

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, Nordic Main Market Rulebook for Issuers of Shares from Nasdaq Stockholm, the Swedish Corporate Governance Code (the Code), Rules on Remuneration of the Board and Executive Management and on Incentive Programmes ("the Remuneration Rules") from The Swedish Corporate Governance Board and other applicable laws and rules. The Code aims to create good prerequisites for active, responsible ownership, and is intended to be part of the self-governance process in Swedish industry, see www.bolagsstyrning.se. It is based on the principle of comply or explain, which means that companies can deviate from one or more rules in the Code if there is justification and an explanation, and if the solution chosen can be presented.

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

Shares and shareholders

Hufvudstaden's series A shares are listed on NASDAQ Stockholm. The Company's series C shares were delisted upon request by NASDAQ Stockholm in January, 2020. Share capital in the Company at year-end amounted to SEK 1,056,359,665, divided among 211,271,933 shares, giving a par value of SEK 5 per share. Of the shares, 203,000,047 are series A shares, carrying one vote per share, and 8,271,886 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 46.2 per cent of outstanding shares and 88.4 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 conversion of their series C shares into series A shares. During the year, 3,178 series C shares were converted to series A shares. 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 2020 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. In September 2020, 3,959,000 series A shares were bought back for SEK 500 million, corresponding to an average price of SEK 126.29 per share. As at December 31, 2020, Hufvudstaden held 8,965,000 series A shares, equivalent to 4.2 per cent of the total number of issued shares. No shares were bought back after the end of the reporting period (up to and including February 18, 2021).

Annual Meeting

Shareholders' right to decide in Hufvudstadens matters are exercised at the Annual General Meeting. Shareholders, who are registered in the share register as of the record date and has notified participation in time, has the right to participate and vote at the Annual General Meeting in person or through agents. Shareholder whose shares are nominee-registered must, in order to exercise voting rights at the Annual General Meeting, temporarily re-register their shares in their own name, according to what follows from the notice convening the Annual General Meeting. Decisions at the meeting are normally

made simple majority. In some matters prescribes however, the Companies Act that a proposal shall approved by a higher proportion of those on the meeting represented and cast the votes. Individual shareholders, who wish to receive a matter discussed at the meeting, can request it from Hufvudstaden's board under special address, which is published on the company's website well in advance of the notice period for the meeting. The Annual General Meeting will be held in Stockholm within six months of the financial year final. At the Annual General Meeting, matters are decided concerning, inter alia, the determination of income statements and balance sheets, dividends, discharge of liability for the board members and CEO, election of board members, Chairman of the Board and auditors and remuneration to the board and auditors, principles for remuneration to senior executives and other important issues. Calling to the Annual General Meeting takes place through advertising in Post- och Inrikes Tidningar and at the company website. That summons has been given advertised in Dagens Nyheter.

The 2020 Annual Meeting was held on March 19, 2020 with certain precautionary measures taken due to the corona pandemic. Only a few representatives of the Board of Directors and Senior Executives attended the meeting along with the Company's auditor. A large number of shareholders was represented by proxy to minimise the number of attendees and reduce the risk of transmission of the virus.

A total of 251 shareholders, representing 124,641,843 series A shares and 8,263,132 series C shares, were represented, and they represented 950,955,043 votes, equivalent to 93 per cent of the total number of outstanding votes. 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 3.90 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.

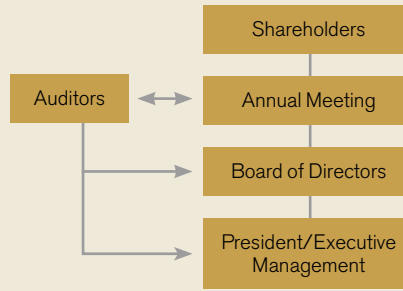
The 2021 Annual Meeting will be held through postal voting on March 25, 2021.

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 2020 Annual Meeting in accordance with the proposal set forth by the main shareholder, which resulted in the elec-

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tion of nine members, of whom three were women and six were men.

As a basis for its proposal prior to the 2021 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 Senior Executives 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 96–97. An external lawyer is engaged to act as secretary to the Board of Directors.

Responsibility of the Board of Directors

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

- Continuous follow-up and assessment of the Company's financial position and business development.
- Continuous evaluation of the Company's operative management and the work of the President.
- Ensuring there is satisfactory control of the Company's compliance with laws and other regulations, and the continuous evaluation of the Company's internal control and risk management systems.
- Adoption of guidelines governing the way the Company should act in the community from a sustainability point of view.

The work of the Board of Directors follows the rules of procedure adopted by the Board of Directors, which provided 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

Name	Function	Attendance ¹⁾	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	10	Yes	No
Claes Boustedt		10	Yes	No
Peter Egardt		10	Yes	Yes
Liv Forhaug		10	Yes	Yes
Louise Lindh		10	Yes	No
Fredrik Persson		10	Yes	Yes
Sten Peterson		10	Yes	No
Anna-Greta Sjöberg		10	Yes	Yes
Ivo Stopner ²⁾	President	5	No (employee)	Yes

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

²⁾ On sick leave January 1–June 30, 2020.

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 ten meetings during 2020, of which one was a statutory meeting. Economic and financial reports and operational reports from the Business Area are presented at each Board meeting. In addition, key matters of a principle nature or of major economic significance are taken up at each ordinary meeting. The work of the Board of Directors during the year was aimed specifically at strategy discussions, issues relating to the economic climate and financing, property valuation, acquisitions, and investments. Other matters dealt with during the year were major current projects, including development projects in the NK department stores, the Skären 9 extension and redevelopment project, the outbreak and management of the corona pandemic, delisting of the Company's series C shares, buy-back of company shares, the contracting of a new auditor and the appointment of an additional Vice President. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2019 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 mat-

ters 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.

Senior Executives

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 Senior Executives comprises the President and three business area heads, as well as the CFO, Head of Business Development, Head of Property Development, and Head of Human Resources. Bo Wikare is a Vice President and Anders Nygren was also appointed as a Vice President on October 1.

The Senior Executives meets approximately once a month to discuss current issues. They also hold a strategy conference twice a year. Hufvudstaden's President Ivo Stopner was on leave of absence from October 1, 2019 to June 30, 2020 due to need for recovery after a period of high workload. The Company's Vice President Bo Wikare handled the President's duties while he was away. Please refer to pages 98–99 for information about individual directors.

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 2020 Annual Meeting, KPMG AB was re-elected as the auditing company for a period of one year. Joakim Thilstedt is lead auditor. Joakim Thilstedt's

other major assignments include AFRY, Ahlsell, Holmen, L E Lundbergföretagen and Nordic Entertainment Group.

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 2020 it was decided that remuneration for the period up to the next Annual Meeting, totalling SEK 2,250,000, 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 500,000 and the other seven non-employed members, who each receive SEK 250,000.

Senior Executives

Guidelines on salaries, bonuses and other remuneration to the Company's senior executives are decided at the Annual Meeting. It was confirmed at the 2020 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 2020 Annual Meeting and the Board has used the opportunity to deviate from the guidelines regarding the weighting of the bonus criteria, see below. The guidelines will continue to apply in 2021 as the Board will not propose any changes of the guidelines to the Annual General Meeting 2021. Complete guidelines are presented in Note 8.

The Board has prepared a remuneration report for approval by the Annual General Meeting 2021. The auditor's statement on whether guidelines adopted at the Annual Meeting in 2020 governing remuneration to senior executives have been followed, will be available on the Company's website no later than three weeks prior to the Annual Meeting, and will be attached to

the documents distributed at the Annual Meeting. The statement is also available from the Company on request.

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

For further information regarding salaries and remuneration, as well as guidelines for remuneration to senior executives, as adopted at the 2020 Annual Meeting, see Note 8.

Bonus

All permanent employees in the Group were included in a bonus scheme during the year. According to the guidelines, the bonus criteria for executive management should be weighted as follows: 70 per cent based on financial targets linked to operating results, 15 per cent based on operational targets related to customer satisfaction and 15 per cent based on individual targets. Aimed at increasing incentives to take the Company through the corona pandemic in the manner that is best for the business, the board decided that the criteria for 2020 should instead be weighted as follows: financial targets linked to operating results at 55 per cent, operational targets related to customer satisfaction at 15 per cent and individual targets at 30 per cent. The same weighting of the criteria applied to other employees.

Under the bonus scheme for both Senior Executives and other employees, decisions are made for one year at a time and the bonus is capped. Bonuses are paid only if the Company shows a positive operating result before any unrealised changes in value. The cost of bonuses for all employees in 2020 amounted to SEK 3.0 million (6.2) or an average of SEK 148,000 per person for Senior Executives including the President and an average of SEK 14,000 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 assess-

ment, 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 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.