new and amended standards that came into effect in 2018 have not had any material impact on the Consolidated Financial Statements.

*New standards that will come into effect in 2019 and later*

Hufvudstaden will apply IFRS 16 Leases with effect from January 1, 2019 using the modified retroactive method. Reported rights of use will be assigned the same value as the reported lease liability as at January 1, 2019. The assessment made by Hufvudstaden is that the transition to IFRS 16 will not have any material impact on consolidated net income, consolidated financial position, or cash flow. In its capacity as lessee, Hufvudstaden has conducted a review and analysis of the Group's lease agreements, whereupon site leasehold agreements have been identified as the single most material agreement category. In addition to site leasehold agreements, only minor lease agreements have been identified, such as external premises, office equipment and similar. The lease liability as at January 1, 2019 with regard to site leasehold agreements totalled SEK 676 million, where the equivalent right of use is reported. As a result of the transition to IFRS 16, ground rents will be reported in their entirety as a financial cost, which is different compared to the current application according to IAS 17 Leases, where these are reported as operating costs charged to gross profit and loss. The property management result, however, will remain unchanged. The reported site leasehold cost in 2018 was SEK 21.8 million. Hufvudstaden has also conducted a review of the principles applied by the Group in its capacity as lessor and the transition to IFRS 16, where Hufvudstaden noted that the standard does not have any material impact on the Consolidated Financial Statements.

*Changes in Swedish regulations governing financial statements*

Changes during 2018 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.

**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

*Continuation, Note 1.*

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 for the leasing of premises are classified as operational lease agreements with the Group as the lessor. All rental, leasehold and tenancy agreements which the Group has entered into as lessee are classified as operational lease agreements. The cost of these is expensed on an ongoing basis.

**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 2018 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 carry-forward 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**

With effect from 2018, 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.

**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 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 accounts payable.

**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 when there are objective grounds for the Group not being able to receive all the amounts that have fallen due according to the original terms and conditions of the receivables. 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.

*Continuation, Note 1.***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 valuation, independent external valuations are commissioned 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 above for impairment of financial assets.

**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 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.

The transition to IFRS 15 Revenue Recognition has resulted in expanded disclosure requirements in segment reporting. Reporting of revenue has now been divided up into rent revenue and service revenue.

**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.

**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. 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 18.

**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.

Depreciation of properties with mixed operations has been calculated by weighing together each floor space category's percentage for depreciation. For a property with a dominant (75 per cent) category, the percentage for the category in question is applied to the whole property. The revaluation is depreciated over the remaining depreciation period of the underlying asset. Depreciation percentages are reported in Note 18.

**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 renewal 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. In the case of short fixed interest periods, use is made of interest derivatives to achieve the desired fixed interest structure. Derivatives are only used for the purpose of minimizing the risk and should be linked to an underlying exposure. At present, the Group has derivatives reported in the category financial assets and liabilities valued at fair value through profit or loss. It has been decided that hedge accounting may be applied to future interest derivatives.

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 26.

**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 7,350 million at the year-end. The average fixed interest period was 2.6 years (1.8), the average capital tie-up period was 3.9 years (3.4), and the average equivalent annual interest cost was 1.2 per cent (1.9). Net debt totalled SEK 6,279.3 million compared to SEK 5,805.1 million at the end of 2017. As at December 31, 2018, the Group had non-current loan assurances of SEK 4.0 billion, of which SEK 3.0 billion was unutilized. Of this, SEK 1.65 billion was reserved to cover outstanding commercial paper. There is also a commercial paper programme of SEK 3 billion, of which SEK 1.35 billion was unutilized, as well as an MTN programme of SEK 6 billion, of which SEK 1.3 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, 2018**

Year due	Interest payments, SEK m	Of which swaps, SEK m	Nominal amount, SEK m <sup>1)</sup>	Proportion, %
2019, Q 1	32.3	2.0	–	–
2019, Q 2	18.1	1.3	–	–
2019, Q 3	15.9	0.5	–	–
2019, Q 4	14.9	–	–	–
2020	76.6	–	500	7
2021	65.8	–	1,650	23
2022	48.1	–	1,700	23
2023	18.7	–	2,000	27
2024	3.5	–	1,500	20
Total	293.9	3.8	7,350	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, as well as derivatives with a negative value of SEK 3.7 million.

**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, the raising of loans, and loan assurances.

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. In the case of a short fixed interest period, interest swaps are used to achieve the desired fixed interest structure. As at December 31, 2018, the Group's fixed interest period was 2.6 years. Of the interest-bearing liabilities, around one-third 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 2019 by SEK 17 million (5), and in the event of a change in the market interest rate of -1 percentage point, Hufvudstaden's interest expense would decrease by SEK 11 million (1). 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, 2018  
(Including effect of interest derivatives)**

Year due	Credit, SEK m	Interest derivatives, SEK m	Net, SEK m	AER, % <sup>1)</sup>
2019	2,650	0	2,650	0.7
2020	–	–	–	–
2021	1,000	–	1,000	1.5
2022	1,200	–	1,200	1.5
2023	2,000	–	2,000	1.3
2024	500	–	500	1.5
Total	7,350	0	7,350	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 1,088.2 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 Group's 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 bank guarantee or guarantee undertaking is normally required in conjunction with new leases. Rents are invoiced in advance.

**Concentration of credit risk, December 31, 2018<sup>1)2)</sup>**

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	70	2,387	0.1
100 – 499	66	18,263	1.1
500 – 999	102	77,076	4.4
1,000 – 2,499	167	268,671	15.4
2,500 – 4,999	100	357,809	20.5
5,000 – 9,999	46	317,339	18.2
10,000 –	31	704,039	40.3
Total	582	1,745,584	100.0

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

2) Annual rent as at December 31, 2018.

The Group's ten largest tenants represent 23 per cent of the total contracted rent, and the single largest customer accounts for 7 per cent, which means that Hufvudstaden's exposure to the credit risk represented by individual customers is relatively limited. Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a high rating and with whom the Company has a long-term relationship. In addition, there are general agreements with these institutions regarding the set-off of different derivative agreements, which further reduces the credit risk exposure.

## Continuation, Note 2.

*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 accounts receivable, accounts payable 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	
	2018	2017	2018	2017	2018	2017
<b>GROUP</b>						
Non-current receivables			15.7	12.9	15.7	12.9
Current receivables			19.8	47.6	19.8	47.6
Cash and cash equivalents			1,070.7	394.9	1,070.7	394.9
Non-current liabilities		13.8	5,719.6	3,759.4	5,719.6	3,773.2
Current liabilities	3.7	16.5	1,850.3	2,849.6	1,854.0	2,866.1
<b>PARENT COMPANY</b>						
Non-current receivables			15.7	12.9	15.7	12.9
Current receivables			7.7	28.9	7.7	28.9
Cash and cash equivalents			1,060.0	364.6	1,060.0	364.6
Non-current liabilities		13.8	5,719.6	3,753.6	5,719.6	3,767.4
Current liabilities	3.7	16.5	1,761.4	2,698.9	1,765.1	2,715.4

The fair value concurs essentially with the carrying value. For bond loans with a fixed rate of interest the undervalue is SEK -31.3 million. The fair value of all instruments valued at fair value in the Balance Sheet is attributable to level 2 in IFRS 7, i.e. the value has been calculated based on official market listings.

**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 2018 and the comparison year 2017.

SEK m	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>								
<b>Property Management</b>								
<i>Income and costs <sup>1)</sup></i>								
Rent revenue	981.8	932.3	427.3	450.0	310.3	294.4	1,719.4	1,676.7
<i>(of which turnover-based rent)</i>	(2.4)	(1.2)	(9.3)	(12.9)	(0.4)	(1.6)	(12.1)	(15.7)
Service revenue	21.7	19.6	38.3	37.5	17.7	16.8	77.7	73.9
Maintenance	-15.9	-21.3	-5.4	-3.7	-3.2	-4.8	-24.5	-29.8
Operation and administration	-107.5	-106.1	-116.5	-106.5	-59.1	-56.8	-283.1	-269.4
Ground rent	-13.0	-13.0	-8.8	-9.6	-	-	-21.8	-22.6
Property tax	-95.3	-96.7	-40.2	-40.2	-30.4	-30.4	-165.9	-167.3
Gross profit, property management	771.8	714.8	294.7	327.5	235.3	219.2	1,301.8	1,261.5
Parking operations, net			34.7	39.2			34.7	39.2
Central administration							-43.5	-41.3
Items affecting comparability							-	-138.6
Unrealized changes in value, investment properties							3,620.8	2,848.2
Unrealized changes in value, interest derivatives							26.6	61.6
Operating profit							4,940.4	4,030.6
Financial income and expense							-120.5	-135.7
Profit before tax							4,819.9	3,894.9
<b>Assets</b>								
Investment properties	27,391.1	23,970.4	10,114.6	9,589.5	6,582.8	6,170.1	44,088.5	39,730.0
Rent receivables	1.1	0.5	1.5	0.4	0.2	0.6	2.8	1.5
<b>Investments</b>								
Investment properties and equipment	198.3	224.4	428.8	224.9	116.2	138.0	743.3	587.3

1) For comparable holdings, see Business Areas in figures, page 98.

Note 3 continued on page 73.



Continuation, Note 3.

<b>Parking Operations</b>		
The Parking Operations segment includes parking operations at Parkaden AB.		
SEK m	2018	2017
<b>GROUP</b>		
Net revenue	85.8	89.9
Rental costs	-42.1	-41.4
Operation and administration	-8.4	-8.8
Depreciation	-0.6	-0.5
Gross profit	34.7	39.2
Total assets amounted to SEK 14.5 million (18.2).		

<b>Note 4. Profit trend – summary</b>										
SEK m	Jan – Mar		Apr – Jun		Jul – Sept		Oct – Dec		Jan – Dec	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>										
<i>Property management</i>										
Rent revenue	425.6	410.6	422.3	410.3	426.1	416.4	445.4	439.4	1,719.4	1,676.7
Service revenue	19.5	18.7	20.2	19.5	19.4	19.1	18.6	16.6	77.7	73.9
Property management revenue	445.1	429.3	442.5	429.8	445.5	435.5	464.0	456.0	1,797.1	1,750.6
Maintenance	-3.6	-4.6	-6.3	-7.4	-9.2	-7.0	-5.4	-10.8	-24.5	-29.8
Operation and administration	-69.0	-66.8	-67.0	-62.0	-65.4	-60.3	-81.7	-80.3	-283.1	-269.4
Other costs	-47.2	-47.2	-46.9	-47.8	-46.6	-47.6	-47.0	-47.3	-187.7	-189.9
Property management costs	-119.8	-118.6	-120.2	-117.2	-121.2	-114.9	-134.1	-138.4	-495.3	-489.1
Parking operations, net	8.9	10.2	8.7	9.7	6.6	7.9	10.5	11.4	34.7	39.2
Gross profit	334.2	320.9	331.0	322.3	330.9	328.5	340.4	329.0	1,336.5	1,300.7
Central administration	-9.9	-9.5	-9.9	-9.5	-9.9	-9.4	-13.8	-12.9	-43.5	-41.3
Items affecting comparability	-	-	-	-	-	-	-	-138.6	-	-138.6
Changes in value, investment properties	593.0	321.7	1,444.7	1,195.9	429.0	360.3	1,154.1	970.3	3,620.8	2,848.2
Changes in value, interest derivatives	8.8	17.9	8.7	14.7	5.0	15.8	4.1	13.2	26.6	61.6
Financial income and expense	-28.4	-34.4	-31.8	-34.8	-34.0	-35.0	-26.3	-31.5	-120.5	-135.7
Tax	-206.1	-144.5	140.8	-335.8	-158.7	-153.4	-276.2	-226.2	-500.2	-859.9
Profit for the period after tax	691.6	472.1	1,883.5	1,152.8	562.3	506.8	1,182.3	903.3	4,319.7	3,035.0

<b>Note 5. Operational lease agreements – Group as lessor</b>							
The Group has commercial lease agreements for the investment property holdings, which comprise offices, stores, storage premises and other non-residential premises. The remaining term is between 1 and 18 years.							
<i>Renewal structure</i> <sup>1)2)3)</sup>							
	2019	2020	2021	2022	2023	2024–	Total
<i>Number of agreements</i>							
Offices	78	54	68	53	42	29	324
Retail	120	92	67	30	29	18	356
Other	437	247	161	70	44	58	1,017
Total, Group	635	393	296	153	115	105	1,697
Proportion, %	37.4	23.2	17.4	9.0	6.8	6.2	100.0
Total, Parent Company	447	304	229	131	95	84	1,290
<i>Annual rent, SEK m</i>							
Offices	83.7	139.7	171.0	155.3	145.1	264.9	959.7
Retail	198.1	181.4	112.4	69.1	108.7	94.8	764.5
Other	34.7	17.3	25.2	11.2	8.1	31.0	127.5
Total, Group	316.5	338.4	308.6	235.6	261.9	390.7	1,851.7
Proportion, %	17.1	18.3	16.7	12.7	14.1	21.1	100.0
Total, Parent Company	163.9	216.2	276.5	202.3	197.9	247.4	1,304.2
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.							

**Note 6. Depreciation, equipment and investment properties**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
<i>Depreciation per type of asset</i>				
Investment properties	– <sup>1)</sup>	– <sup>1)</sup>	176.9	154.8
Equipment	3.4	2.9	2.6	2.3
Total	3.4	2.9	179.5	157.1
<i>Depreciation per function</i>				
Property management	2.8	2.4	179.5	157.1
Parking operations	0.6	0.5	–	–
Total	3.4	2.9	179.5	157.1

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	2018		2017	
		Of which men, %		Of which men, %
Parent Company	124	59	115	61
(of which executives)	(8)	(75)	(7)	(71)
<i>Wholly owned subsidiaries</i>				
Parkaden AB	3	67	3	67
Total, Group	127	59	118	61
(of which executives)	(8)	(75)	(7)	(71)

Of the Group's 30 managers (30) 9 are women (9) or 30 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			
	2018	Of which bonus	2017	Of which bonus	2018	Of which bonus	2017	Of which bonus
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	465		450		465		450	
Fee to other Board members	1,658		1,600		1,628		1,575	
Remuneration and benefits, President	5,072	325	5,169	418	5,072	325	5,169	418
Remuneration and benefits, other executives	11,394	918	10,993	930	11,394	918	10,993	930
Remuneration and benefits, other employees	70,345	2,926	63,290	3,785	69,068	2,917	62,010	3,742
Total	88,934	4,169	81,502	5,133	87,627 <sup>1)</sup>	4,160	80,197 <sup>1)</sup>	5,090
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	76		57		76		57	
Other Board members	481		465		476		461	
President	2,276		2,292		2,276		2,292	
Other executives	4,245		4,283		4,245		4,283	
Other employees	24,571		23,077		24,151		22,656	
Total	31,649		30,174		31,224		29,749	
<i>Pension expenses</i>								
President	2,825		2,762		2,825		2,762	
Other executives	3,157		3,486		3,157		3,486	
Other employees	11,521		13,079		11,423		12,986	
Total	17,503		19,327		17,405		19,234	

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

Note 8 continued on page 75.

## Continuation, Note 8.

An expensed director's fee of SEK 465,000 was paid to the Chairman of the Board Fredrik Lundberg for 2018, and Board members Claes Boustedt, Peter Egardt, Liv Forhaug, Louise Lindh, Fredrik Persson, Sten Peterson and Anna-Greta Sjöberg were each paid SEK 232,500. 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 2018, 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 or 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 3.8 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 2018.

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, 2018, amounted to 159 per cent (154). 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 2018 was charged with a cost for 2017 of SEK 139,226.

**Note 9. Fees and cost reimbursements to auditors**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
KPMG AB				
Audit work	1.2	1.1	1.2	1.1
Other assignments	0.1	0.1	0.1	0.1
Total	1.3	1.2	1.3	1.2

**Note 10. Operational lease agreements – Group as the lessee**

Lease payments, SEK m	Group		Parent Company	
	2018	2017	2018	2017
< 1 year	64.7	27.4	50.6	13.3
1 year – 5 years	129.2	93.4	92.9	51.2
5 years >	37.2	56.9	11.0	23.5

Agreements entered into referred to ground rents, tenant charges and lease agreements with an external property owner, as well as lease agreements for evacuation premises that are reported within projects.

**Note 11. Operating costs per cost category**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Maintenance	23.8	29.5	177.9	196.0
Operation and administration	229.3	223.8	71.0	70.2
Ground rent	21.8	22.6	13.0	13.0
Property tax	165.9	167.3	114.7	116.1
Depreciation and impairment	3.4	2.9	179.5	157.1
Personnel costs	145.7	135.0	143.9	133.7
Total	589.9	581.1	700.0	686.1

**Note 12. Items affecting comparability**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Change in value/Disposal as a result of fire	–	-219.2	–	-80.6
Estimated insurance payment	–	80.6	–	80.6
Total	–	-138.6	–	0

Realized changes in value refer to a building on the Vildmannen 7 property, which was largely destroyed by fire. The property was, and continues to be, insured for its full value. As the insurance settlement has not yet been concluded, we have been cautious and only reported part of any possible insurance compensation.

**Note 13. Financial income**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Interest income on current investments	2.9	–	2.9	–
Interest income, other	0.0	0.1	0.0	0.1
Total	2.9	0.1	2.9	0.1

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

**Note 14. Financial expense**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Interest expense to credit institutions	85.8	64.4	85.8	64.4
Interest expense, swaps	26.8	64.4	26.8	64.4
Interest expense, other	10.8	7.0	10.7	7.0
<b>Total</b>	<b>123.4</b>	<b>135.8</b>	<b>123.3</b>	<b>135.8</b>

Of the financial expense, SEK 96.6 million (71.4) refers to financial instruments not valued at fair value.

**Note 15. Appropriations**

SEK m	Parent Company	
	2018	2017
Change in accumulated additional depreciation	25.7	-1.2
Change in tax allocation reserve	150.0	150.0
Group contribution granted	-39.3	-4.5
<b>Total</b>	<b>136.4</b>	<b>144.3</b>

**Note 16. Income taxes**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
<i>Current tax expense</i>				
Tax expense for the year	-149.0	-160.1	-148.9	-160.1
Tax attributable to previous years	1.9	-0.1	1.9	-
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation of properties	-3.2	-99.9	-3.2	-4.3
Unrealized change in value, properties	-917.0	-620.9	-	-
Unrealized change in value, interest derivatives	-5.9	-13.6	-5.9	-13.6
Effect, allocation to untaxed reserves	39.6	34.4	-	-
Effect, pension provision	0.7	0.3	0.7	0.3
Recalculation, deferred tax	532.7	-	58.9	-
<b>Total tax</b>	<b>-500.2</b>	<b>-859.9</b>	<b>-96.5</b>	<b>-177.7</b>
<i>Profit before tax</i>	<b>4,819.9</b>	<b>3,894.9</b>	<b>711.6</b>	<b>793.0</b>
Tax according to the current tax rate of 22%	-1,060.4	-856.9	-156.6	-174.5
Tax attributable to previous years	1.9	-0.1	1.9	-
Revaluation, deferred tax <sup>1)</sup>	559.7	-	59.0	-
Non-taxable income	0.1	0.1	0.1	0.1
Non-deductible expenses	-1.5	-0.3	-1.0	-0.3
Utilization of previous deficit deduction	-	0.2	-	-
Standard income, tax allocation reserve	-0.3	-0.5	-0.3	-0.5
Other	0.3	-2.4	0.4	-2.5
<b>Total tax</b>	<b>-500.2</b>	<b>-859.9</b>	<b>-96.5</b>	<b>-177.7</b>

1) The recalculation effect in conjunction with the decision to reduce corporation tax was SEK 532.7 million for the Group, and SEK 58.9 million for the Parent Company.

As at the year-end, there were no deficit deductions.

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 17. Intangible fixed assets**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Opening acquisition value	-	-	-	-
Investments for the year	11.9	-	0.5	-
Closing acquisition value	11.9	-	0.5	-
Closing residual value according to plan	11.9	-	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 18. Investment properties****GROUP**

Investment properties were reported according to the fair value method.

SEK m	2018	2017
Investment properties, Group	4,088.5	39,730.0

Information about changes in the carrying amounts of investment properties.

SEK m	Investment properties Owned for the full year	
	2018	2017
Opening fair value		39,730.0
Investment in properties		737.7
Unrealized change in value		3,620.8
Closing fair value		44,088.5

SEK m	Investment properties Owned for the full year	
	2017	2016
Opening fair value		36,517.3
Investment in properties		583.7
Unrealized change in value		2,848.2
Change in value/Disposal, fire		-219.2
Closing fair value		39,730.0

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 and building construction. 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, 2013 has varied between 3.8 per cent and 4.7 per cent, and as at December 31, 2018 the figure was 3.8 per cent. For leasehold properties, the calculation is based on a yield requirement that is 0.20 percentage points higher.

Note 18 continued on page 77.

Continuation, Note 18.

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 2009–2018 varied between 3 and 6 per cent, and as at December 31, 2018, the figure was 2.6 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, 2018 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.

The following information has been used in the valuation made on 31-12-2018:

Office and retail	Range (weighted average)			
	2018		2017	
Net operating income (SEK/sq m)	1,430–6,820	(4,480)	1,400–6,320	(4,090)
Vacancy level (%)	2–5	(4)	2–5	(4)
Yield requirement, Stockholm (%)	3.3–3.8	(3.6)	3.4–3.9	(3.6)
Yield requirement, Gothenburg (%)	4.1–4.8	(4.4)	4.1–4.8	(4.4)
Yield requirement, total (%)	3.8		3.8	

#### 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 12 properties and are equivalent to 36 per cent of the internally assessed fair value, and the corresponding figure at the mid-year point was 38 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, Hästhuvudet 13, Hästskon 10, Järnplåten 28, Kvasten 2, Kåkenhusen 40 (part of), Orgelpipan 7, Pumpstocken 10 (part of), Rännilen 8 and Rännilen 18 in Stockholm, and Inom Vallgraven 10:9 (NK Gothenburg) and Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies set a fair value of SEK 16.4 billion. Hufvudstaden's internal valuation of the same properties was SEK 15.9 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 44.1 billion with a degree of uncertainty of +/- 5 per cent, which means that the assessed fair value varies by +/- 2.2 billion. Below are the key factors that influence the valuation and the consequent impact on profit before tax.

#### Sensitivity analysis, property valuation<sup>1)</sup>

	Change, +/-	Impact on value, +/-
Rent revenue	SEK 100 per sq m	SEK 1,030 m
Property costs	SEK 50 per sq m	SEK 515 m
Rental vacancy level	1.0 percentage points	SEK 570 m
Yield requirement	0.25 percentage points	SEK 2,900 m

1) Valuation date 31-12-2018.

#### Tax values, investment properties, Group

SEK m	2018	2017
Tax values, buildings	9,156.2	9,252.2
Tax values, land	7,541.1	7,541.1
	16,697.3	16,793.3

#### 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	2018	2017
Investment properties, Parent Company	7,980.7	8,017.9

#### Investment properties, excluding land

SEK m	2018	2017
Opening acquisition values	4,123.4	4,044.3
Investments for the year	139.8	167.1
Disposals for the year	–	-88.0
Closing acquisition values	4,263.2	4,123.4
Opening depreciation	-1,380.2	-1,256.5
Depreciation for the year	-163.3	-141.0
Disposals for the year	–	17.3
Closing depreciation	-1,543.5	-1,380.2
Opening revaluation according to the adopted Balance Sheet for the previous year	1,025.9	1,049.7
Depreciation for the year	-13.7	-13.8
Disposals for the year	–	-10.0
Closing revaluation	1,012.2	1,025.9
Closing residual value according to plan	3,731.9	3,769.1

#### Land

SEK m	2018	2017
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	2018	2017
Investment properties, Parent Company	30,603.8	27,187.4

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	2018	2017
Tax values, buildings	6,099.8	6,195.8
Tax values, land	5,472.7	5,472.7
	11,572.5	11,668.5

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Opening acquisition value	36.8	34.9	18.7	16.9
Investments for the year	5.8	3.8	3.0	3.7
Sales and disposals	-4.6	-1.9	-4.6	-1.9
Closing acquisition value	38.0	36.8	17.1	18.7
Opening depreciation	-29.5	-28.2	-13.6	-13.0
Depreciation for the year	-3.4	-2.9	-2.6	-2.3
Sales and disposals	4.4	1.6	4.4	1.7
Closing accumulated depreciation	-28.5	-29.5	-11.8	-13.6
Closing residual value according to plan	9.5	7.3	5.3	5.1

Note 20. Participation in Group Companies						
	Company reg. no.	Reg. office	Capital (votes) %	Number	Nominal value, SEK 1,000	Carrying amount 2018, SEK m
<b>PARENT COMPANY</b>						
<i>Shares in subsidiaries</i>						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget Hamngatsgaraget	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
<i>Shares in dormant companies</i>						
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	–
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, total						2,886.9
<b>OTHER GROUP COMPANIES</b>						
<i>Owned by AB Citypalatset</i>						
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7 776	239.5
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>						
Hotel Stockholm Aktiebolag	556031-4303	Stockholm	100	10,000	1,000	3.4
<i>Owned by AB Nordiska Kompaniet</i>						
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 62.1 (57.8) million during the year.						
<i>Change in the Parent Company's holdings in Group companies</i>						
SEK m	Parent Company					
	2018	2017				
Opening carrying amount	2,886.9	2,886.9				
Closing carrying amount	2,886.9	2,886.9				

**Note 21. Non-current receivables**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Opening carrying amount	13.0	11.9	12.9	11.8
Change for the year	2.7	1.1	2.7	1.1
Closing carrying amount	15.7	13.0	15.7	12.9

**Note 22. Accounts receivable**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Accounts receivable	14.7	16.5	3.4	2.9
Rent receivables	2.8	1.5	1.1	1.2
Total	17.5	18.0	4.5	4.1

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 5.2 million (0.7). 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 5.0 million (4.5).

**Note 23. Prepaid expenses and accrued income**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Accrued rent revenue	28.7	25.9	23.1	21.2
Accrued revenue	107.3	81.3	104.1	81.3
Prepaid expenses	23.1	20.8	6.7	4.3
Prepaid interest expense	1.4	1.7	1.4	1.7
Total	160.5	129.7	135.3	108.5

**Note 24. Cash and bank holdings**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Cash and cash equivalents	1,070.7	394.9	1,060.0	364.6
Total	1,070.7	394.9	1,060.0	364.6

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 25. Equity**

GROUP		
Share capital		
SEK m	2018	2017
<i>Breakdown of share series</i>		
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. Both share series are registered on Nasdaq Stockholm. 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.

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.

**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 2018, a dividend was paid of SEK 3.50 per share, or a total of SEK 721,930,766. For 2018, the Board of Directors proposes a dividend of SEK 3.70 per share, or a total of SEK 763,183,952.

**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.

	2018	2017
Total profit for the year, SEK m	4,319.7	3,035.0
Outstanding shares	206,265,933	206,265,933
Profit per share, SEK	20.94	14.71

**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.

**Note 26. Interest-bearing liabilities**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
<i>Non-current liabilities</i>				
Bank loans	1,000	1,000	1,000	1,000
Bond loans	4,700	2,700	4,700	2,700
Total	5,700	3,700	5,700	3,700
<i>Current liabilities</i>				
Bank loans	0	200	0	200
Bond loans	0	1,000	0	1,000
Commercial paper loans	1,650	1,300	1,650	1,300
Total	1,650	2,500	1,650	2,500
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.

**Reconciliation of liabilities attributable to financing  
Group and Parent Company**

SEK m	Closing balance 2017	Cash flow	Closing balance 2018
Bank loans	1,200	-200	1,000
Bond loans	3,700	1,000	4,700
Commercial paper	1,300	350	1,650
Total	6,200	1,150	7,350

**Maturity, loan terms and annual equivalent rate of interest 31-12-2018  
Group and Parent Company**

Year due	AER, % <sup>1)</sup>	Nominal amount, SEK m		
		Bank loans <sup>2)</sup>	Bonds <sup>3)</sup>	Commercial paper <sup>4)</sup>
2019	–	–	–	–
2020	0.7	500	–	–
2021	1.0	–	1,000	650
2022	1.3	500	1,200	–
2023	1.3	–	2,000	–
2024	0.6	–	500	1,000
Total		1,000	4,700	1,650

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. Maturity is calculated based on underlying loan assurances.

**Interest swaps 31-12-2018  
Group and Parent Company**

Year due	AER		Nominal amount, SEK m	Fair value, SEK m
	Fixed interest, %	Variable interest % <sup>1)</sup>		
2019	1.9	-0.2	450	3.7
Total			450	3.7

1) Interest terms are three months Stibor. Interest is paid quarterly. Swap contracts are denominated in SEK.

Presentation of the Finance Policy, financial risks and interest exposure, see Note 2.

**Note 27. Deferred tax liability**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Investment properties	8,212.7	7,823.3	873.1	929.1
Interest derivatives	-0.8	-6.7	-0.8	-6.7
Untaxed reserves	85.1	126.8	–	–
Pension provision	-4.0	-3.5	-4.0	-3.5
Total	8,293.0	7,939.9	868.3	918.9

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

*Change in deferred tax*

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
<b>GROUP</b>			
<b>2018</b>			
Investment properties	7,823.3	389.4	8,212.7
Interest derivatives	-6.7	5.9	-0.8
Untaxed reserves	126.8	-41.7	85.1
Pension provision	-3.5	-0.5	-4.0
	7,939.9	353.1	8,293.0
<b>2017</b>			
Investment properties	7,102.4	720.9	7,823.3
Interest derivatives	-20.2	13.5	-6.7
Untaxed reserves	161.2	-34.4	126.8
Pension provision	-3.2	-0.3	-3.5
	7,240.2	699.7	7,939.9

Note 27 continued on page 81.



Continuation, Note 27.

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
<b>PARENT COMPANY</b>			
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
2017			
Investment properties	924.8	4.3	929.1
Interest derivatives	-20.2	13.5	-6.7
Pension provision	-3.2	-0.3	-3.5
	901.4	17.5	918.9

**Note 28. 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 29. Other liabilities**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
VAT	17.4	25.2	28.5	35.6
Current derivatives	3.7	16.6	3.7	16.6
Other	86.1	90.2	7.8	7.9
Total	107.2	132.0	40.0	60.1

**Note 30. Untaxed reserves**

SEK m	Parent Company	
	2018	2017
<i>Accumulated depreciation in excess of plan</i>		
Opening balance	100.2	99.0
Depreciation for the year	-25.7	1.2
Closing balance	74.5	100.2
Tax allocation reserves	266.0	416.0
Total	266.0	416.0
Total untaxed reserves	340.5	516.2

**Note 31. Accrued expenses and prepaid income**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Accrued interest expense	38.4	47.6	38.4	47.6
Advance rent payments	297.0	289.2	204.2	185.7
Other accrued expenses	48.8	55.9	42.1	23.9
Total	384.2	392.7	284.7	257.2

**Note 32. Pledged assets and contingent liabilities**

SEK m	Group		Parent Company	
	2018	2017	2018	2017
Property mortgages for liabilities at credit institutions	507.5	605.4	507.5	605.4
<i>(of which mortgages on subsidiaries' properties)</i>			(156.0)	(156.0)
Other non-current receivables	15.7	12.9	15.7	12.9
Total	523.2	618.3	523.2	618.3

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 33. Affiliations**

Hufvudstaden AB is under the controlling influence of L E Lundbergföretagen AB and Fredrik Lundberg. No material transactions have taken place with L E Lundbergföretagen AB. Fredrik Lundberg's director's fee for 2018 was SEK 465,000. 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 20.

**Note 34. Events after the year-end**

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



**BIBLIOTEKSTAN**  
Smålandsgatan, Stockholm



TAK

BIST

**BIBLIOTEKSTAN**  
Biblioteksgatan, Stockholm

## 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](http://www.hufvudstaden.se), or can be obtained free of charge from the Company on request.

Retained earnings	SEK	977,374,184
Profit for the year	SEK	615,052,994
<hr/>		
Dividend to the shareholders,		SEK 1,592,427,178
SEK 3.70 per share	SEK	763,183,952 <sup>1)</sup>
To be carried forward	SEK	829,243,226
<hr/>		
		SEK 1,592,427,178

1) See Definitions, page 108, 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 14, 2019



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*

Our audit report was submitted on February 15, 2019

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 2018, except for the sustainability report on pages 8–10 and 28–36. The annual accounts and consolidated accounts of the company are included on pages 8–10, 28–36, 54–84 and 88–91 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 2018 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 2018 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 8–10 and 28–36.

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 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.

#### 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 54–56, note 12, note 18 and accounting principles on pages 68–70 in the annual accounts and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

Investment properties are accounted for at fair value in the consolidated accounts. The carrying value amounts to SEK 44,089 million as of 31 December 2018, which represents 99 % 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 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 judgement and the used key assumptions.

*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.

*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 1–7, 11–27, 37–53 and 92–112. 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 presen-

tation 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 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 2018 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 8–10 and 28–36 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 22 March 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1999.

Stockholm 15 February 2019

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](http://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 2018 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, 2018, 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 14, 2019).

**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

summons 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 2018 Annual Meeting was held on March 22, 2018. A total of 419 shareholders, representing 121,286,638 series A shares and 8,262,315 series C shares, were present, and they represented 947,518,138 votes, equivalent to 92 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 3.50 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 2019 Annual Meeting will be held in Stockholm on March 21, 2019.



**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, LE 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.

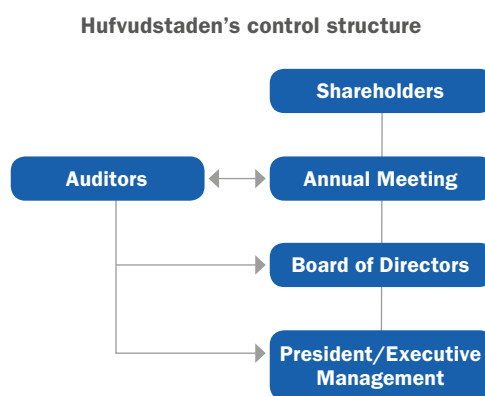
The main shareholder has applied point 4.1 in the Code as a diversity policy, which means that the composition of the Board of Directors must be well adapted in the light of the Company’s operations, the current phase in its development, and circumstances in general. The composition of the Board must 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 2018 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 2019 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.

**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 LE Lundbergföretagen AB



(Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 92–93. 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 seven meetings during 2018, of which one was a statutory meeting. Economic and

financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key matters of principle or of major financial 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 pertaining to the economic climate and financing, property valuation, and acquisitions and investments. Other matters dealt with during the year include more extensive current projects, including the Company's digital transformation, development projects at the NK department stores, as well as insurance matters related to the fire at the Vildmannen 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 2017 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. For information about individual members, see pages 94–95.

#### 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 2018 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 Ahlsell, Holmen, LE Lundbergföretagen, Modern Times Group MTG, and ÅF.

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 2018 it was decided that remuneration for the period up to the next Annual Meeting, totalling SEK 2,115,000, 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 470,000, and the other seven non-employed members, who each receive SEK 235,000.

##### 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 2018 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 2018 Annual Meeting, and a proposal with largely unchanged guidelines will be presented for a decision at the 2019 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 2019 Annual Meeting. The auditor's statement on whether guidelines adopted at the Annual Meeting in 2018 governing remuneration to senior executives have been followed, will be available on the Company's website no

Name	Function	Attendance <sup>1)</sup>	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	6	Yes	No
Claes Boustedt		7	Yes	No
Peter Egardt		7	Yes	Yes
Liv Forhaug		7	Yes	Yes
Louise Lindh		7	Yes	No
Fredrik Persson		7	Yes	Yes
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg		7	Yes	Yes
Ivo Stopner	President	7	No (employee)	Yes

1) Seven board meetings were held during the year, of which five were held after the Annual Meeting.

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 2018 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 customer 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 2018, the bonus cost for all employees was SEK 4.2 million (5.1), or an average of SEK 155,000 per person for the Executive Management, including the President, and an average of SEK 24,000 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 Information 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.

## 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 2018, the Board of Directors held seven 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).<sup>1)</sup>



**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.



**Peter Egardt**  
 Born 1949. BA.  
 Board member since 2003.  
 Chairman of the Swedish National Space Board  
 and 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.

<sup>1)</sup> 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.



**Liv Forhaug**

*Born 1970. MBA.*

*Board member since 2016.*

*Chief Strategy Officer of ICA Gruppen AB. Member of the board of HUI Research AB, Min Doktor International AB, Skutvik Invest AB, Thule Group AB, the ICA Group subsidiary Apotek Hjärtat AB, Hemtex AB, ICA Fastigheter AB, and ICA Sverige AB.*

*Previous positions include partner in McKinsey & Company.*

*Holding in Hufvudstaden: 1,800 shares.*



**Louise Lindh**

*Born 1979. MBA.*

*Board member since 2007.*

*President of Fastighets AB LE Lundberg. Chair of J2L Holding AB.*

*Member of the board of Fastighets AB LE Lundberg, Holmen AB and LE Lundbergföretagen AB. Holding in Hufvudstaden: 29,166 shares.<sup>1)</sup>*



**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.*



**Anna-Greta Sjöberg**

*Born 1967. MA, MBA.*

*Board member since 2006.*

*President of Olivetta AB. Member of the Board of Marginalen Bank Bankaktiebolag and 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), 100,000 call options and 35,290 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.*

*Holding in Hufvudstaden: 3,000 shares (own and through related parties), 100,000 call options and 35,290 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: 10,000 call options.*

### **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. Employed 1994.*

*Holding in Hufvudstaden: 62 shares and 40,000 call options.*



*Hufvudstaden Executive Management.  
From the left: John Lethenström, Christine Lindgren, Henrik Andreasson, Anders Nygren, Ivo Stopner, Fredrik Ottosson, Åsa Roslund and Bo Wikare.*

## MULTI-YEAR REVIEW – GROUP

	2018	2017	2016	2015	2014
<b>Income Statements, SEK m</b>					
Net revenue					
Property management	1,797	1,751	1,703	1,611	1,596
Parking operations	86	90	87	78	69
	1,883	1,841	1,790	1,689	1,665
<i>Operating expenses</i>					
Maintenance, operation and administration	-307	-299	-291	-291	-280
Ground rents	-22	-23	-22	-22	-17
Property tax	-166	-167	-165	-154	-154
Property management, expenses	-495	-489	-478	-467	-451
Parking operations, expenses	-51	-51	-50	-50	-50
	-546	-540	-528	-517	-502
Gross profit	1,337	1,301	1,262	1,172	1,164
– of which Property management	1,302	1,262	1,226	1,144	1,145
– of which Parking operations	35	39	37	28	19
Central administration	-44	-41	-43	-39	-36
Operating profit before changes in value and items affecting comparability	1,293	1,260	1,220	1,133	1,128
Items affecting comparability	–	-139	–	–	–
Changes in value, investment properties	3,621	2,848	4,160	3,427	1,709
Changes in value, interest derivatives	26	62	45	12	-186
Operating profit	4,940	4,031	5,425	4,572	2,650
Financial income and expense	-120	-136	-141	-123	-130
Profit before tax	4,820	3,895	5,284	4,449	2,520
Tax	-500	-860	-1,164	-979	-519
Profit for the year	4,320	3,035	4,120	3,470	2,001
<b>Balance Sheets, SEK m</b>					
<i>Assets</i>					
Investment properties	44,089	39,730	36,517	31,741	27,817
Other non-current assets	37	20	19	18	15
Current assets	1,249	545	1,173	564	583
Total assets	45,375	40,295	37,709	32,323	28,415
<i>Equity and liabilities</i>					
Equity	29,000	25,402	23,047	19,567	16,695
Interest-bearing liabilities	7,350	6,200	6,650	5,750	5,650
Other liabilities and allocations	9,025	8,693	8,011	7,006	6,070
Total equity and liabilities	45,375	40,295	37,709	32,323	28,415
<b>Property holdings</b>					
Fair value, SEK bn	44.1	39.7	36.5	31.7	27.8
Tax assessment value, SEK bn	16.7	16.8	16.8	15.5	15.5
Rentable floor space, 1,000 sq m	384.5	384.7	389.0	387.2	386.9
Rental vacancy level, %	2.6	3.9	3.9	4.5	5.6
Floor space vacancy level, %	4.3	5.5	5.3	6.1	7.2
Investments in properties, SEK m	738	584	617	497	240
Net operating income, SEK per sq m <sup>1)</sup>	3,386	3,279	3,151	2,955	2,958
<b>Financial key ratios<sup>3)</sup></b>					
Gross margin, %	71	71	71	69	70
Return on equity, %	14.1	12.5	19.3	19.1	12.5
Return on capital employed, %	14.7	13.2	19.7	19.2	12.2
Equity ratio, %	64	63	61	61	59
Interest coverage ratio, multiple	10.5	9.3	8.6	9.1	8.5
Debt/equity ratio, multiple	0.2	0.2	0.2	0.3	0.3
Net loan-to-value ratio, properties, %	14.2	14.6	15.2	16.7	18.6
Cash flow from current operations, SEK m	1,003	999	1,029	968	881
Cash flow for the year, SEK m	676	-719	671	-31	-30
Average number of employees in the Group	127	118	113	105	100
<b>Share data (no dilution effect)<sup>3)</sup></b>					
Profit for the year, SEK	20.94	14.71	19.98	16.82	9.70
Dividend, SEK	3.70 <sup>2)</sup>	3.50	3.30	3.10	2.90
Dividend proportion, %	83 <sup>2)</sup>	82	81	81	77
Equity, SEK	140.59	123.15	111.74	94.86	80.94
Fair value of properties, SEK	213.75	192.62	177.04	153.92	134.86
Cash flow from current operations, SEK	4.86	4.84	4.99	4.69	4.27
Cash flow for the year, SEK	3.28	-3.49	3.25	-0.15	-0.15
Share price, series A, at the year-end, SEK	136.90	131.40	143.90	119.90	101.60
P/E ratio, multiple	6.5	8.9	7.2	7.1	10.5
Share price series A/equity, %	97.4	106.7	128.8	126.4	125.5
Yield, %	2.7 <sup>2)</sup>	2.7	2.3	2.6	2.9
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
<b>EPRA Performance Measures<sup>3)</sup></b>					
Result from property management after nominal tax (EPRA Earnings), SEK m	1,064	998	962	908	843
Result from property management after nominal tax (EPRA EPS), per share, SEK	5.16	4.84	4.66	4.40	4.09
Non-current net asset value (EPRA NAV), SEK m	37,215.9	33,255.3	30,241.8	25,769.7	22,035.4
Non-current net asset value (EPRA NAV), per share, SEK	181.00	161.00	146.00	125.00	107.00
Current net asset value (EPRA NNAV), SEK m	35,218.0	31,447.0	28,535.7	24,253.7	20,706.4
Net asset value (EPRA NNAV), per share, SEK	171.00	152.00	138.00	118.00	100.00
EPRA Vacancy rate, %	1.3	2.4	2.6	3.2	5.2

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. For Definitions, see page 108.

2) In accordance with a proposal by the Board.

3) 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 108 and the derivation can be found on page 97.



## 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 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 108. Below is the derivation of alternative performance measures.

SEK m	2018	2017	2016	2015	2014
<b>Net debt</b>					
Non-current interest-bearing liabilities	5,700	3,700	4,000	4,650	4,650
Current interest-bearing liabilities	1,650	2,500	2,650	1,100	1,000
Cash and bank holdings	-1,071	-395	-1,114	-443	-474
Net debt	6,279	5,805	5,536	5,307	5,176
<b>Equity ratio</b>					
Equity	29,000	25,402	23,047	19,567	16,695
Total assets	45,375	40,295	37,709	32,323	28,415
Equity ratio, %	64	63	61	61	59
<b>Net loan to value ratio, properties</b>					
Interest-bearing liabilities	7,350	6,200	6,650	5,750	5,650
Interest-bearing assets	-1,071	-395	-1,114	-443	-474
Total	6,279	5,805	5,536	5,307	5,176
Carrying amount, properties	44,089	39,730	36,517	31,741	27,817
Net loan to value ratio, properties, %	14.2	14.6	15.2	16.7	18.6
<b>Interest coverage ratio</b>					
Profit before tax	4,820	3,895	5,284	4,449	2,520
Reversal of items affecting comparability and changes in value	-3,647	-2,771	-4,205	-3,439	-1,523
Interest expense	123	136	141	124	133
Total	1,296	1,260	1,220	1,134	1,130
Interest expense	123	136	141	124	133
Interest coverage ratio, multiple	10.5	9.3	8.6	9.1	8.5
<b>Result from property management after nominal tax (EPRA Earnings)</b>					
Operating profit before items affecting comparability and changes in value	1,293	1,259	1,219	1,133	1,128
Financial income and expense	-120	-136	-141	-123	-130
Result from property management	1,173	1,123	1,078	1,010	998
Actual tax, property management result	-109	-125	-116	-102	-155
Result from property management after nominal tax (EPRA Earnings)	1,064	998	962	908	843
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	5.16	4.84	4.66	4.40	4.09
<b>Net asset value (EPRA NAV/EPRA NNNAV)</b>					
Equity according to the Balance Sheet	28,999.5	25,401.7	23,047.4	19,566.7	16,694.8
<i>Reversal</i>					
Derivatives according to the Balance Sheet	3.7	30.3	91.9	137.4	149.1
Deferred tax, investment properties	8,212.7	7,823.3	7,102.5	6,065.6	5,191.5
Non-current net asset value (EPRA NAV)	37,215.9	33,255.3	30,241.8	25,769.7	22,035.4
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	181	161	146	125	107
<i>Deductions</i>					
Derivatives according to the above	-3.7	-30.3	-91.9	-137.4	-149.1
Assessed actual liability, deferred tax 5%	-1,993.4	-1,778.0	-1,614.2	-1,378.6	-1,179.9
Current net asset value (EPRA NNNAV)	35,218.8	31,447.0	28,535.7	24,253.7	20,706.4
Number of outstanding shares, million	206.3	206.3	206.3	206.3	206.3
Current net asset value (EPRA NNNAV) per share, SEK	171	152	138	118	100

## BUSINESS AREAS IN FIGURES

Property holdings (comparable holdings)	Stockholm Business Area <sup>1)</sup>				NK Business Area				Gothenburg Business Area				Property management, total			
	2018		2017		2018		2017		2018		2017		2018		2017	
	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m	SEK m	SEK/ sq m
Gross rent, including charge for consumables	1,034.6	5,075	989.7	4,858	491.8	5,352	504.5	5,465	351.0	3,956	338.7	3,822	1,877.4	4,883	1,832.9	4,765
(of which property tax supplement)	(90.8)	(445)	(91.5)	(449)	(32.6)	(355)	(33.4)	(362)	(25.1)	(283)	(25.3)	(285)	(148.5)	(386)	(150.2)	(390)
Rent losses on vacant space	-30.6	-150	-37.6	-184	-23.1	-251	-16.4	-178	-21.6	-243	-27.9	-315	-75.3	-196	-81.9	-213
Bad debt losses	-0.5	-2	-0.2	-1	-3.1	-34	-0.6	-6	-1.4	-16	0.4	5	-5.0	-13	-0.4	-1
<b>Net sales</b>	<b>1,003.5</b>	<b>4,923</b>	<b>951.9</b>	<b>4,673</b>	<b>465.6</b>	<b>5,067</b>	<b>487.5</b>	<b>5,281</b>	<b>328.0</b>	<b>3,697</b>	<b>311.2</b>	<b>3,512</b>	<b>1,797.1</b>	<b>4,674</b>	<b>1,750.6</b>	<b>4,551</b>
Maintenance	-15.9	-78	-21.3	-105	-5.4	-59	-3.7	-40	-3.2	-36	-4.8	-54	-24.5	-64	-29.8	-77
Operations	-64.9	-318	-63.3	-311	-88.7	-965	-82.2	-890	-40.2	-453	-37.5	-423	-193.8	-504	-183.0	-476
Administration	-42.6	-209	-42.8	-210	-27.8	-303	-24.3	-263	-18.9	-213	-19.3	-218	-89.3	-232	-86.4	-225
Ground rent	-13.0	-64	-13.0	-64	-8.8	-96	-9.6	-104	-	-	-	-	-21.8	-57	-22.6	-59
Property tax	-95.3	-467	-96.7	-475	-40.2	-437	-40.2	-435	-30.4	-343	-30.4	-343	-165.9	-431	-167.3	-435
<b>Total property expenses</b>	<b>-231.7</b>	<b>-1,136</b>	<b>-237.1</b>	<b>-1,165</b>	<b>-170.9</b>	<b>-1,860</b>	<b>-160.0</b>	<b>-1,732</b>	<b>-92.7</b>	<b>-1,045</b>	<b>-92.0</b>	<b>-1,038</b>	<b>-495.3</b>	<b>-1,288</b>	<b>-489.1</b>	<b>-1,272</b>
<b>Gross operating profit</b>	<b>771.8</b>	<b>3,787</b>	<b>714.8</b>	<b>3,508</b>	<b>294.7</b>	<b>3,207</b>	<b>327.5</b>	<b>3,549</b>	<b>235.3</b>	<b>2,652</b>	<b>219.2</b>	<b>2,474</b>	<b>1,301.8</b>	<b>3,386</b>	<b>1,261.5</b>	<b>3,279</b>

Property data	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Property management, total	
	2018	2017	2018	2017	2018	2017	2018	2017
December 31								
Number of properties	22	22	3	3	4	4	29	29
Floor space, sq m	203,860 <sup>2)</sup>	203,721 <sup>2)</sup>	91,898	92,319	88,733	88,620	384,491	384,660
Rental vacancy level, %	1.3 <sup>2)</sup>	3.1 <sup>2)</sup>	4.3	3.0	4.4	7.7	2.6	3.9
Floor space vacancy level, %	3.1 <sup>2)</sup>	4.3 <sup>2)</sup>	5.2	4.2	5.8	9.5	4.3	5.5
Total rentable parking spaces	630 <sup>2)</sup>	631 <sup>2)</sup>	800	800	51	51	1,481	1,482

Rentable space and annual rent	Stockholm Business Area <sup>2)</sup>		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
December 31, 2018								
Offices	129,543	702.2	16,751	78.6	50,669	135.3	196,963	916.1
Retail and restaurants	42,715	311.0	37,526	327.1	31,143	179.0	111,384	817.1
Storage and miscellaneous	12,270	22.5	13,148	27.6	4,867	10.5	30,285	60.6
Parking	18,837	22.1	24,473	27.2	1,275	1.9	44,585	51.1
Residential	495	0.5	-	-	779	0.8	1,274	1.4
<b>Total</b>	<b>203,860</b>	<b>1,058.3</b>	<b>91,898</b>	<b>460.5</b>	<b>88,733</b>	<b>327.5</b>	<b>384,491</b>	<b>1,846.3</b>

Floor space vacancy level and rental vacancy level	Stockholm Business Area <sup>2)</sup>		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
December 31, 2018								
Offices	1,348	6.9	566	1.5	1,901	4.1	3,815	12.5
Retail and restaurants	203	0.8	3,142	15.8	1,805	7.7	5,150	24.3
Storage and miscellaneous	3,307	3.8	1,046	2.4	1,316	2.0	5,669	8.2
Parking	1,548	2.0	-	-	100	0.4	1,648	2.4
Residential	-	-	-	-	66	0.1	66	0.1
<b>Total</b>	<b>6,406</b>	<b>13.5</b>	<b>4,754</b>	<b>19.7</b>	<b>5,188</b>	<b>14.3</b>	<b>16,348</b>	<b>47.5</b>

1) No adjustment in respect of Vildmannen 7.

2) Vildmannen 7 is not included due to a fire in which much of the building was destroyed.

<b>Lease term structure<sup>1) 2) 3)</sup></b>							
December 31, 2018							
<b>Number of leases</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024–</b>	<b>Totalt</b>
<b>Stockholm Business Area</b>							
Offices	39	43	52	47	35	20	236
Retail	16	33	17	16	14	9	105
Other	315	182	94	53	33	44	721
<b>Total</b>	<b>370</b>	<b>258</b>	<b>163</b>	<b>116</b>	<b>82</b>	<b>73</b>	<b>1,062</b>
Proportion, %	34.9	24.3	15.4	10.9	7.7	6.8	100.0
<b>NK Business Area</b>							
Offices	12	4	3	2	1	3	25
Retail	77	43	21	6	12	3	162
Other	79	32	34	5	5	4	159
<b>Total</b>	<b>168</b>	<b>79</b>	<b>58</b>	<b>13</b>	<b>18</b>	<b>10</b>	<b>346</b>
Proportion, %	48.5	22.8	16.8	3.8	5.2	2.9	100.0
<b>Gothenburg Business Area</b>							
Offices	27	7	13	4	6	6	63
Retail	27	16	29	8	3	6	89
Other	43	33	33	12	6	10	137
<b>Total</b>	<b>97</b>	<b>56</b>	<b>75</b>	<b>24</b>	<b>15</b>	<b>22</b>	<b>289</b>
Proportion, %	33.6	19.4	25.9	8.3	5.2	7.6	100.0
<b>Hufvudstaden, total</b>							
Offices	78	54	68	53	42	29	324
Retail	120	92	67	30	29	18	356
Other	437	247	161	70	44	58	1,017
<b>Total</b>	<b>635</b>	<b>393</b>	<b>296</b>	<b>153</b>	<b>115</b>	<b>105</b>	<b>1,697</b>
Proportion, %	37.4	23.2	17.4	9.0	6.8	6.2	100.0
<b>Annual rent, SEK M</b>							
<b>Stockholm Business Area</b>							
Offices	59.8	98.6	136.7	123.5	121.3	197.3	737.2
Retail	31.0	52.0	32.3	34.7	54.7	62.6	267.3
Other	21.7	7.9	11.7	8.5	1.5	25.6	76.9
<b>Total</b>	<b>112.5</b>	<b>158.5</b>	<b>180.7</b>	<b>166.7</b>	<b>177.5</b>	<b>285.5</b>	<b>1,081.4</b>
Proportion, %	10.4	14.7	16.7	15.4	16.4	26.4	100.0
<b>NK Business Area</b>							
Offices	7.4	13.0	0.5	15.3	7.0	27.9	71.1
Retail	131.4	100.7	28.3	12.0	46.0	9.1	327.5
Other	10.7	4.2	2.2	0.8	5.2	4.6	27.7
<b>Total</b>	<b>149.5</b>	<b>117.9</b>	<b>31.0</b>	<b>28.1</b>	<b>58.2</b>	<b>41.6</b>	<b>426.3</b>
Proportion, %	35.1	27.6	7.3	6.6	13.6	9.8	100.0
<b>Gothenburg Business Area</b>							
Offices	16.5	28.1	33.8	16.5	16.8	39.7	151.4
Retail	35.7	28.7	51.8	22.4	8.0	23.1	169.7
Other	2.3	5.2	11.3	1.9	1.4	0.8	22.9
<b>Total</b>	<b>54.5</b>	<b>62.0</b>	<b>96.9</b>	<b>40.8</b>	<b>26.2</b>	<b>63.6</b>	<b>344.0</b>
Proportion, %	15.8	18.0	28.2	11.9	7.6	18.5	100.0
<b>Hufvudstaden, total</b>							
Offices	83.7	139.7	171.0	155.3	145.1	264.9	959.7
Retail	198.1	181.4	112.4	69.1	108.7	94.8	764.5
Other	34.7	17.3	25.2	11.2	8.1	31.0	127.5
<b>Total</b>	<b>316.5</b>	<b>338.4</b>	<b>308.6</b>	<b>235.6</b>	<b>261.9</b>	<b>390.7</b>	<b>1,851.7</b>
Proportion, %	17.1	18.3	16.7	12.7	14.1	21.1	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 assesment 2018, SEK m
<b>Stockholm Business Area</b>					
<i>Kungsgatan Management Area</i>					
Hästhuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	348.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	400.0
Kåkenhusen 40	Brunnsgatan 1–9, Norrlandsgatan 29–33, Kungsgatan 4–10	4,934	1921/2011	1926/28/30/32/ 84/85/89/91	1,074.0
Oxhuvudet 18 <sup>1)</sup>	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 27–33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	1,286.0
<i>Total</i>		11,830			3,108.0
<i>Norrmalmstorg Management Area</i>					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	212.0
Kvasten 6 <sup>1)</sup>	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	387.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	213.0
Norrmalm 2:63 <sup>2)</sup>	Norrmalmstorg		1992	1993	14.0
Packarhuset 4 <sup>1)3)</sup>	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	1,008.0
Pumpstocken 10 <sup>1)</sup>	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	786.3
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	174.0
Rännilen 11	Biblioteksgatan 8, Mäster Samuelsgatan 5	775	1958	1902/85	173.0
Rännilen 18 <sup>1)</sup>	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986/2009	425.0
Rännilen 19	Norrmalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39/ 2007	1902/42/64/90/2002	651.0
Skären 9	Smålandsgatan 18–20, Norrlandsgatan 8–10	2,195	1917	1984/2001	603.0
Vildmannen 7 <sup>1)4)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	112.6
<i>Total</i>		17,663			4,758.9
<i>West Management Area</i>					
Achilles 1 <sup>5)</sup>	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th Century/1974	146.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	270.0
Kungliga Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	127.0
Medusa 1 <sup>1)6)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	75.4
Orgelpipan 7 <sup>7)</sup>	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	916.0
Svärdfisken 2 <sup>1)</sup>	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	209.0
<i>Total</i>		12,075			1,743.4
<b>Total, Stockholm Business Area</b>		<b>41,568</b>			<b>9,610.3</b>
<b>NK Business Area</b>					
<i>NK Management Area, Stockholm</i>					
Hästen 19 <sup>1), 9)</sup> och 20 <sup>8), 9), Spektern 14<sup>8), 9)</sup></sup>	Hamngatan 18–20, Regeringsgatan 36–40	8,875	1998	1915/91	2,775.0
<i>NK Management Area, Gothenburg</i>					
Inom Vallgraven 10:9 <sup>9)</sup>	Östra Hamngatan 42, Kyrkogatan 48–54, Fredsgatan 5–7, Drottninggatan 39–45	4,520	1998	1964/94	691.0
<i>Parkaden Management Area</i>					
Hästskon 10 <sup>10)</sup>	Regeringsgatan 47–55, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	550.5
<b>Total, NK Business Area</b>		<b>18,316</b>			<b>4,016.5</b>
<b>Gothenburg Business Area</b>					
<i>Gothenburg Management Area</i>					
Inom Vallgraven 3:2 <sup>11)</sup>	Stora Nygatan 17, Lilla Drottninggatan 3	784	2016	1856	24.8
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	276.0
Inom Vallgraven 12:11	Drottninggatan 50–52, Södra Hamngatan 45–47, Fredsgatan 2–4	2,138	1967/ 2010/11	1875/1929/30	170.0
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	2,323.0
Nordstaden GA:5 <sup>12)</sup>	Nordstadstorget and others				276.7
<b>Total, Gothenburg Business Area</b>		<b>19,757</b>			<b>3,070.5</b>
<b>TOTAL</b>		<b>79,641</b>			<b>16,697.3</b>

Rentable space, sq m								
Offices	Retail	Restaurants	Cinemas	Storage	Parking	Residential	Other	Total
4,980	1,899			242				7,121
6,403	1,809			1,028				9,240
17,092	2,925	1,676		1,107				22,800
20,785	5,072			2,032	1,612		5	29,506
49,260	11,705	1,676	–	4,409	1,612	–	5	68,667
2,839	372	453		281	726			4,671
2,808	1,324	2,774		141				7,047
2,458	593	144		242				3,437
		194						194
10,871	4,017			511				15,399
7,795	3,889	499		75		192	1	12,451
1,996	750			28				2,774
1,630	840	546		2				3,018
4,848	1,529	287		271				6,935
7,836	2,103			507	836			11,282
7,861	1,637			399	1,106			11,003
								–
50,942	17,054	4,897	–	2,457	2,668	192	1	78,211
4,014	351			610				4,975
7,598	379	263		872				9,112
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
29,341	4,880	2,503	1,893	3,504	14,557	303	1	56,982
<b>129,543</b>	<b>33,639</b>	<b>9,076</b>	<b>1,893</b>	<b>10,370</b>	<b>18,837</b>	<b>495</b>	<b>7</b>	<b>203,860</b>
11,591	22,029	2,234		3,535			17	39,406
5,160	10,295	247		1,089			4	16,795
	2,006	715		8,502	24,473		1	35,697
<b>16,751</b>	<b>34,330</b>	<b>3,196</b>	<b>–</b>	<b>13,126</b>	<b>24,473</b>	<b>–</b>	<b>22</b>	<b>91,898</b>
1,230	262			72				1,564
10,438	3,259	381		1,107	1,275			16,460
1,823	1,709			393		779		4,704
37,178	23,767	1,765		3,254			41	66,005
								–
<b>50,669</b>	<b>28,997</b>	<b>2,146</b>	<b>–</b>	<b>4,826</b>	<b>1,275</b>	<b>779</b>	<b>41</b>	<b>88,733</b>
<b>196,963</b>	<b>96,966</b>	<b>14,418</b>	<b>1,893</b>	<b>28,322</b>	<b>44,585</b>	<b>1,274</b>	<b>70</b>	<b>384,491</b>

- 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 396.0 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 57.0 million.
- 9) Owned by the subsidiary AB Nordiska Kompaniet.
- 10) Owned by the subsidiary AB Hamngatgaraget. 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 259.6 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.*

## DETAILED SUSTAINABILITY INFORMATION

Since 2011, Hufvudstaden has reported its sustainability work each year in accordance with the GRI (Global Reporting Initiatives) Sustainability Reporting Guidelines. It also includes GRI's sector-specific supplements for the construction and property sector. This year's Sustainability Report is the first to be published in accordance with the most recent guidelines for GRI Standards, Core level.

With effect from 2018, Hufvudstaden also 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).

### ORGANIZATION

Sustainability work at Hufvudstaden is based on the Company's vision and business concept. For Hufvudstaden, sustainability work involves assuming long-term responsibility, both in terms of economic development and environmental and social issues. Sustainability work extends from the operation of our properties to redevelopment, business ethics and our HR policy.

Our corporate culture is value-governed and characterized by a strong sense of commitment throughout the organization. Our four core values are quality, honesty, attentiveness and commitment. These form the basis for how our employees act in business situations and in their dealings with colleagues, customers and suppliers. They help us to achieve our operating objectives, whilst at the same time they are of vital importance in determining how we can contribute to sustainable development.

#### Employees

102-7, 102-8

Employees	2018	2017	2016
<b>Total number of employees</b>	134	120	116
<i>Women</i>			
Number of permanent employees	56	45	45
Full-time	55	45	45
Part-time	1	0	0
Number of employees on fixed-term contracts	2	1	0
<i>Men</i>			
Number of permanent employees	76	74	71
Full-time	75	73	71
Part-time	1	1	0
Number of employees on fixed-term contracts	0	0	0

As at December 31, 2018

#### External initiatives followed by the organization

102-12

Building Products Assessment, Global Reporting Initiatives (GRI), European Public Real Estate Association (EPRA).

#### Values, principles, standards, and norms of behavior

102-16

The documents listed below have been approved by the Executive Management.

##### Hufvudstaden's policy documents

Alcohol and Drug Policy

Work Environment Policy

Fire Safety Policy

Finance Policy

Health Policy

Integrity Policy (GDPR)

IT and Telephony Policy

Equality and Diversity Policy

Remuneration Policy

Environment Policy

Rehabilitation Policy

Recruitment Policy

Travel Policy

Safety and Security Policy

Code of Conduct

Whistleblower Policy

#### Stakeholder dialogue

102-40, 102-42, 102-43, 102-44

Hufvudstaden has identified five main stakeholder categories on whom we have the greatest impact, either directly or indirectly. The categories are tenants, employees, shareholders, suppliers and society. We maintain an ongoing dialogue with these stakeholders in order to develop our sustainability work and to ensure we work on issues that are of greatest significance to the Company.

This year specific stakeholder dialogues also took place, where a number of representatives from each stakeholder group were selected and contacted for an interview. During the course of the interview we discussed which sustainability aspects Hufvudstaden could influence the most, and how the Company ought to develop its sustainability communication.

Stakeholders	Key issues	Type of dialogue
<b>Tenants</b>	<ul style="list-style-type: none"> <li>High level of service</li> <li>Energy consumption</li> <li>Climate impact</li> <li>Waste management</li> <li>Social and ethical responsibility within the supply chain</li> <li>Urban development</li> </ul>	<ul style="list-style-type: none"> <li>Customer Satisfaction Survey</li> <li>Regular meetings with tenants</li> <li>Newsletter</li> <li>Green leases</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Equality and diversity</li> <li>Involvement in society</li> <li>Competence development</li> <li>Work environment</li> <li>Leadership</li> </ul>	<ul style="list-style-type: none"> <li>Appraisal discussions</li> <li>Employee Satisfaction Surveys</li> <li>Staff meetings</li> <li>Conferences</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>Communication around sustainability issues</li> <li>Social and ethical responsibility within the supply chain</li> <li>Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>Annual Meeting</li> <li>Analyst meetings</li> <li>Annual Report</li> <li>Interim Reports</li> <li>Investor meetings</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Clear, consistent requirements regarding business ethics and the environment</li> <li>Communication around sustainability issues</li> </ul>	<ul style="list-style-type: none"> <li>Procurement</li> <li>Agreements</li> <li>Code of Conduct</li> </ul>
<b>Society</b>	<ul style="list-style-type: none"> <li>Climate impact</li> <li>Communication around sustainability issues</li> <li>Social and ethical responsibility within the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Website</li> <li>Media</li> </ul>

**Materiality Analysis**

102-46, 102-47

Based on the results from the stakeholder dialogues, a Materiality Analysis was conducted together with the Company's sustainability working group. The aim was to examine whether Hufvudstaden's prioritized sustainability areas concurred with

the Company's actual impact, strategic goals, and stakeholder expectations. The sustainability areas that were identified as being of greatest significance are listed below.

Responsible enterprise	Sustainable properties	Sustainable employees
<ul style="list-style-type: none"> <li>Business ethics</li> <li>Customer relations</li> <li>Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Energy use</li> <li>Climate impact</li> <li>Waste management</li> <li>Urban development</li> </ul>	<ul style="list-style-type: none"> <li>Work environment</li> <li>Competence development</li> <li>Leadership</li> <li>Equality and diversity</li> <li>Involvement in society</li> </ul>

**Generated and distributed economic value**

201-1

As a company, we have an impact on the social economy in a variety of ways, including taxes and payments to business partners, as well as salaries, pensions and social insurance contributions for employees. In the table below we report how Hufvudstaden's revenue during 2018 was distributed among the different stakeholder categories.

Generated and distributed economic value		
	SEK M	%
Net revenue	1,883	100
Retained economic value	303	16
Operations	452	24
Employees	138	7
Interest	121	7
Current tax	147	8
Dividend	722	38

**Anti-corruption**

205-3

No cases of corruption were reported during the year.

**ENVIRONMENT**
**Energy consumption**

302-1, 302-3

*Elec-Abs, Elec-Lfi, DH&C-Abs, DH&C-Lfi, Fuels-Abs, Fuels-Lfi*
**Indirect energy use**

All data is exclusive of electricity used in operations.

**Direct energy consumption**

Hufvudstaden has no direct energy consumption. We do not use any fuel oils or gas to heat our properties.

Type of energy	EPRA code	Energy consumption		Proportion of non-fossil fuel energy consumption	
		2018	2017	2018	2017
District heating, normal year-adjusted, MWh		19,233	17,696	88%	91%
District cooling, normal year-adjusted, MWh		7,007	5,214	100%	100%
Total district heating and district cooling, normal year-adjusted, MWh	DH&C-Abs, DH&C-Lfi	26,240	22,910	91%	93%
Property electricity, normal year-adjusted, MWh	Elec-Abs, Elec-Lfi	23,815	22,914	100%	100%
Total energy consumption, normal year-adjusted, MWh		50,055	45,824	95%	97%
Energy intensity, normal year-adjusted, kWh/sq m	Energy-int	115	106	95%	97%
Total energy consumption, non-normal year-adjusted, MWh		49,618	44,660	95%	97%

*Continued on page 104.*

Continuation, page 103.

Greenhouse gas emissions		Greenhouse gas emissions		
305-1, 305-2, 305-4		EPRA code		
GHG-Dir-Abs, GHG-Indir-Abs, GHG-Int		2018		
2017		2017		
Direct, tonnes	Scope 1	GHG-Dir-Abs	265	116
Indirect, tonnes	Scope 2	GHG-Indir-Abs	1,368	1,017
Carbon dioxide intensity		GHG-Int	3.76	2.61
kg/sq m				

Scope	Conversion factor	Greenhouse gas emissions resulting from electricity consumption (Scope 2, tonnes of CO2e)	
		2018	2017
Scope 1	Company cars, 200 g/km		
Scope 1	Cooling media: IPCC AR5		
Scope 2	Origin-labelled renewable electricity: 0 tonnes CO <sub>2e</sub> /MWh Source Swedish Energy Markets Inspectorate		
Scope 2	District heating and district cooling statistics produced by Stockholm Exergi and Göteborg Energi.		

\* Greenhouse gas emissions based on the electricity we actually purchase.  
\*\* Greenhouse gas emissions based on the Nordic Electricity Mix.

As greenhouse gas emissions come from several different sources, they are summarized under the term Greenhouse gas emissions. Greenhouse gas emissions are a recalculation to carbon dioxide equivalents (CO<sub>2e</sub>).

Water		Water consumption		
Water-Abs, Water-Lfl, Water-Int		EPRA code		
Hufvudstaden reports water data based on EPRA guidelines.		2018		
2017		2017		
Municipal water, m <sup>3</sup>	Water-Abs, Water-Lfl		215,139	231,878
Water intensity, m <sup>3</sup> /sq m	Water-Int		0.50	0.53

We are a party to several tenant water supply agreements. The reporting of water consumption thus includes both water used as part of property operation and maintenance, and water used by the tenants during the course of their property operations.

Waste		Type of waste		
306-2		Tonnes		
Waste-Abs, Waste-Lfl		2018		
2017		2017		
<b>Non-hazardous waste</b>				
Combustible waste		1,665	1,544	
Cardboard		464	531	
Organic waste		30	59	
Plastics		44	23	
Glass		74	61	
Other recycled material		120	96	
<b>Hazardous waste</b>				
Electronics		18	3	
Other hazardous waste		3	7	
Total waste		2,418	2,324	

Hufvudstaden reports waste data based on the EPRA guidelines. We report data for waste volumes handled by Hufvudstaden and for which it has an agreement. Combustible waste is handled largely by the tenants and consequently we do not have a full and comprehensive picture of the properties' waste management.

For a number of properties, no reliable data is available regarding combustible waste as municipal waste management companies are responsible for collection and are unable to provide statistics. Estimated figures are used for these properties.

For those properties where we have control of the majority of the waste, we can report that the sorting rate is approximately 40 per cent.

Environmentally certified properties	All future new construction and redevelopment projects will be certified according to one of the established certification systems.
<p><b>Cert-Tot</b></p> <p>At present, 31 per cent of Hufvudstaden's holdings are environmentally certified, of which 15 per cent are certified according to <i>Miljöbyggnad</i> and 16 per cent according to Green Building. In total, we have 135,497 square metres of certified floor space. No new property was certified during the year.</p> <p>Certification provides us with an independent examination to determine whether a building satisfies stipulations relating to energy, indoor environment, and materials.</p>	 <p>Oxhuvudet 18 Orgelpipan 7 Hästhuvudet 13</p>  <p>Packarhuset 4 Femmanhuset</p>

**Compliance with environmental laws and regulations**  
307-1

Hufvudstaden has not been subject to any fines or non-monetary sanctions as a result of non-compliance with environmental laws or regulations.

**Supplier assessment**  
308-1, 414-1

In all construction projects and general agreements, contractors are procured with due account taken of social and environmental sustainability requirements with the exception of minor repairs and maintenance. At present, Hufvudstaden does not compile any quantitative data regarding supplier assessment and instead it reports in qualitative terms.

Hufvudstaden's Environmental Programme includes environmental objectives and environmental stipulations in conjunction with redevelopment, new construction, tenant adaptations, and maintenance. The aim is to ensure that Hufvudstaden's environmental stipulations are met, and that environmental impact is minimized. Contractors and suppliers who work for Hufvudstaden are responsible for satisfying the environmental goals and stipulations set out in the Environmental Programme, and they must also examine and comply with Hufvudstaden's Code of Conduct. Environmental work will be conducted in partnership with the customer's project management team, planners and contractors, and environmental issues will be a standing item on the agenda at planning meetings and construction meetings.



## EMPLOYEES

### Employee turnover

401-1

Emp-Turnover

#### Employee turnover

	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
<b>New employees, number</b>						
< 30 years	5	3	0	5	3	3
30–50 years	10	2	8	5	3	5
> 50 years	3	1	1	3	1	0
<b>Total</b>	<b>18</b>	<b>6</b>	<b>9</b>	<b>13</b>	<b>7</b>	<b>8</b>
Number of new employees, %	13	5	8	11	6	7

#### Employees who have left the Company, number

< 30 years	0	0	0	2	1	1
30–50 years	3	4	8	7	6	2
> 50 years	3	0	0	1	0	0
<b>Total</b>	<b>6</b>	<b>4</b>	<b>8</b>	<b>10</b>	<b>7</b>	<b>3</b>
Number of employees who have left the Company, %	4	3	7	8	6	3

#### Employee turnover %

	2018	2017	2016
Women	12 %	18 %	16 %
Men	5 %	14 %	4 %
<b>Total</b>	<b>8 %</b>	<b>15 %</b>	<b>9 %</b>

### Diversity and Equal Opportunities

405-1

Diversity-Emp

#### Diversity and equal opportunities

	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
<b>Board of Directors, %</b>						
< 30 years	0	0	0	0	0	0
30–50 years	22	11	22	11	33	11
> 50 years	11	56	11	56	0	56
<b>Executive Management, %</b>						
< 30 years	0	0	0	0	0	0
30–50 years	12	50	14	43	14	43
> 50 years	12	25	14	29	14	29
<b>Other employees, %</b>						
< 30 years	6	10	3	11	7	9
30–50 years	27	28	25	33	22	37
> 50 years	12	17	12	17	10	15

Hufvudstaden does not follow up diversity indicators such as religious affiliation or ethnicity among its 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

Hufvudstaden complies with environmental laws and in doing so it has set up a Work Environment Group, drawn up a Work Environment Policy, and appointed a Health and Safety Officers in accordance with the Policy. Responsibility and duties are delegated according to an established delegation process. In case of hazardous working situations, employees should in the first instance contact their immediate superior. Systematic environmental work also takes place to continuously review risks, present proposals for measures that need to be taken, and promote development within both the physical and psychosocial work environment. Systematic work environment initiatives include CPR and first aid training among employees.

Hufvudstaden also offers individually adapted competence development, a health and fitness allowance, health checks, health insurance, ergonomics advice, and massage.

For further information about how we work with health and safety among employees and in business relations, see pages 32 – 33 regarding Sustainable work environment and supplier relations, and below regarding Work-related injuries.

Absence due to illness is reported in the graph on page 33.

### Work-related injuries

403-9

There were no work-related fatalities during 2018, and nor did Hufvudstaden have any reported cases of work-related accidents of a serious nature within the Company's operations, i.e. including contractors. No cases of work-related injuries were reported among Hufvudstaden's employees.

Work-related injuries, illness and accidents are handled according to set routines at Hufvudstaden and must always be reported to the Social Insurance Agency for a review. Serious accidents will in certain cases be reported directly to the Work Environment Authority. In the case of work-related injuries, an external occupational health and safety body will be contacted.

### Employee appraisal

404-3

Emp-Dev

100 per cent of employees had a development/appraisal discussion during the year. Hufvudstaden aims to ensure that all employees have an appraisal, and consequently we do not report or keep statistics regarding gender division and form of employment.

### Customer Health and Safety

416-1, 416-2

H&S-Asset, H&S-Comp

Hufvudstaden examines all buildings, i.e. 100 per cent, in compliance with official Swedish health and safety regulations. This applies to areas such as systematic fire protection and sprinkler inspections, compulsory ventilation inspections, lift and electric gate inspections, as well as energy declarations and electric power audits.

No deviations from laws, regulations or routines governing customers' health and safety were reported in 2018.

### Compliance with Laws and Regulations

419-1

Hufvudstaden has not been ordered by a court or official agency to pay any fines during the year.

GRI and EPRA INDEX 2018

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102-7	Scale of the organization		6–7, 54, 102
102-8	Information on employees and other workers		102
102-9	Supply chain		32
102-10	Significant changes in the organization and its supply chain		No changes
102-11	Precautionary Principle or approach		32
102-12	External initiatives		102
102-13	Membership of associations		31
<i>Strategy</i>			
102-14	Statement from senior decision-maker		12–13
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102-16	Values, principles, standards and norms of behaviour		28, 32–36, 102
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102-24	Nominating and selecting the highest governance body	Gov-Selec	88–90
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<i>Engagement</i>			
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<i>Reporting practice</i>			
102-45	Entities included in the consolidated financial statements		78 (Note 20)
102-46	Defining report content and topic Boundaries		103
102-47	List of material topics		103
102-48	Restatements of information		None
102-49	Changes in reporting		103
102-50	Reporting period		68 (note 1)
102-51	Date of most recent report		February 2018
102-52	Reporting cycle		102
102-53	Contact point for questions regarding the report		109
102-54	Claims of reporting in accordance with the GRI Standards		102
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<b>Specific standard indicators</b>			
<i>Economic performance</i>			
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GRI Standards	Description	EPRA	Page
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302-1	Energy consumption within the organization	Elec-Abs Elec-Lfl DH&C-Abs DH&C-Lfl Fuels-Abs Fuels-Lfl	103
302-3	Energy intensity	Energy-Int	103
<i>Emissions</i>			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		29–30
305-1	Direct greenhouse gas emissions (Scope 1)	GHG-Dir-Abs	104
305-2	Indirect greenhouse gas emissions (Scope 2)	GHG-Indir-Abs	104
305-4	Intensity of greenhouse gas emissions	GHG-Int	104
<i>Water</i>			
	Total water consumption	Water-Abs Water-Lfl	104
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<i>Waste</i>			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		29–32
306-2	Waste by type and disposal method*	Waste-Abs Waste-Lfl	104
<i>Environmental certification</i>			
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<i>Environmental compliance</i>			
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307-1	Non-compliance with environmental laws and regulations		104
<i>Supplier environmental assessment</i>			
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308-1	New suppliers that were screened using environmental criteria*		104
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401-1	New employee hires and employee turnover	Emp-Turnover	105
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103-1 103-2 103-3	Explanation of the material topic and its Boundary		32–36
405-1	Diversity of governance bodies and employees	Diversity-Emp	105
<i>Non-discrimination</i>			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		32–36
406-1	Incidents of discrimination and corrective actions taken		105
<i>Supplier social assessment</i>			
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414-1	New suppliers that were screened using social criteria*		104

GRI Standards	Description	EPRA	Page
<i>Customers' health and safety</i>			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		31–32
416-1	Assessment of the health and safety impacts of product and service categories	H&S-Asset	105
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	H&S-Comp	105
<i>Socioeconomic compliance</i>			
103-1 103-2 103-3	Explanation of the material topic and its Boundary		31–32
419-1	Non-compliance with laws and regulations in the social and economic area		105

\*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 CO<sub>2e</sub>, water consumption in m<sup>3</sup>, waste volume in tonnes, energy intensity in kWh/sq m, emission intensity in kg CO<sub>2e</sub>/sq m, and water intensity in m<sup>3</sup>/sq m.

### 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 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 384,491 square metres, 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 municipal waste management companies 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.

[www.hufvudstaden.se/klimatver](http://www.hufvudstaden.se/klimatver)

### 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 29–36.

### 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 102–103.

## 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 page 97.

**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 Real Estate 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 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 22 per cent standard tax.

*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.

*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 Jarlgatan, 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 lettable 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.* The contracted rent, including the estimated market rent for vacant premises.

*Net operating income.* Net property management revenue less the cost of maintenance, operation and administration, ground rent and property tax.

*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 a store's net turnover.

*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, March 21, 2019 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/](http://www.bolagsverket.se/) and on the Company's website [www.hufvudstaden.se](http://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, March 15, 2019, 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 March 15, 2019.

- notify Hufvudstaden by Friday March 15, 2019, preferably before 4pm. Notification must be sent using the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se), by e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se), by telephone on +468 762 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 authorization documents ought to be received by the Company at the above address by March

15, 2019 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 3.70 per share, totaling SEK 763.2 million, be paid for 2018, with the record date set as March 25, 2019. Payment is expected to be made on March 28, 2019.

### 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 2019 ..... May 9, 2019  
 Interim Report, Jan – June 2019 ..... August 21, 2019  
 Interim Report Jan – Sept 2019 ..... November 7, 2019  
 Year-End Report 2019 ..... February 13, 2020  
 Annual Report 2019 ..... February 2020

### Contact persons

Ivo Stopner, *President*  
 Telephone: +46 8 762 90 00, [ivo.stopner@hufvudstaden.se](mailto:ivo.stopner@hufvudstaden.se)  
 Åsa Roslund, *CFO*  
 Telephone: +46 8 762 90 00, [asa.roslund@hufvudstaden.se](mailto:asa.roslund@hufvudstaden.se)

*This information is also published on [www.hufvudstaden.se](http://www.hufvudstaden.se). The Annual Report is distributed to all new shareholders and to other shareholders on request.*

## ADDRESSES

*Hufvudstaden AB (publ)*

NK 100

SE-111 77 STOCKHOLM

Visiting address: Regeringsgatan 38

Telephone ..... +46 8 762 90 00

E-mail..... info@hufvudstaden.se

Website..... www.hufvudstaden.se

Company reg. no.....556012-8240

Registered office.....Stockholm

### Gothenburg

*Hufvudstaden AB (publ)*

Kyrkogatan 54

SE-411 08 GÖTEBORG

Telephone ..... +46 31 710 21 00

E-mail.....info@hufvudstaden.se

Website..... www.hufvudstaden.se

### Parking Operations

*Parkaden AB*

NK 100

SE-111 77 STOCKHOLM

Visiting address: Regeringsgatan 47–55

Telephone ..... +46 8 762 92 00

E-mail.....info@parkaden.se

Website..... www.parkaden.se

### NK Department Stores

*NK Stockholm*

NK 100

SE-111 77 STOCKHOLM

Visiting address: Hamngatan 18–20

Telephone ..... +46 8 762 80 00

Website..... www.nk.se

*NK Gothenburg*

NK 331

Drottninggatan 39

SE-411 09 GÖTEBORG

Visiting address: Östra Hamngatan 42

Telephone ..... +46 31 710 10 00

Website..... www.nk.se

### Group brands

normalmstorg 1



*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.*



NORDISKA KOMPANIET  
Stockholm



HUFVUDSTADEN