

## CORPORATE GOVERNANCE REPORT

Hufvudstaden is a Swedish listed company with its registered office in Stockholm. The Group is governed by the Articles of Association, the Swedish Companies Act, and the rules of NASDAQ OMX Stockholm for issuers, the Swedish Corporate Governance Code (the Code), as well as other applicable laws and rules. The Code aims to create good prerequisites for active, responsible ownership and is intended to act as guidance in self-governance within Swedish industry, see [www.bolagsstyrning.se](http://www.bolagsstyrning.se). It is based on the principle of comply or explain, which means that the Company can deviate from one or more rules in the Code if there is justification and an explanation and if the solution chosen can be explained.

Hufvudstaden complies with the Code with a deviation with regard to the Election Committee. 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 L E Lundbergföretagen AB, with a total of 45.3 per cent of outstanding shares and 88.1 per cent of the votes. Apart from L E 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. 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. There is no pension fund or any other undertaking to the personnel with regard to shareholdings.

### Annual General Meeting

A shareholder's right to decide in matters related to Hufvudstaden is exercised at the Annual 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 General Meeting, either in person or by proxy. Shareholders who have their shares registered with nominees must, in order to exercise their right to vote at the Annual General Meeting, have their shares re-registered temporarily in their own name as stipulated in the notice to attend 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 separate address, published on the Company's website, well in advance of the issuing of a summons to the meeting.

The Annual General Meeting must be held in Stockholm within six months of the end of the financial year. The Annual General 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 the Company's website. Notification that the summons has been sent out is published in *Dagens Nyheter*.

The 2011 Annual General Meeting was held on March 24, 2011. A total of 331 shareholders, representing 118,007,165 series A shares and 8,260,355 series C shares, were present and they represented 944,042,665 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. At the Annual General Meeting, it was decided to adopt the Income Statement and the Balance Sheet as well as the Consolidated Income Statement and the Consolidated Balance Sheet and to allocate the unappropriated earnings in such a way that SEK 2.30 per share is paid to the shareholders as a dividend. At the meeting, discharge from liability was granted to the members of the Board of Directors and the President and a decision was reached on the fee to the members of the Board of Directors and the auditors. In addition, all members of the Board of Directors were re-elected for the period up to the end of the next Annual General Meeting. Finally, a decision was reached at the meeting on guidelines for salaries and remuneration to senior executives and authorization for the Board of Directors to acquire and assign Company shares.

The 2012 Annual General Meeting will be held in Stockholm on March 22, 2012.

#### Nomination and election of the Board of Directors and auditors

According to the Articles of Association, the Board of Directors shall comprise, in addition to the members appointed according to law by a party other than the general meeting, 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 General Meeting to be held after the year in which the members of the Board of Directors were appointed. In the light of the concentrated ownership structure, there is no formally appointed Election Committee. The main shareholder proposes a person to chair the meeting, a Board of Directors, a Chairman of the Board and Board fees and auditors and auditors' fees. Other shareholders have the opportunity to submit nominations to the Chairman of the Board at the address stated on the Company's website. Proposals are made public no later than in conjunction with the summons to the Annual General Meeting.

As a basis for its proposal prior to the 2012 Annual General 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.

The election procedure at Hufvudstaden is a deviation from the Code.

#### 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 overall aims, strategic orientation and policies of the Group as well as more important issues regarding financing, acquisitions, divestments and investments. Other duties which are incumbent on the Board of Directors include the following:

- Continuously following up and assessing the Company's financial situation and business development.
- Continuously evaluating the Company's operative management and the work of the President.
- Ensuring that there is satisfactory control of the Company's compliance with laws and other rules and evaluating continuously the Company's systems for internal control and risk management.
- Adopting the Company's ethical guidelines.

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 reports and other matters of a strategic nature. The rules of procedure also govern the undertakings of the Board of Directors and the President and the allocation of duties between the Board 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 ongoing contact with the President to follow the Group's operations and development continuously. The Chairman of the Board consults with the President on strategic matters and represents the Company in ownership matters.

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 Board also evaluates the work of the President although without the person in question being present.

#### The work of the Board of Directors during 2011

During the 2011 financial year, the Board of Directors held seven meetings, of which one was a statutory

meeting, and one was held in Gothenburg. Economic and financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key matters of principle or major financial significance are taken up at each ordinary meeting. During the year, the work of the Board of Directors has been directed specifically at strategy discussions, issues pertaining to the economic climate and financing as well as investments. The property acquisitions in both Stockholm and Gothenburg, the extension of Femman, Nordstan in Gothenburg, and the initiation of a commercial paper program, were some of the issues dealt with during the year. Officials in the Company attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2010 was approved and the Board Meeting in August in conjunction with the examination of the Company's six-monthly report.

#### Composition of the Board of Directors

Hufvudstaden's Board of Directors comprises nine members who are elected at the Annual General Meeting for a period of one year. The only member of the executive management on the Board is the President and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder L E Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 84–85. An external lawyer is engaged to act as secretary to the Board.

Name	Function	Attendance 2011 <sup>1)</sup>	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		7	Yes	Yes
Peter Egardt		7	Yes	Yes
Louise Lindh		6	Yes	No
Hans Mertzig		6	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 after the Annual General Meeting.

#### Audit

According to the Articles of Association, the Company shall have one or two auditors and a corresponding number of deputies. Alternatively, one or two registered auditing companies can be appointed. At the 2008 Annual General Meeting, authorized public accountants George Pettersson and Joakim Thilstedt, both from KPMG, were elected as auditor and deputy auditor respectively for a period of four years. George Pettersson's other major assignments include L E Lundbergföretagen AB, Holmen AB, Sandvik AB and Skanska AB.

The Board meets the auditor twice a year, once 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 made. Internal routines and control systems are examined continuously during the year. A final examination of the annual accounts and the Annual Report take place in January-February. The six-monthly report is examined on a general basis. The fee to the auditors, including the fee for advisory services, is reported in Note 9.

#### Audit Committee

The Board has examined the matter of establishment of an Audit Committee but has chosen not to appoint such a committee and will instead handle matters that rest with such a committee within the framework of the ordinary 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 whole of the Board of Directors, apart from the President, perform the duties that rest with an Audit Committee.

#### President and executive management

The President heads operations in accordance with the adopted rules of procedure for the Board of Directors and the President as well as the instructions 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 reach well-informed decisions.

In addition to the President, the executive management comprises the three business area heads, as well as the Head of Finance, the Head of Property Development and the Head of Human Resources. The executive management meets approximately once a month to discuss current issues. For information about individual members, see pages 86 – 87.

#### Remuneration to the Board of Directors

Remuneration to the Board of Directors is decided at the Annual General Meeting. At the Annual General Meeting in 2011 it was decided that remuneration for Board work for 2011, totalling SEK 1,575,000, 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. The Chairman received SEK 350,000 and the other seven non-employed members received SEK 175,000 each.

#### Remuneration Committee

The Board of Directors has examined the question of setting up a Remuneration Committee but has opted not to set up such a committee and will instead handle the matter within the framework of the normal 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 whole of the Board of Directors, apart from the President, perform the duties that rest with a Remuneration Committee, including following up and evaluating current programmes and programmes concluded during the year for variable remuneration to executives. The Board of Directors also follows and evaluates the application of the guidelines governing remuneration to executives, as decided at the general meeting of the shareholders and with regard to Company remuneration structures and remuneration levels for executives.

#### Remuneration to the President and the executive management

Guidelines for salaries, bonuses and other remuneration to the Company's executives are decided at the Annual General Meeting. It was decided at the meeting that the same guidelines should be applied for 2011 as previously, i.e. that the Company's remuneration shall comprise salaries 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 share price. These guidelines were followed during 2011 and a proposal that the same guidelines, with a slightly adjusted bonus ceiling, be applied in 2012 will be presented at the Annual General Meeting. The new ceiling amounts mean that a bonus for the President is subject 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 maximum bonus to the current number of executives and with the current salary level, will amount to SEK 2.7 million. It is proposed that the new guidelines come into effect from the 2012 Annual General 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 executives and current Company remuneration structures and remuneration levels for executives will be published on the Company's website, [www.hufvudstaden.se](http://www.hufvudstaden.se), no later than two weeks prior to the 2011 Annual General Meeting. The auditor's statement on whether guidelines for remuneration to executives, which were adopted at the Annual General Meeting in 2010, have been followed, is available on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se) and will be

attached to the documents distributed at the Annual General 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 executives, as adopted at the 2011 Annual General 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 responsibility for personnel, 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 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 2011, the bonus cost was SEK 0.6 million (2.5) or an average of SEK 3,000 per employee. For the executive management, including the President, the average was SEK 42,000 per person. The bonus is not pensionable.

#### Buy-back of Company shares

Since the Annual General Meeting in 2003, the Board of Directors has had the mandate of the General Meeting to buy back a maximum of 10 per cent of all shares with the aim of giving the Board the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders. The mandate was renewed at the 2011 Annual General Meeting. As of December 31, 2011, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of all 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 reporting period (up to and including February 9, 2012).

#### 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 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. These control documents and carefully prepared process descriptions are communicated via established information and communication channels and are made available and known to the personnel concerned.

##### *Risk assessment*

Based on ongoing discussions and meetings in the organization, the Hufvudstaden executive management identify, analyse and decide on the procedures regarding the risk of error in the financial reports. The Board of Directors examines the outcome of the Company's risk assessment and risk management process to ensure that they cover all material areas and that they confirm the orientation and any necessary measures. Hufvudstaden's greatest risks are linked to property valuation, financial transactions and property projects.

##### *Control measures*

Based on risk assessments, Hufvudstaden has adopted a number of control measures. These are both of a

preventive 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 maintenance, redevelopment, interest payments and letting.

#### *Information and communication*

In-house information and external communication are governed on a general level by, among other things, an information policy. Internal communication to and from the Board and executive management takes place in a variety of ways, including the executive management holding regular information meetings for the whole Company and for individual units. Another important communication channel is Hufvudstaden's intranet. Through this, 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 follows the customary reporting channels.

#### *Follow-up*

The Hufvudstaden executive management evaluates on an ongoing basis internal control of financial reporting, particularly through analyses, questioning and familiarization with the work of the controller function.

The Board of Directors receives quarterly reports with financial outcomes, including comments from the executive management on operations and internal control. The financial situation is dealt with at each Board meeting. 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 controls.

#### **Internal audit statement**

The Hufvudstaden executive management has systematically examined and structured the internal documentation of the internal 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.