



# 2016

HUFVUDSTADEN



# NORDISKA KOMPANIET

*Östra Hamngatan, Gothenburg*



# NORDISKA KOMPANIET

*Hamngatan, Stockholm*



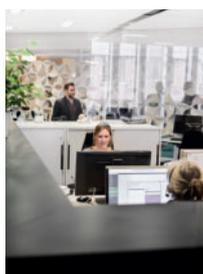
# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*

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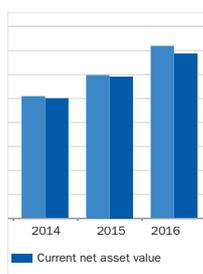
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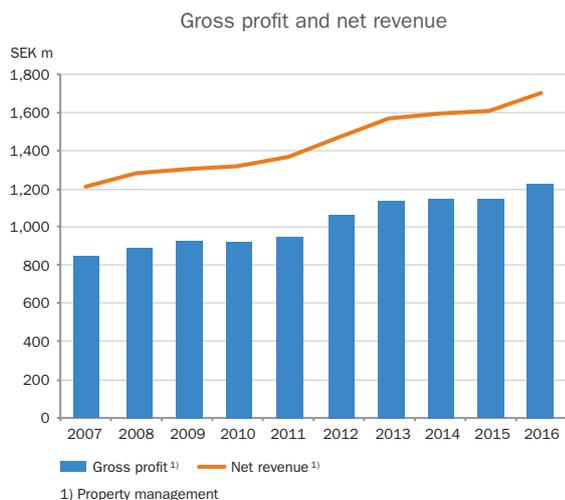
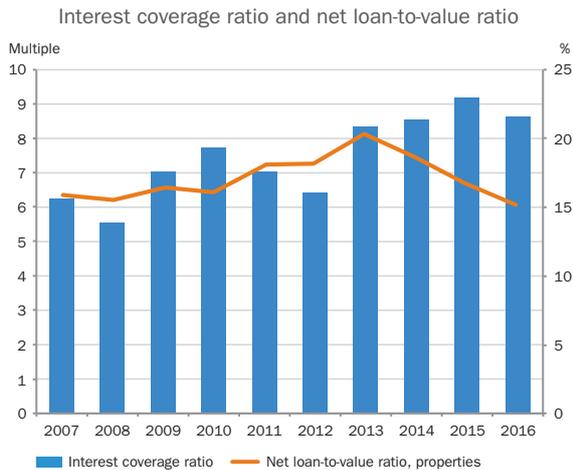
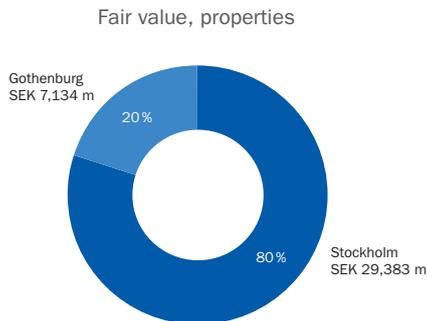


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*This document is in all respects a translation of the original Swedish Annual Report.  
In the event of any differences between this translation and the Swedish original, the latter shall prevail.*

# This is Hufvudstaden



Hufvudstaden is a property company listed on the Nasdaq Stockholm Large Cap list. We have managed and developed properties for more than 100 years in Stockholm and more than 60 years in Gothenburg. Our financial position is solid with a low loan-to-value ratio and good earning capacity. The holdings comprise 29 properties, mainly office and retail premises in the most central areas of the two foremost growth regions in Sweden – Stockholm and Gothenburg. At the end of 2016, the fair value of the properties totalled SEK 36.5 billion.

Management of the Company's commercial holdings is split between three business areas. The Group also includes the wholly owned subsidiary AB Nordiska Kompaniet, which owns the NK brand and has department stores in Stockholm and Gothenburg. In recent years, we have intensified our investment in development projects, although still retaining

We will continue to achieve our financial objectives and in doing so generate a good return over time and with limited risk for the shareholders.

our long-term approach to business and a consistently high level of quality in the management process. We will continue to achieve our financial objectives and in doing so generate a good return over time and with limited risk for the shareholders.

## Vision and aim

Hufvudstaden's vision is to be consistently perceived as, and prove to be, the most interesting and vibrant property company in Sweden, and its aim is to have the most satisfied customers in the industry. To measure this, we take part in the annual *Fastighetsbarometern* Customer Satisfaction Survey, in which we have been ranked among the top three companies since the Survey began in 1997. We focus on providing our customers with a high level of service and this involves working closely with our tenants. All the properties are within walking distance of our offices and we have our own staff who manage and develop the properties.

## Sustainable development

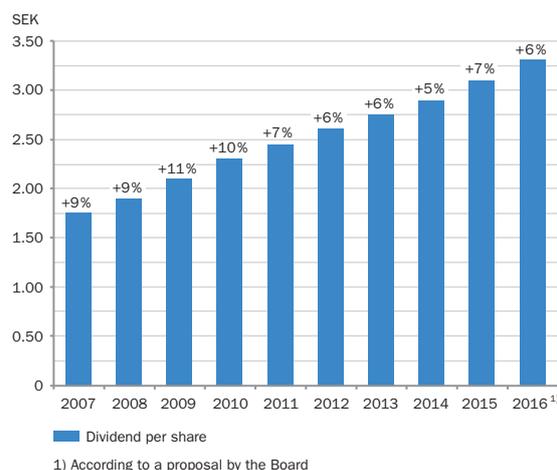
The long-term approach adopted by Hufvudstaden is unique and the sustainability work that is being conducted is an integral part of our operations, regardless of whether the focus is on financial development or on environmental and social issues. Good relations, a healthy working environment and strict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

# Year in brief

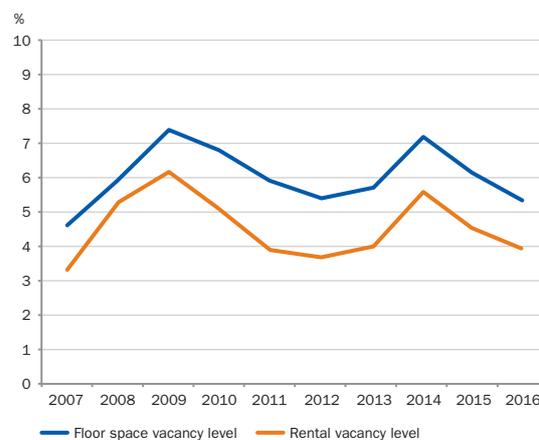
- Profit for the year before tax increased by **SEK 835 million** and totalled **SEK 5,284 million** (4,449). The increase is due mainly to higher unrealized changes in the value of the property holdings.
- Gross profit increased by 8 per cent and totalled **SEK 1,262 million** (1,172). The increase can be attributed mainly to higher rental revenue.
- The profit for the year after tax totalled **SEK 4,120 million** (3,470), equivalent to **SEK 19.98** per share (16.82).
- The Board proposes an increase in the dividend to **SEK 3.30** per share (3.10).
- The fair value of the property holdings at the year-end was **SEK 36.5 billion** (31.7), resulting in a current net asset value of **SEK 138** per share (118).
- The rental vacancy level at the year-end was **3.9 per cent** (4.5). Excluding current development projects, the rental vacancy level was **2.6 per cent** (3.2).

Financial summary (SEK m)		
	2016	2015
Net revenue, property management	1,703	1,611
Gross profit, property management	1,226	1,144
Changes in value	4,206	3,438
Operating profit	5,425	4,572
Profit for the year	4,120	3,470
Net profit from current operations	841	788
Fair value, properties, SEK bn	36.5	31.7
Rental vacancy level, %	3.9	4.5
Net loan-to-value ratio, properties, %	15.2	16.7
Interest coverage ratio, multiple	8.6	9.1

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

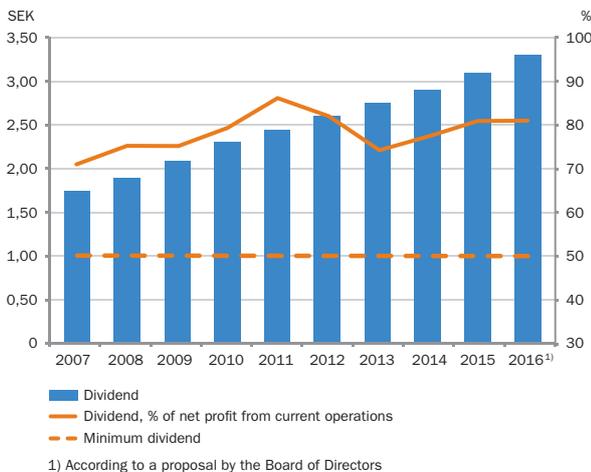
### Objective

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

According to a proposal presented by the Board of Directors, the total dividend will amount to SEK 680.7 million, equivalent to 81 per cent of the net profit from current operations.

Dividend and dividend share



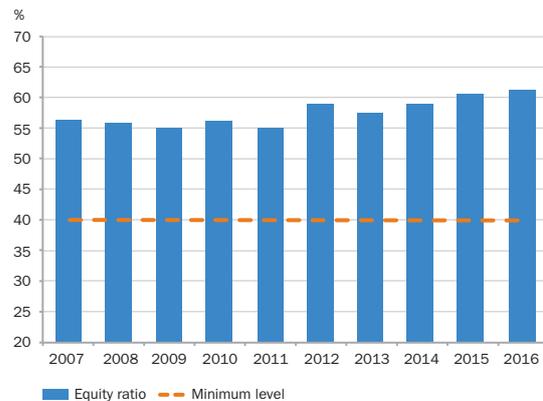
### Objective

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

### Outcome

The equity ratio at the end of 2016 was 61 per cent.

Equity ratio



Operating objectives

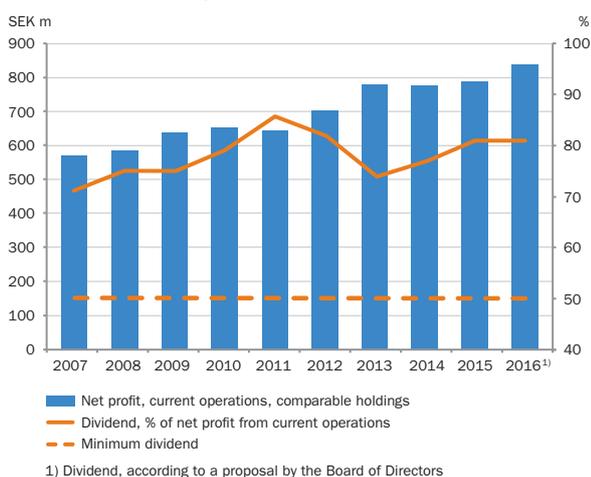
**Objective**

Hufvudstaden will gradually increase profit from current operations.

**Outcome**

Net profit from current operations increased by approximately 7 per cent during the year.

Net profit and dividend share



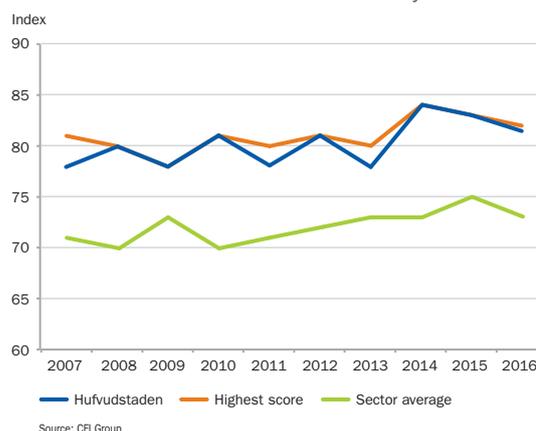
**Objective**

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. We came second in this year's survey.

Customer Satisfaction Survey



**Objective**

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

**Outcome**

In Gothenburg, work is about to commence on an extensive upgrade of the Femman Precinct, and work is scheduled to be completed in 2017. On the Hårbärgat block, detailed planning is taking place to reinforce retail operations and create new office space. The Vildmannen 7 property in Stockholm is undergoing a complete renovation of both the office and retail space. In addition to major development projects, 29,000 square metres of floor space have been adapted for new and existing tenants.

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

Question	Hufvudstaden	Highest score	Sector average	Maximum
Location	88	88	82	100
Premises	79	81	71	100
Indoor climate	67	69	59	100
Adaptation	81	82	74	100

Source: CFI Group

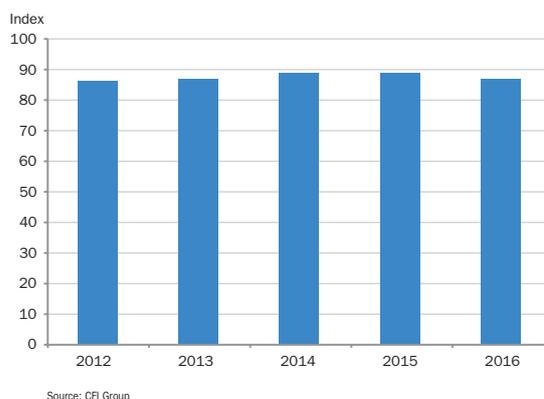
**Objective**

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

**Outcome**

Our office tenants also have the opportunity in the Customer Satisfaction Survey to assess the degree of professionalism among our employees. Over the years this question has resulted in good scores, which is important for our continued success.

Professional employees



# Statement by the President

## A strong year for Hufvudstaden despite global uncertainty

The economic and geopolitical situation in the world is complex and difficult to assess. Growth in Europe has been moderate and collaboration between EU states has been under strain for several years. This will be tested even further following the outcome of the Brexit referendum in the United Kingdom and impending elections in a number of the major EU countries.

The USA has reported good growth, the employment rate has improved, and the dollar has gained in strength. However, the results of the US presidential election are raising questions about the future role of the USA in the world economy and in the geopolitical arena.

There are question marks surrounding economic development in China, and the very tangible presence of Russia on the global political scene should not be underestimated. If we add instability in the Middle East and the war in Syria, with the resulting influx of refugees into Europe, we can see that the world is clearly facing major challenges on a number of fronts.

Sweden has for several years enjoyed a stable economy, strong growth and a good financial foundation. During 2016, the growth rate was around 3.5 per cent. In an attempt to push up inflation and to prevent the krona from rising, the Swedish Central Bank cut the key rate to a record-low -0.50 per cent.

Strong expansion in the Swedish economy, good profitability for companies, a high rate of employment and low interest rates have created an unusually positive environment for the Swedish property sector. These trends, in combination with the fact that Hufvudstaden has properties in prime locations in two of the most rapidly expanding regions in Europe, has led to the Company reporting very good results and the highest-ever property value.

## Substantial rental growth in Stockholm and Gothenburg

The Stockholm and Gothenburg regions are expanding rapidly, with a growing number of private individuals and com-

panies and a subsequent increase in purchasing power. Approved infrastructure investments, in combination with new construction and redevelopment projects, are enhancing the attractiveness of the cities even further.

Demand for modern properties in prime locations in Stockholm has been

Hufvudstaden has reported very good results and the highest-ever property value.

high and the level of vacant office space has fallen. The figure in the CBD is down to around two per cent, which is an unprecedented low level. Rents in the CBD rose during the year by 15–25 per cent with top rents of more than SEK 7,000 per square metre.

In Gothenburg, the level of vacant office space has also fallen, and in the central parts of the city it is below 3 per cent, which is a unique figure historically. Rents rose by 5–15 per cent in prime locations with several examples of rents in excess of SEK 3,000 per square metre.

## Our marketplaces are attracting top brands

The retail trade in Sweden has for several years reported good growth in turnover. However, a low rate of inflation in combination with rising costs have led to falling margins and pressure on profitability across the whole industry. Despite this, in Hufvudstaden's attractive marketplaces in Stockholm and Gothenburg, we have seen a rise in rental revenue in conjunction with new and renegotiated leases on properties in prime locations.

Bibliotekstan and the NK department stores have continued to report stable growth in turnover and considerable interest has been shown by high-end Swedish and international brands in

establishing operations in our properties. During the year, Chanel opened its first flagship store in Scandinavia in one of our buildings in Bibliotekstan. We have also signed an agreement with Eataly regarding the establishment of a comprehensive restaurant and food concept on Biblioteksgatan, which is scheduled to open in 2017. Victoria's Secret and Michael Kors have also decided to open their first stores in central Gothenburg in our properties in Nordstan and Fredstan.

## Exceptionally strong property market

As a property year, 2016 will go down in history as one of the strongest ever, with growing interest in the Swedish property market by Swedish and international investors.

Transaction volumes reached an all-time high of SEK 200 billion. Low interest rates, good access to capital, a lack of sound alternative investments and strong growth in rental revenue have meant that yield requirements continue to fall in Stockholm and Gothenburg, resulting in rising property values.

Hufvudstaden's property holdings at the year-end were valued at SEK 36.5 billion (31.7), up 15 per cent. The increase can be attributed to rising rents and falling yield requirements. The net asset value at the year-end was SEK 138 per share (118) and the share price closed at SEK 143.90.

The value of Hufvudstaden's property holdings has more than doubled over the past seven years.

## Increased investment in projects and business development

We have worked intensively for a number of years on identifying and running projects in our properties, both in Stockholm and Gothenburg.

As there are few centrally located properties that come onto the market, it is important for us to upgrade and develop our existing holdings and by doing so improve profitability over time. At present, the yield from projects is generally higher than from acquisitions. Investment also carries a lower risk as we know our properties well and

development frequently involves working closely with the tenants.

The project portfolio is currently around SEK 3 billion. At present, we estimate that we can invest SEK 5–7 billion in projects or acquisitions over the next 5–10 years and yet still retain a strong balance sheet and a low level of risk for the Company.

There has been a widespread focus on adapting operations to advances in digitalization in society which, if handled correctly, will open up opportunities for greater returns in the future.

### Responsible enterprise

We appreciate the value of taking sustainability issues very seriously and we are mindful of their importance to healthy, responsible and, over time, profitable business operations. Our corporate culture and value-driven Code of Conduct ensure that together with our partners we consistently reinforce external confidence in Hufvudstaden.

During the year, we once again received a top score in both the Customer Satisfaction Survey and Employee Satisfaction Survey.

Energy use has been decreasing steadily over a long period and since 2011 it has fallen by around 13 per cent. Carbon emissions from our operations have fallen by around 80 per cent over the past five years, mainly due to the transition to green electricity and lower energy use.

Hufvudstaden shares have been approved for investment in the Swedbank Robur sustainability funds and we have once again been named as one of the foremost property companies in the Nordic region in the international climate survey conducted by CDP.

### Strong growth in profits

Operating results have strengthened during the year, with gross profit totalling SEK 1,262 million, up 8 per cent. The increase can be attributed to a rise in rent levels, which benefited negotiations regarding new and renewed leases



in 2015 and 2016, as well as falling levels of vacant space, a cost structure that has remained virtually unchanged, and improved revenue from parking operations.

Profit before tax was SEK 5,284 million (4,449), a rise of 19 per cent. The increase can be attributed to changes in the value of the property holdings, which totalled SEK 4,160 million (3,427). The higher value can be explained by rising rent levels and falling yield requirements.

### The future

The positive profit trend that we have experienced over several years, and particularly during the past year, means that we are entering 2017 in an even stronger position.

In the future, we will endeavour through active property management and project development to improve profits on current operations, ensuring that we continue to enjoy good divi-

dend growth over time and yet still retain a low level of risk for the Company.

We have gradually reinforced the project organization, which has put us in an ideal position to step up efforts to drive our projects forward. Several of our projects will continue or commence during 2017.

Additional property acquisitions are being sought and should not be excluded if the assessment is that they could add potential to the existing holdings and increase value for our shareholders.

We will also increase the rate at which we are adapting operations to the demands of digitalization. Whilst this represents a challenge, it also creates opportunities in both the office and retail segments.

With our strong financial position and our attractive marketplaces in two of the fastest growing regions in Europe, we are well positioned to meet the future and to move our positions forward even further, regardless of global developments.

Finally, I would like to thank sincerely all my very active and committed co-workers at Hufvudstaden for their valuable work during the past year.

Stockholm, February 2017

Ivo Stopner  
President



# FEMMAN

*Nordstan, Gothenburg*



NORDSTAN GÖRGEN

NORDSTAN  
*Gothenburg*

# Property market

Geopolitical uncertainty, widespread terrorist attacks and general elections had a major impact on business and economic news reporting during 2016. Neither the win by the Brexit faction in the UK referendum on membership of the EU, nor Donald Trump's victory in the presidential election in the USA, generated any major negative reaction from the financial markets. The general assessment is that economic growth has not been affected to any great extent in the short term. In the USA, the economy, measured in terms of GDP, rose by around 1.5 per cent during 2016, down on the previous year's figure of 2.6 per cent. Despite the modest rate of growth, employment in the USA has continued to rise, as has the rate of inflation, which stood at approximately 1.5 per cent. The US central bank, the Federal Reserve, has begun to normalize the key rate. Following an increase of 0.25 percentage points in December 2016, the interest rate was between 0.50 and 0.75 per cent.

Political uncertainty in Europe surrounding national elections, alongside collaboration between European states, left their mark in 2016 and will probably continue to influence the situation in 2017. Despite this, what has proved to be a protracted period of economic recovery continued during the year. Economic growth within the Eurozone is

on a par with the previous year whilst the labour market in the region has strengthened. Inflation remains low, albeit with a slight rise during the year. Problems in certain parts of the banking sector in Europe have persisted and are continuing to impede economic growth.

The Swedish economy continued to develop strongly in 2016. Economic growth was around 3.5 per cent, which is slightly down on the figure for the previous year of 4 per cent but well above the long-term figure of just over 2 per cent. Growth has been driven primarily by higher domestic demand, linked mainly to rising public consumption and an increase in housing construction. Public consumption derives mainly from the large number of refugees that Sweden received in 2015. Despite a rise in costs, public finances remained stable during the year with the increase in costs being counteracted by an increase in tax revenue as a result of a strong business climate.

The Swedish central bank cut the key rate to -0.50 per cent at the beginning of 2016 and the aggressive monetary policy has been maintained, which has weakened the value of the krona even further. The poor rate of exchange has benefited exports, which contributed to the growth in GDP during the second half of the year. According to the consumer price index (CPI), inflation

has risen slightly, totalling around 1.0 per cent for the year. The number of people in employment, in line with the previous year, increased by approximately 1.5 per cent and unemployment stood at just under 7.0 per cent at the year-end. However, the labour market is increasingly divided, with people with a low level of education and people born abroad finding it difficult to gain a foothold.

In summary, the strong business climate in Sweden during 2016 has resulted in a fall in vacant space on the office rental market, which has led to a rise in rents mainly in Stockholm. The positive trend on the rental market, coupled with low interest rates, has exerted further downward pressure on yield requirements for the most attractive properties, with rising property prices as a result.

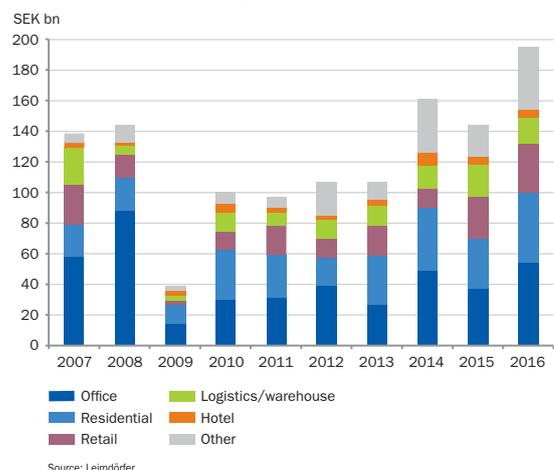
## Hufvudstaden's submarkets

Hufvudstaden's property holdings comprise 24 properties in Stockholm and five properties in Gothenburg. All the properties are located in the most attractive and more central areas. The property holdings are commercial and house modern, high-quality, office and retail space in which successful companies can carry on their business operations. The population of Greater Stockholm is around 2.3 million and around 1.0 million in Greater Gothenburg. Over

Transaction volume in Sweden per investor category



Transaction volume in Sweden according to type of property



the past ten years, the increase in population in Greater Stockholm has been around 18 per cent and in Greater Gothenburg around 12 per cent. This can be compared to the national figure of around 9 per cent. The forecasts show that population growth in both

Largest property owners in the Stockholm CBD	
	Rentable floor space sq m
Vasakronan	373,000
AMF Pension	294,000
Hufvudstaden	267,000
Skandia Fastigheter	130,000
Pembroke Real Estate	103,000
SEB Trygg Liv	102,000

Source: Leimdörfer

Stockholm and Gothenburg will continue to increase at a significant rate.

The gross regional product (GRP) figure produced by Statistics Sweden indicates a high level of economic activity in both Stockholm and Gothenburg. Preliminary statistics show that growth in Greater Stockholm between 2001 and 2015 was on average 3.1 per cent per annum, and in Västra Götaland, an area slightly larger than Greater Gothenburg, the figure stands at around 2.5 per cent. This can be compared with a national GDP growth rate of approximately 2.1 per cent during the same period. Stockholm and Gothenburg also report a high level of economic growth per

inhabitant. According to preliminary figures for 2015, the GRP per inhabitant in Greater Stockholm was SEK 606,000 and in Västra Götaland SEK 436,000. These are the highest of all the regions in Sweden and higher than the national average, where the GDP per inhabitant was SEK 427,000. The increase since the beginning of the century in both regions is around 60 per cent, which is on a par with the country as a whole.

The higher rate of growth in Greater Stockholm can be attributed in the main to a very prominent service sector, including property, finance, IT, communications and corporate services. According to Statistics Sweden, the service sector employs around 29 per cent of the working population. Gothenburg is undergoing a transformation from being a distinctly industrialized city in the past to acquiring a more diversified industrial and commercial base. The service sector currently employs around 21 per cent of the working population. This is higher than the national average, which is around 19 per cent.

Tourism is growing and is becoming one of the most important sectors of industry. A strong tourist sector creates jobs, increases consumption, results in higher export revenue and contributes to investment in the infrastructure. The most recent statistics published by the Swedish Agency for Economic and

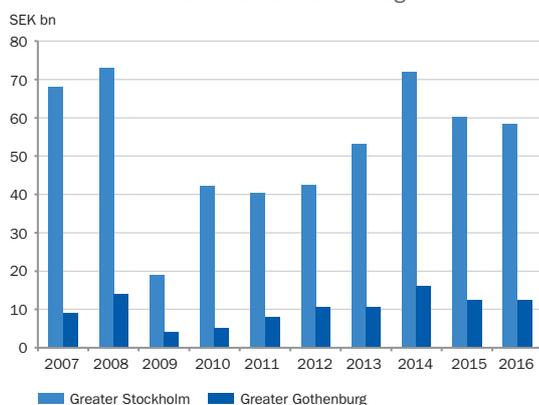
Regional Growth/Statistics Sweden show that tourism in Sweden generated revenue in excess of SEK 280 billion in 2015, an increase of around 7 per cent compared to 2014. Accumulated since 2000, revenue from tourism has risen by around 90 per cent. Although the statistics cannot be broken down to the regional level, figures for the number of hotel nights in Greater Stockholm and Greater Gothenburg show a rise of around 35 per cent during the period 2008–2015. These figures are more than 90 per cent and almost 70 per cent more than for the country as a whole. It appeared as if the positive trend was set to continue during 2016. Preliminary statistics show that Greater Stockholm and Greater Gothenburg increased by 3 per cent and 4 per cent compared with 2015, which are on a par with the national average.

Investment in the infrastructure is required to cope with a rising population. The Swedish Transport Administration has produced a national plan for

Largest property owners in the Gothenburg CBD	
	Rentable floor space sq m
Vasakronan	282,000
Wallenstam	204,000
Balder	107,000
Hufvudstaden	105,000
Bygg-Göta Göteborg	83,000
SEB Trygg Liv	82,000

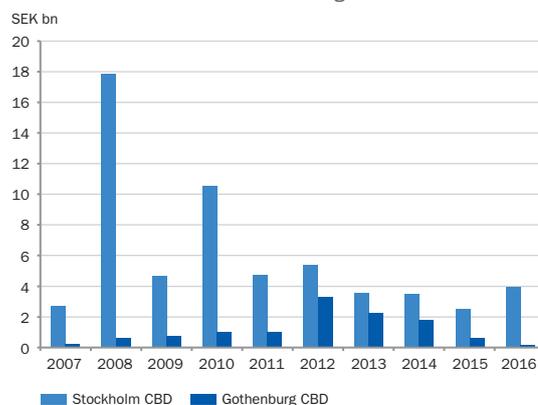
Source: Leimdörfer

Transaction volume in Greater Stockholm and Greater Gothenburg



Source: Leimdörfer

Transaction volume in the Stockholm CBD and Gothenburg CBD



Source: Leimdörfer

**Stockholm**

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

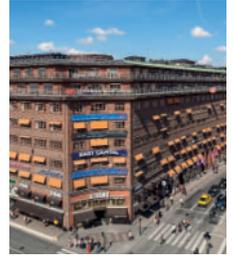
--- Central Business District (CBD)



Hästhuvudet 13  
Construction year: 1919  
Rentable space: 7,099 sq m



Grönlandet Södra 11  
Construction year: 1911  
Rentable space: 9,109 sq m



Oxhuvudet 18  
Construction year: 1931  
Rentable space: 29,509 sq m



Medusa 1  
Construction year: 1878  
Rentable space: 2,202 sq m



Achilles 1  
Construction year: 17th century  
Rentable space: 4,969 sq m



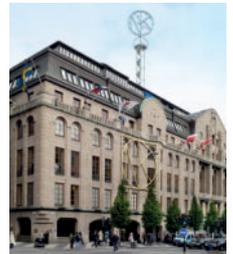
Svärdfisken 2  
Construction year: 1851  
Rentable space: 7,465 sq m



Järnplåten 28  
Construction year: 1958  
Rentable space: 9,267 sq m



Orgelpipen 7  
Construction year: 1964  
Rentable space: 30,410 sq m



Hästen 19 (NK)  
Construction year: 1915  
Rentable space: 39,338 sq m



Hästskon 10  
Construction year: 1964  
Rentable space: 36,374 sq m



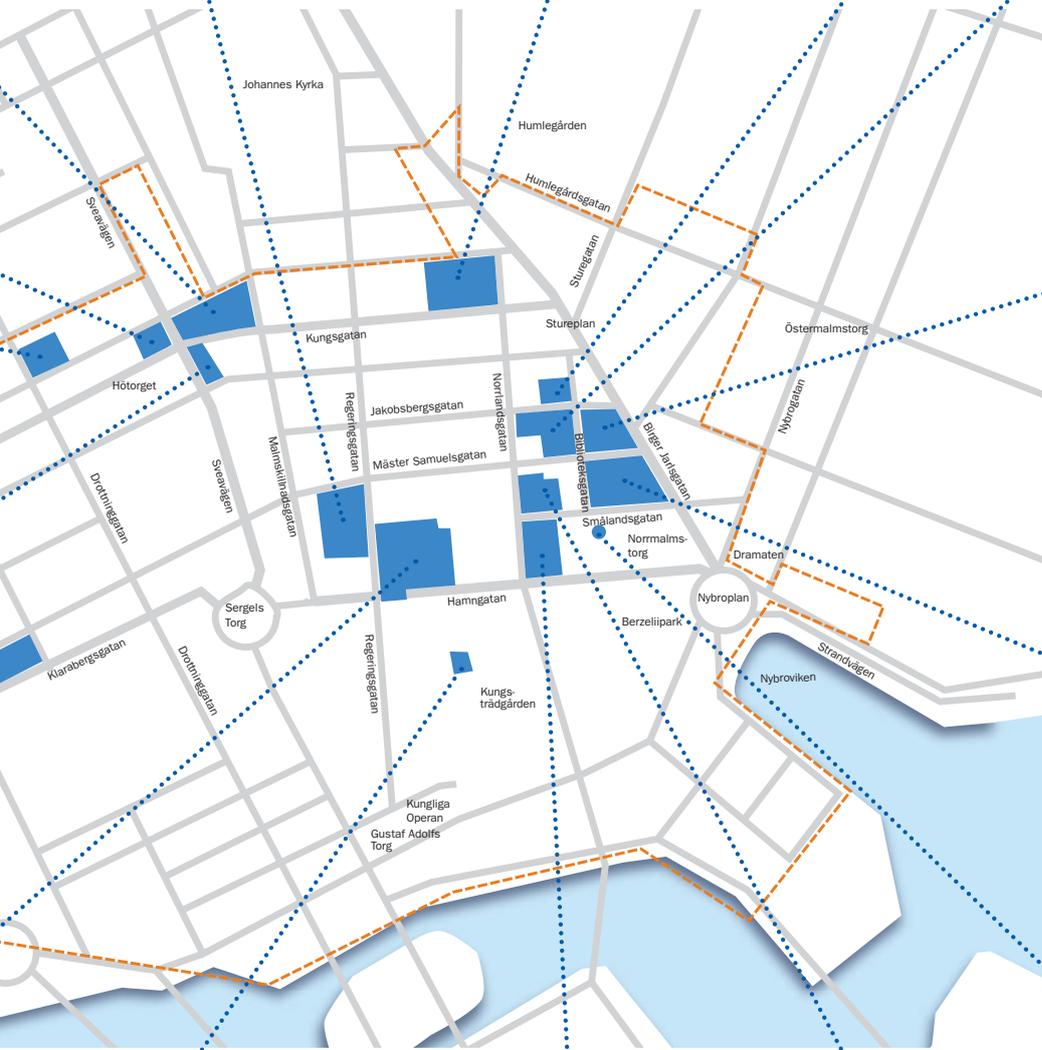
Kåkenhusen 40  
Construction year: 1926  
Rentable space: 22,724 sq m



Vildmannen 7  
Construction year: 1897  
Rentable space: 4,409 sq m



Kvasten 2  
Construction year: 1987  
Rentable space: 4,713 sq m  
Kvasten 6  
Construction year: 1917  
Rentable space: 6,887 sq m  
Kvasten 9  
Construction year: 1978  
Rentable space: 3,452 sq m



Pumpstocken 10  
Construction year: 1865  
Rentable space: 12,394 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: 6,900 sq m  
Rännilen 19  
Construction year: 1902  
Rentable space: 11,316 sq m



Kungliga Trädgården 5  
Construction year: 1984  
Rentable space: 2,783 sq m



Packarhuset 4  
Construction year: 1932  
Rentable space: 15,310 sq m



Skären 9  
Construction year: 1984  
Rentable space: 11,010 sq m



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

the transport system for 2014–2025. The plan reveals investments of more than SEK 520 billion, an increase of around 20 per cent compared with the preceding period. Around SEK 280 billion of the funding will be spent on developing the transport system and the remainder on maintenance.

Planned investments for Greater Stockholm are around SEK 111 billion, covering investments in both road and rail traffic. The biggest projects include *Förbifart Stockholm*, which is 21 kilometres in length, including an 18-kilometre tunnel. The road will link the southern and northern parts of Stockholm and will ease pressure on Essingeleden and the inner city. The biggest investments in rail traffic are related to boosting capacity on two rail lines, Mälärbanan and Roslagsbanan, the new Citybanan line under the centre of Stockholm, and the expansion of the underground system to areas such as Barkarby, Hagastaden, Nacka and Söderort.

In Gothenburg, the largest investment is the West Sweden Agreement, totalling around SEK 35 billion. The largest infrastructure projects are the Marieholm Tunnel under the Göta Älv river, which will link up the E20, E6 and E45 motorways and the Lundbyleden highway. Hisingen Bridge will be a new bridge in central Gothenburg that will connect the two sides of the river. Following completion, the older Göta Älv Bridge will be demolished. How-

ever, the largest project is the construction of West Link, a new 8-kilometre rail link for commuter and regional trains with three underground stations. West Link is expected to become operational in 2026.

There are more than 5 million square metres of office floor space in the Stockholm inner city, of which around 1.8 million square metres are within the CBD. The CBD in Stockholm is made up of the area around the Central Station, Norra Bantorget, Hötorget, Stureplan, Norrmalmstorg, Kungsträdgården and Sergels Torg. Hufvudstaden is the third-largest property owner in the Stockholm CBD, with rentable floor space for all types of premises totalling 267,000 square metres.

In the Gothenburg area, there are approximately 3.3 million square metres of office space, of which around 0.9 million square metres are located in the Gothenburg CBD. Hufvudstaden is the fourth-largest commercial property owner in the Gothenburg CBD, with rentable floor space for all types of premises totalling 105,000 square metres.

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.

#### Investor market

2016 was yet another strong year for the Swedish property market. With good financing potential on a highly efficient capital market, low interest rates and an attractive yield in relation to other investment options, the rental market has strengthened even further. Overall, this has led to considerable interest among both Swedish and international investors in acquiring properties.

The favourable situation and the high level of interest in property investments resulted in the transaction volume reaching a new record level of around SEK 200 billion. This is a rise of around SEK 50 billion on the high turnover figure noted in

2015. Low-risk properties, such as offices in prime locations as well as residential property, continued to account for a large proportion of the total transaction volume. The limited number of available properties in prime locations has induced investors to turn their attention to potential acquisitions in more secondary areas where transaction activity increased during the year.

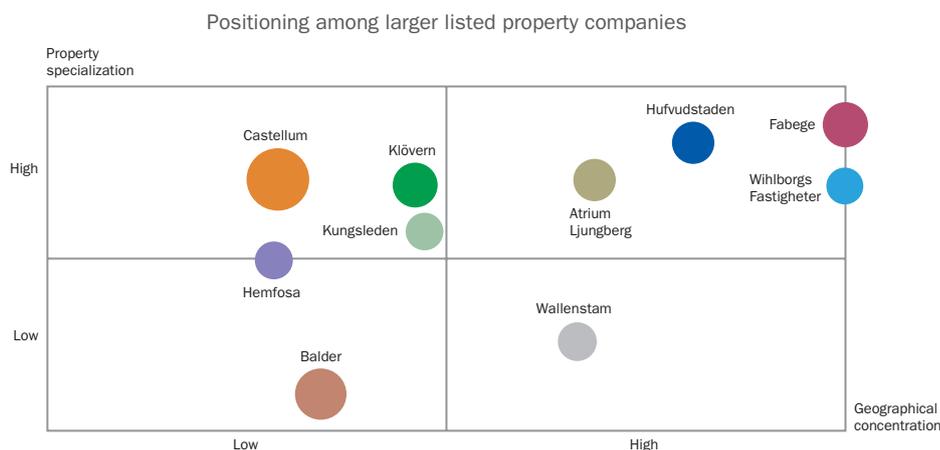
It was mainly Swedish investors, including private property investors, listed property companies, institutions and property funds, that were behind the majority of the property acquisitions. There continues to be considerable interest among international operators, who accounted for around 20 per cent of the transaction volume in 2016 compared to around 30 per cent the previous year.

The high level of activity continued on both the Stockholm and Gothenburg markets, where revenue was in excess of SEK 58 billion and SEK 12 billion respectively. The corresponding figures for the previous year were SEK 60 billion and SEK 12 billion. There was substantial interest in acquiring properties in the Stockholm CBD although even in 2016 availability was very low. One of a couple of completed transactions was Folksam's acquisition of the Kåkenhusen 37 property, also known as Kungshuset, located on Kungsgatan. The property has around 16,600 square metres of rentable floor space, comprising offices, a cinema and restaurants. The underlying property value is around SEK 1.5 billion, equivalent to approximately SEK 91,000 per square metre. The vendor was Government of Singapore Investment Corporation (GIC).

In the Gothenburg CBD, Hufvudstaden acquired a small development property for SEK 82 million from Vimpelkullen Fastigheter. The property, designated Inom Vallgraven 3:2, has approximately 1,600 square metres of rentable floor space, comprising offices and stores. In another transaction outside the CBD, BNP Paribas Real Estate Investment Management sold the Lindholmen Front property, designated Lindholmen 29:1. The purchaser was Balder and the

Market rents, December 2016  
(excluding the property tax supplement)

Stockholm	Offices, SEK/ sq m per year	Stores, SEK/ sq m per year
Bibliotekstan/NK	5,500 – 7,000	14,000 – 24,000
Rest of CBD	5,000 – 7,000	4,000 – 14,000
Östermalm	3,100 – 5,400	3,000 – 11,000
Gamla Stan	2,900 – 4,000	2,500 – 5,000
Södermalm	2,700 – 4,000	2,500 – 6,000
Kungsholmen	2,700 – 4,400	2,000 – 8,000
Liljeholmen	2,200 – 3,000	2,000 – 6,000
Globen	1,900 – 3,000	3,500 – 6,000
Arenastaden	2,500 – 3,000	3,000 – 11,000
Kista	1,900 – 2,500	4,000 – 10,000
Gothenburg	Offices, SEK/ sq m per year	Stores, SEK/ sq m per year
Inom Vallgraven	2,400 – 3,200	6,000 – 15,000



price was just over SEK 400 million. The property has approximately 12,000 square metres of rentable floor space, mainly offices, which gives a square metre price of around SEK 33,000.

The high demand for prime location office and retail properties in the Stockholm CBD and Gothenburg CBD continued during 2016. This has led to a fall in yield requirements, which for modern office and retail properties in the Stockholm CBD were between 3.50 and 4.00 per cent at the end of 2016, and in the Gothenburg CBD between 4.00 and 4.50 per cent.

### Rental market in Stockholm

#### Offices

There was a very high demand in 2016 for modern, space-efficient offices, mainly in prime locations in the CBD. At the same time, the volume of vacant office space available to the market was limited, with vacant space levels reaching record low levels. This led to a rise in market rents and the annual increase in the CBD was between 15 and 25 per cent. At the end of 2016, rents were noted in Bibliotekstan and the other most attractive parts of the CBD between SEK 5,500 and SEK 7,000 per square metre per year, excluding the property tax supplement.

Major investments are currently being made to further modernize the office property holdings in the Stockholm CBD. There is a strong demand

for these types of premises, which offer the latest technology, service functions and in many cases good views. Companies have identified the business benefit of profiling, being located close to the best communication points, in close proximity to colleagues in the industry and customers, and attracting the best employees. There is a clear willingness to pay for this type of office space with top rents in excess of SEK 7,000 per square metre per year, excluding the property tax supplement. In certain project properties, the letting rate is already high whilst new offices in other properties will be brought to the market in the future. Some of these projects also involve former office premises being converted for other uses, mainly hotel and residential.

There is a greater propensity throughout the whole of the Stockholm area to invest in and develop office holdings. This is resulting in both Swedish and international companies being offered modern, space-efficient offices. It is this category of premises that is in greatest demand. The larger property owners in the CBD include several highly capitalized, long-term owners that are seeking to develop the properties. Modernization of older office space and the addition of new premises, together with a limited availability and a greater willingness to pay, are leading to a rise in market rents. In the wake of this development, there is also a certain knock-on effect with an in-

crease in market rents for offices located in less modern properties.

The limited availability of large, cohesive office premises in the Stockholm CBD is having a positive impact on Hufvudstaden, as the Company's property holdings in the area are concentrated. Hufvudstaden's long-term strategy is to own and develop a group of high-quality properties containing modern office premises, preferably made up of complete blocks that allow tenants to expand within the existing holdings.

The level of vacant space during the year was 2 per cent (3–4) in the CBD. Even in adjacent submarkets such as Gamla Stan and Östermalm the level of vacant space has continued to be low.

#### Stores

The retail trade has reported positive growth for several years. The trend continued in 2016 with the retail trade index, DHI, increasing by 3.3 per cent on the 2015 figure. The sale of durable goods rose by 4.0 per cent and clothing sales rose by 1.2 per cent. Despite this trend, the retail sector has been hit by falling margins. This can be attributed to some extent to a lower rate of inflation in combination with rising real costs, as well as increasing competition from e-trade. Strong marketplaces with a unique range in an attractive setting, and which also offer food and experiences, are well-positioned to maintain sales growth.



Nordstaden 8:24 (Fyran)  
Construction year: 1972  
Rentable space: 21,241 sq m



Nordstaden 8:24 (Femman)  
Construction year: 1972/2011  
Rentable space: 44,939 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)



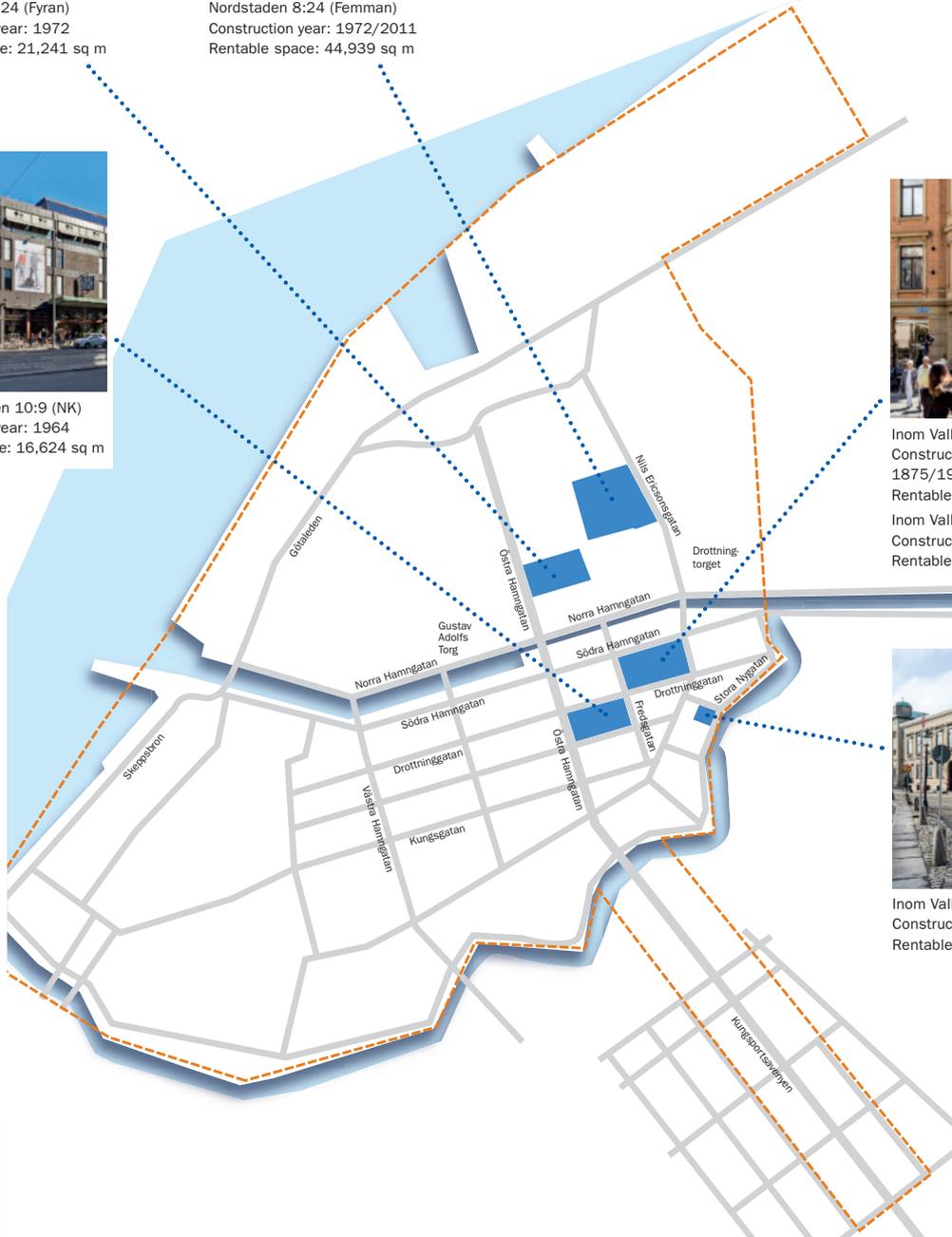
Inom Vallgraven 10:9 (NK)  
Construction year: 1964  
Rentable space: 16,624 sq m



Inom Vallgraven 12:11  
Construction year: 1875/1929/30  
Rentable space: 4,649 sq m  
Inom Vallgraven 12:10  
Construction year: 1975  
Rentable space: 16,314 sq m



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



The high demand for well-located retail premises in the most central submarkets in Stockholm continued during the year. Vacant space in prime locations was virtually non-existent and in other areas space arose primarily as a result of temporary or permanent relocations. This vacant space was filled relatively quickly by new tenants. The overall result has been maintained or slightly higher rent levels.

Several property owners in central Stockholm are working actively to develop and reinforce city centre trade. This is taking place through large development projects and active management, where the composition of stores and restaurants is subject to an ongoing review to ensure the marketplace can continue to offer an attractive range. In Bibliotekstan, Chanel, Céline and M·A·C Cosmetics opened new stores in 2016, which will reinforce the area even further as the foremost fashion destination in Stockholm. In Gallerian, located on Hamngatan, diagonally opposite the NK department store, changes are being made in conjunction with the redevelopment of large sections of the block.

The most sought-after retail areas in Stockholm are in Bibliotekstan and on Hamngatan, Kungsgatan and Drottninggatan. Bibliotekstan and the NK department store have the distinction of being the most exclusive store locations. Rents for prime retail space in these areas are between SEK 14,000 and SEK 24,000 per square metre per year, excluding the property tax supplement.

### Rental market in Gothenburg

#### Offices

The office rental market in Gothenburg developed positively during 2016. As is the case in Stockholm, modern, space-efficient offices in prime locations are in greatest demand although availability of this type of floor space is relatively limited in Gothenburg. This has resulted in rising market rents, which for these types of premises are between SEK 2,400 and SEK 3,200 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 throughout the central areas of the city. When and to what extent these will be completed has not been decided in detail. Hufvudstaden, which is one of the larger property owners in the CBD, is working unremittingly to develop the properties and the biggest projects for the future include the Härbärgat block, located on Fredsgatan and occupying one of the best locations in the city. Wide-reaching plans are in place for the entire block, eventually resulting in ultramodern, space-efficient office premises.

The best office locations in central Gothenburg are considered to be the Inom Vallgraven areas, particularly areas near Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan, Kungssportsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Vacant space in the Gothenburg CBD was around 3 per cent (4) at the end of the year. As in Stockholm, Hufvudstaden owns properties in Gothenburg that are centrally located in the very heart of the city.

#### Stores

The continued positive development of the retail trade in 2016 has resulted in maintained or slightly increased market

rents for stores in Gothenburg. As one of the larger property owners in central Gothenburg, Hufvudstaden is working actively to further reinforce city centre trade. In the Femman Precinct in the Nordstan Shopping Centre a total upgrade of the retail environment and concept continued during the year. Completion will take place in stages through to 2017. New enterprises that have already opened include Victoria's Secret, Boomerang, Calzedonia, Gateau and Pane Fresco.

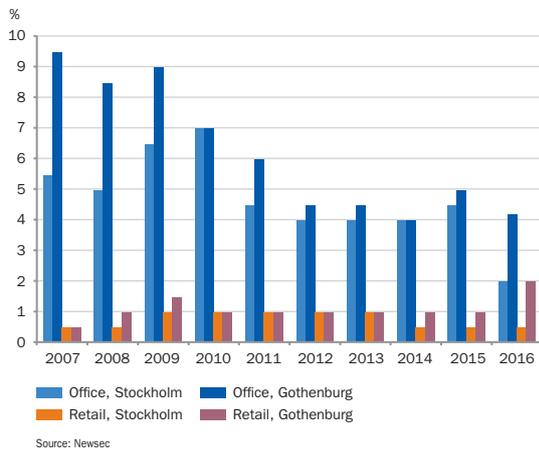
In the Fryran property, which is also located in the Nordstan Shopping Centre, the facade has been replaced and the arcades have been enclosed. In Fredstan, Hufvudstaden has completed a store project on the Härbärgat block in a prime commercial location, and Michael Kors has opened its first store in Gothenburg at a prime corner location. Other parts of the Härbärgat block will be developed over the coming years, allowing Hufvudstaden to benefit further from the strong inner-city retail sector in Gothenburg.

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

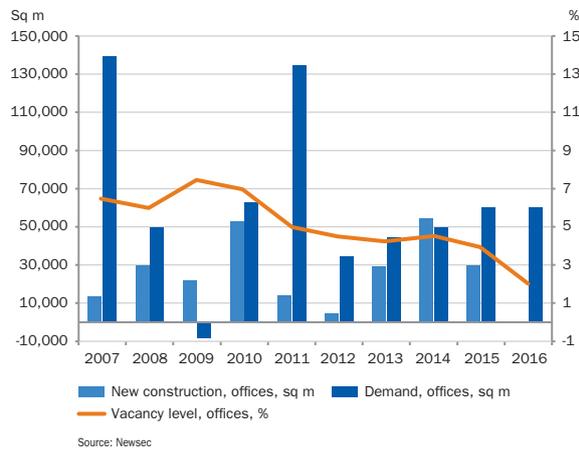
Yield requirement, Stockholm CBD and Gothenburg CBD



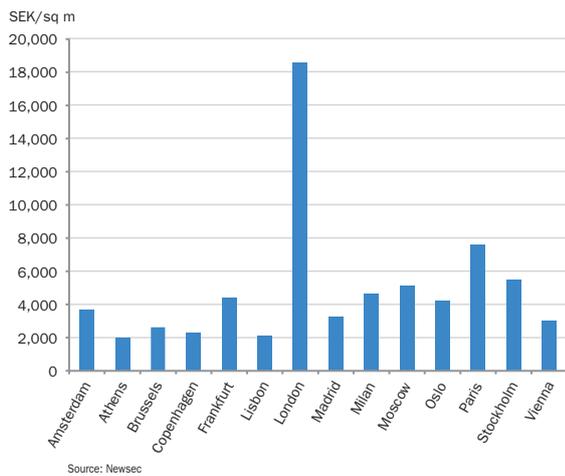
Vacant office and retail space in prime locations



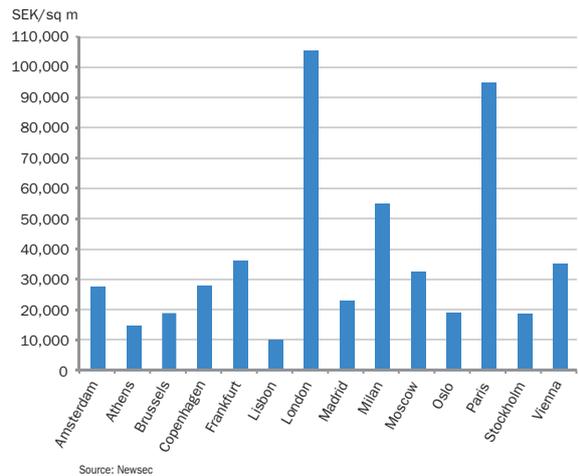
New construction, demand and vacancy level, office premises in Central Stockholm



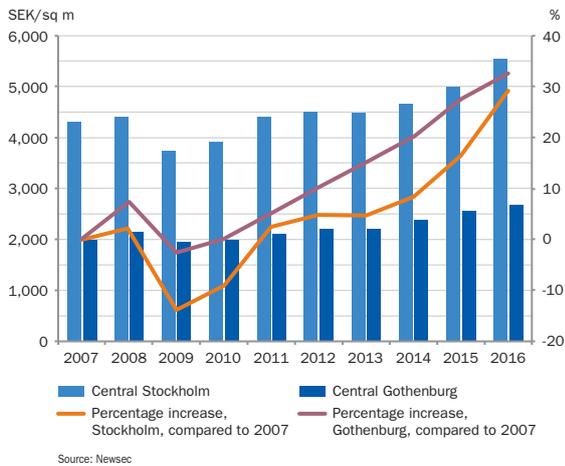
Office rents in European cities, December 2016  
Premises in prime locations



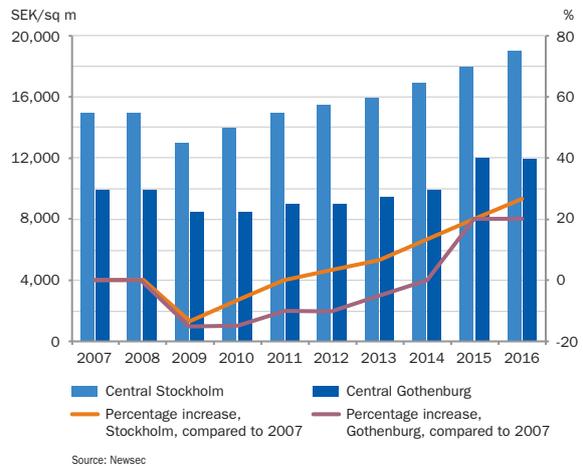
Store rents in European cities, December 2016  
Premises in prime locations



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



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





13

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FOR EN SÄKER ARBETS-  
PLATS - SAFETY FIRST!

# BIBLIOTEKSTAN

*Birger Jarlsgatan, 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 2016, 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.

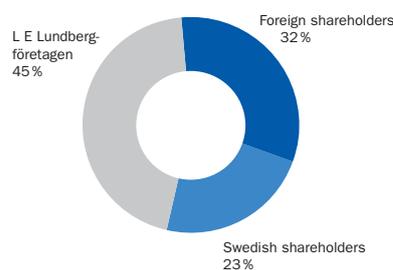
This means that the holders of series C shares are entitled, if they wish, to request conversion of their series C shares into series A shares. No such conversion took place during the year.

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 22,339. 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 7.0 per cent of the outstanding shares and 1.4 per cent of the votes.

## Ownership structure



Source: Euroclear Sweden

As at December 31, 2016, institutions and companies with holdings of 100,000 shares or more held 179,150,161 shares, equivalent to 86.8 per cent of the total number of outstanding shares and 96.4 per cent of the votes. Of these, 53 were Swedish institutions and companies, which together held 121,142,986 shares, equivalent to 58.7 per cent of the outstanding shares and 90.8 per cent of the votes. There were 123 foreign institutions and companies with holdings of 100,000 shares or more. Their holdings amounted to 58,007,175 shares, equivalent to 28.1 per cent of the outstanding shares and 5.6 per cent of the votes.

## Ownership structure as at December 31, 2016

	Number of shareholders	Proportion of shareholders, %	Number of issued shares	Proportion of shares, %
1 - 999	18,450	82.6	3,465,564	1.6
1,000 - 9,999	3,250	14.6	7,357,936	3.5
10,000 - 99,999	455	2.0	13,482,685	6.4
100,000 -	184	0.8	181,959,748	86.1
<b>Outstanding shares</b>	<b>22,339</b>	<b>100.0</b>	<b>206,265,933</b>	<b>97.6</b>
Hufvudstaden			5,006,000	2.4
<b>Total number of issued shares</b>			<b>211,271,933</b>	<b>100.0</b>

Source: Euroclear Sweden

## Largest shareholder groups as at December 31, 2016

	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	14,445,030	0	14,445,030	7.0	1.4	6.8	1.4
Citi Bank	10,415,707	0	10,415,707	5.0	1.0	4.9	1.0
JP Morgan Funds	7,282,533	0	7,282,533	3.5	0.7	3.5	0.7
NTC Wealth	5,859,404	0	5,859,404	2.8	0.6	2.8	0.6
SEB Funds	4,742,016	0	4,742,016	2.3	0.5	2.2	0.5
Carnegie Funds	3,430,912	0	3,430,912	1.7	0.3	1.6	0.3
BNP Paribas	3,344,076	0	3,344,076	1.6	0.3	1.6	0.3
AFA Försäkring	3,032,637	0	3,032,637	1.5	0.3	1.4	0.3
Other shareholders	60,238,554	97,384	60,335,938	29.3	6.8	28.6	6.8
<b>Outstanding shares</b>	<b>197,990,869</b>	<b>8,275,064</b>	<b>206,265,933</b>	<b>100.0</b>	<b>100.0</b>	<b>97.6</b>	<b>99.5</b>
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
<b>Total number of issued shares</b>	<b>202,996,869</b>	<b>8,275,064</b>	<b>211,271,933</b>			<b>100.0</b>	<b>100.0</b>

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

lent to 28.1 per cent of the outstanding shares and 5.6 per cent of the votes. In addition, five Swedish private individuals each held more than 100,000 shares. The number of shareholders increased during the year by 1,717. The proportion of foreign ownership was 31.5 per cent (32.1) 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 2016 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 2016.

**Market capitalization and trading**

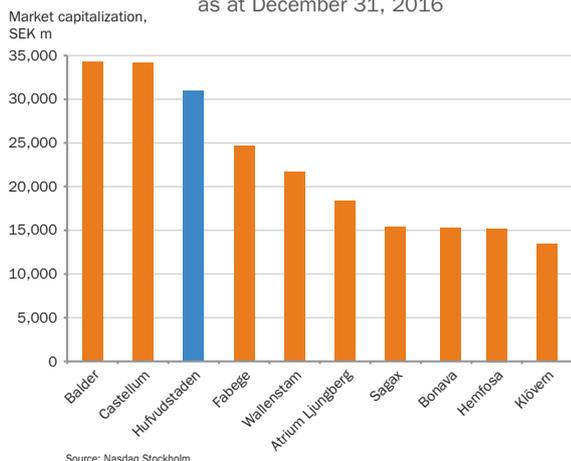
At the end of 2016, Hufvudstaden's total market capitalization was SEK 30,918 million. The yield was 2.3 per cent based on the stock market price as at December 31, 2016. During the year, 185 million shares were bought and sold, equivalent to 90 per cent (83) of the outstanding shares. The rate of turnover in relation to the shares available for trading, what is termed free float, was 164 per cent (151). On average, 745,000 Hufvudstaden shares were traded on each trading day (687,000). 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 2016, 64 per cent (59) of Hufvudstaden's shares were traded outside the Stockholm

Stock Exchange, e.g. Bats 36 per cent, Boat 4 per cent, LSE 13 per cent, and Turquoise 7 per cent. The graphs below shows the price trend and trading in Hufvudstaden's series A shares during the year.

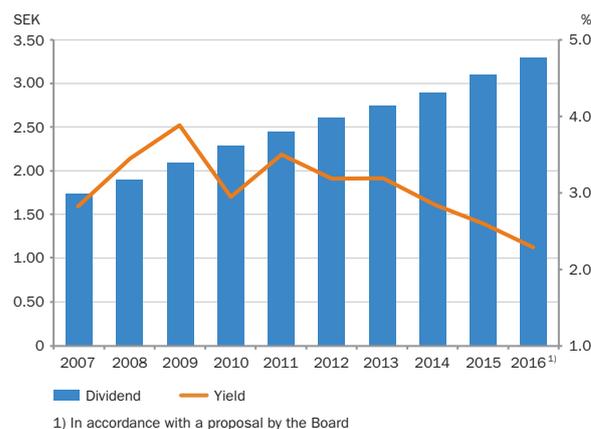
**Dividend**

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 3.30 per share is proposed for 2016, equivalent to 81 per cent of the net profit from current operations. (See Definitions, page 103, Dividend).

Ten largest listed property companies as at December 31, 2016



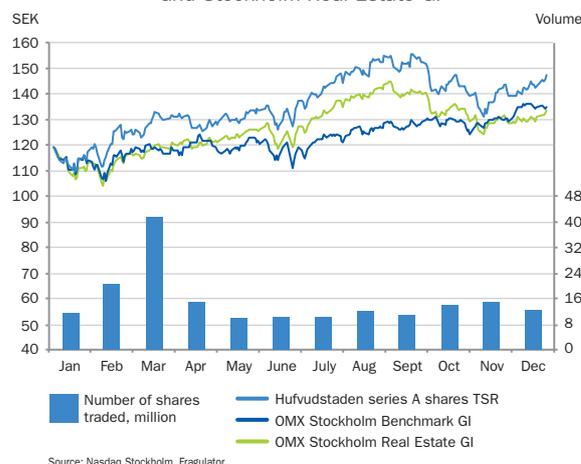
Dividend and yield



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 2016 in relation to Stockholm Benchmark GI and Stockholm Real Estate GI



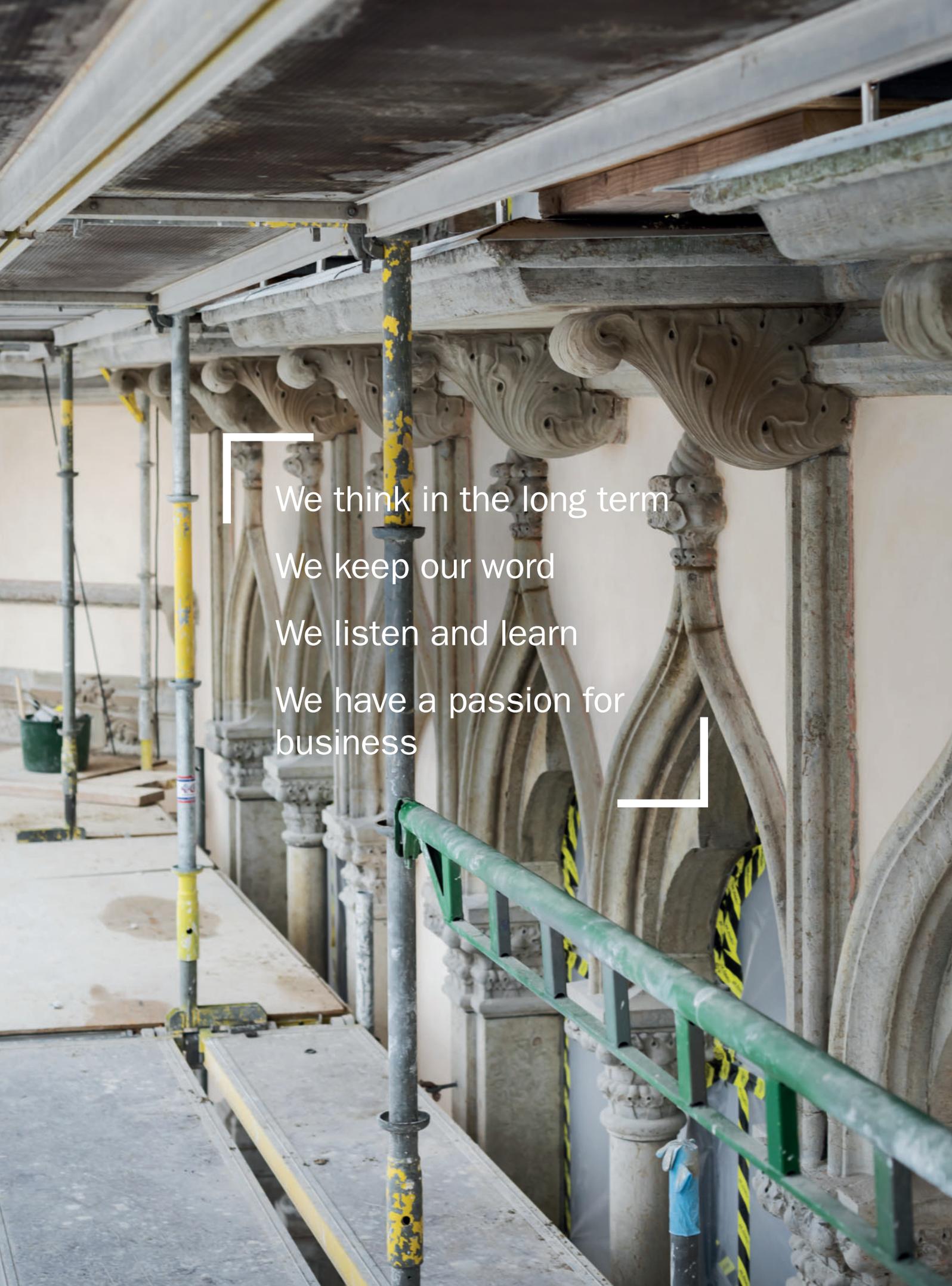


**NORDSTAN**  
*Postgatan, Gothenburg*



# BIBLIOTEKSTAN

*Biblioteksgatan, Stockholm*



We think in the long term

We keep our word

We listen and learn

We have a passion for  
business

# Sustainable enterprise

The Hufvudstaden sustainability programme is based on assuming long-term responsibility with regard to financial, environmental and social development. Through our strategies and values, a good basis can be created for achieving our sustainability objectives, which include mitigating our climate impact. In collaboration with other property owners and the city authorities in Stockholm and Gothenburg, we are involved in projects aimed at developing the cities.

Our sustainability programme is run in compliance with the principles laid down in the UN Global Compact, and is pursued in line with our environmental policy and established sustainability goals. Hufvudstaden participates in a series of sustainability surveys, including CDP, where this year we have emerged as one of the foremost listed property companies in the Nordic region. Hufvudstaden shares have been approved for in-

vestment by the Swedbank Robur and Nordea sustainability funds.

## Stakeholders

### Stakeholder dialogue

Hufvudstaden has identified five main stakeholder categories: tenants, employees, shareholders, suppliers and society. We maintain an ongoing dialogue with our main stakeholders and we keep them up to date on key sustainability aspects that we need to focus on. During the year, we carried out an in-depth study involving several suppliers and tenants. We have noted a growing interest among tenants and suppliers in working with us on sustainability issues.

### Core sustainability areas

Hufvudstaden has conducted a materiality analysis together with representatives from the Company's main stakeholders. The purpose of the analysis was to develop the Company's sustainability programme and the information presented in the Company's sustainability report. Within the framework of the analysis, a number of core sustainability areas were identified. These aspects stemmed not only from the actual impact generated by Hufvudstaden but also from the Company's strategic objectives and the stakeholders' expectations. The outcome of the materiality analysis has led to the Company focusing on the following areas.

Responsible enterprise	Sustainable properties	Sustainable co-workers
<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> </ul>	<ul style="list-style-type: none"> <li>• Working environment</li> <li>• Competence development</li> <li>• Leadership</li> </ul>

**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 our most important tool in the endeavour to lead and control operations towards achieving the Company's vision and goals. They are also a prerequisite for being in a position to drive operations forward with the aim of ensuring responsible enterprise. Our core values are quality, honesty, attentiveness and commitment.**

### Quality

It is important for us that we have the right level of quality. This means offering the high level of quality that our customers expect within the framework of our business concept. This also applies to our property holdings and service offering as well as our customer relations and in-house cooperation. To promote quality, we focus on working in the long term. We act instead of react, with the aim of developing operations and pre-empting problems.

### Honesty

We always act professionally and reliably. We consider honest intent to be the basis for successful business and long-term relationships. It means that we stand by our word and abide by our agreements. We observe a 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 and we are there to support each other. We are attentive to the needs of our customers and we continuously strive to remain one step ahead.

### Commitment

We are proud of our history and our success and we are very much involved in our work as a whole. 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 their success, and we help each other to develop and succeed.

**Business ethics**

Hufvudstaden's corporate culture is marked by a strong level of commitment among employees with a clear and firmly accepted value base. The Company has a Code of Conduct that clarifies our responsibility and actions towards internal and external stakeholders. The Code of Conduct is based on our values and sets out how we take into account ethical, social and environmental considerations in our operations. It also describes how we, our suppliers and our partners ought to act as representatives of Hufvudstaden. The Code of Conduct stipulates the manner in which stakeholders can expect Hufvudstaden employees to behave, but also what we expect of our suppliers and partners. Our Code of Conduct is in the public domain and is enclosed with all larger contracts and agreements.

The majority of employees have attended a course in business ethics, where discussions focused on common dilemmas and problems. All new employees undergo an induction programme where the Code of Conduct and sustainability work are central elements.

To minimize the risk of corruption, 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.

**Suppliers**

Sustainability requirements are laid down when signing general agreements, procuring development projects and purchasing goods and services. The basis of these requirements is our Code of Conduct, which is supplemented by stipulations relating to the working environment, conditions of employment and the natural environment, which in turn ensure that human rights stipulations are met.

To ensure that our demands are met in the Company's day-to-day operations, we have our own staff, and project operations are run by our own project managers. They procure and control the contracts to ensure that our strict demands regarding quality, the adoption of a businesslike approach, long-term thinking and the environment are adhered to, alongside compliance with current legislation. In our projects, we demand that the consultants' and contractors' choice of building products has

undergone an environmental review, that waste from building projects is sorted at source, and that employment conditions satisfy official regulations

Working environment issues are a particular priority as building and maintenance sites could be laden with risks. These issues permeate our construction projects and they are addressed at every stage, from initial planning through to completion of the building work. Everyone who works on behalf of Hufvudstaden, regardless of employer, must have working conditions and a working environment that as a minimum comply with current legislation.

**Sustainability risks**

We have noted that the main sustainability risks are to be found in project operations within property development and in the purchasing process at the operational level. The risks exist mainly in the natural environment, working environment, terms of conditions of employment and corruption. To mitigate these risks, we have tightened the demands made on our contractors and we carry out regular audits among our major suppliers. During the year, we carried out eight audits, mainly within large projects but also among contract cleaning companies. The audits produce good results although there was scope for improvement among our contractors in areas such as waste management, environmental stipulations relating to building materials, and making demands on subcontractors and ensuring that control procedures are in place.

The environmental risks relate mainly to products not being subject to an environmental review. Terms and conditions of employment and corruption are other areas in which we have noted an increased risk, as control procedures, mainly at subcontractors, involve strict demands regarding structured processes and follow-up. This is a priority area for the whole of the industry and we are working together with other property companies to arrive at joint solutions.

Stakeholder	Key issues	Form of dialogue
Tenants	<ul style="list-style-type: none"> <li>High level of service</li> <li>Energy use</li> <li>Climate impact</li> <li>Waste management</li> <li>Social and ethical responsibility within the supply chain</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>
Employees	<ul style="list-style-type: none"> <li>Competence development</li> <li>Leadership</li> <li>Working environment</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>
Shareholders	<ul style="list-style-type: none"> <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 Meeting</li> <li>Analyst meetings</li> <li>Annual Report</li> <li>Quarterly reports</li> <li>Investor meetings</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Clear, consistent requirements regarding business ethics and the environment</li> </ul>	<ul style="list-style-type: none"> <li>Procurement</li> <li>Agreements</li> <li>Code of Conduct</li> </ul>

## Customer relations

### Our ambition

Hufvudstaden's vision is to be consistently perceived as, and prove to be, the most interesting and attractive property company in Sweden with the aim of having the most satisfied customers in the industry. Product quality, service and the way we treat customers are the cornerstones for realizing the Company's vision and business concept.

Hufvudstaden should work in close collaboration with its customers and contribute continuously to improving their business potential, competitiveness and image. Quality and long-term customer relations are important to Hufvudstaden. We want customers to feel secure and satisfied in their premises and that as a property owner we meet their implicit and explicit needs, both now and in the future.

### Market trends

Developments outside the Company are taking place more rapidly and the signs are that this will continue. This can be attributed largely to digitalization but also to the fact that people and companies have become increasingly globalized. Each day we face new influences that affect the way we are and the way we work. New generations of people and business are developing and there is a marked increase in the need for solutions that are effective in terms of both time and cost. In our operations, we have noted an increase in the demand for flexible solutions with strict stipulations that ensure a consistently high level of product quality and service.

### Customer requirements

Our attentiveness to the needs of the customer and trends are a key element in our development. During the year, we continued to analyse these areas and we developed the 'turnkey office' concept. We intend to intensify this work in the years to come. By being at the forefront, we will in the future be able to offer our customers a product and a solution that are suited to purpose and can be maintained over time.

## Product and service development

Creating added value for our customers by developing products and our service offering are core elements in the work that is taking place at Hufvudstaden. Over the years, we have focused consistently on this development in order to

### Working together to promote sustainable development

Hufvudstaden is actively involved in different sector networks and associations.

#### Examples of collaboration include:

- Building Products Assessment (BVB) • Sweden Green Building Council Certification Committee
- Swedish Energy Agency Non-Residential Premises Orderer Group, BELOK
- City of Stockholm Forum for Sustainable Properties

be able to live up to the strict demands and expectations made on us. During the year, we ran a quality project where we reviewed working routines and customer processes. The aim of our development programme is to offer solutions that are in line with our customers' wishes and demands.

### Our offering

Hufvudstaden's offering is characterized by close collaboration with our customers. We work on a daily basis to ensure that what we offer is in accordance with what has been agreed and expected. Through a highly competent in-house management organization, where we are within walking distance of all our customers, conditions are created for ensuring a high degree of accessibility and service. These elements are vital to maintaining long-term confidence and the long-term relationships that we are constantly striving to establish and maintain.

## Customer Satisfaction Survey

As in previous years, Hufvudstaden emerged as one of the foremost companies in the industry according to *Fastighetsbarometern*, the property industry's Customer Satisfaction Survey. We came second, which has meant that we have been in the top three ever since the Customer Satisfaction Survey began in 1997. The areas that our customers feel are Hufvudstaden's strengths are the central location of our properties, our level of service, the capacity to deal with matters rapidly, and the fact that we are reliable, secure and stable.

### Ambassadors

Having satisfied customers is crucial to our work in the long term. Over time, around 80 per cent of our customers continued to rent their premises after their current lease came to an end. This demonstrates the excellent level of agreement between the customer's expectations and experiences and their willingness to pay for our products. Nine out of ten Hufvudstaden customers are to a high extent positively disposed to working with us. More than half of Hufvudstaden customers are also ambassadors, which we regard as proof that our long-term work is of benefit to everyone concerned.

## Sustainable properties

### Energy use

The property sector accounts for around 40 per cent of energy use in society. As a property company, it is important for us to reduce our use of energy and increase the proportion of renewable energy in our operations. Our energy use is being reduced continuously through operational optimization and investment in new technology. During the year, a number of projects were run aimed at improving the energy efficiency of the property holdings. The focus was primarily on heating, ventilation, cooling and lighting. Since 2001, Hufvudstaden has reduced its energy use by more than 20 per cent, equivalent to the energy used by 1,500 modern detached houses during the course of a year. This reduc-

tion could be achieved despite longer opening hours in the stores and the fact that a growing number of tenants have office landscapes with more persons per square metre.

In 2016, energy use fell by around 3 per cent, which is in line with our target of achieving an annual reduction of 3 per cent. This can be explained in part by a relatively cold summer but also the fact that our long-term energy efficiency work is beginning to produce results. Compared with the Statistics Sweden figures for non-residential premises, it can be noted that Hufvudstaden's energy use for heating is approximately 65 per cent lower than the average.

In the Parkaden multi-storey car park, we have already installed charging points for electric cars. During the year, we noted a substantial increase in the number of electric cars and to meet the demand we have increased the number of charging points.

The demand for commercial solar panel systems has gathered momentum in recent years. During the year, we conducted a preliminary study to examine suitable roofs for locating a test facility. The first solar panel facility will become operational at the beginning of 2017.

**Climate impact**

Reducing energy use and thus our climate impact is a priority for us. Our emission of greenhouse gases in 2015 remains unchanged compared with the

previous year, mainly due to an increase in the use of district heating and the fact that district heating in Gothenburg was produced with a high proportion of fossil fuels. During the past five years, emissions have been reduced by around 80 per cent. This can be attributed mainly to the transition to origin-labelled waterpower, what is termed green electricity, and the fact that the production of district heating now takes place with a lower proportion of fossil fuels compared to previous years. The reduction can also be explained by the fact that our energy use has been reduced. Continued climate impact mitigation will take place mainly through further improvements in energy efficiency and as a result of district heating generation gradually switching to a higher proportion of renewable energy sources.

We have noted that the number of tenants who commute to work by bicycle has increased. In response to this trend, Hufvudstaden has in recent years increased the number of bicycle parking places at the properties and, where possible, changing rooms have been built for those who cycle to and from work.

**Choice of materials**

Work is taking place on an ongoing basis to develop and improve premises in line with the tenants' wishes and needs. At the same time, we are focused on creating sustainable premises and building solutions that are both flexible

Sustainability objectives <sup>1)</sup>	
Objectives 2016	Outcome 2016
Improve energy efficiency by 3 per cent.	3 per cent
Reduce Hufvudstaden's carbon emissions by 5 per cent.	0 per cent
A top place in the <i>Fastighetsbarometern</i> annual customer satisfaction survey.	Second place

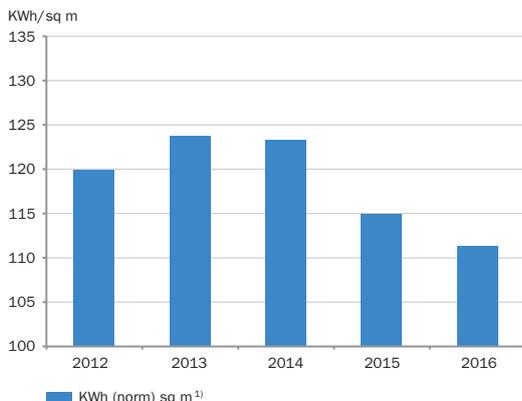
1) For other sustainability objectives, see Hufvudstaden website

and sustainable over time. This can be achieved by choosing a design and level of functionality and quality where there is less risk of replacement with a change of tenant. To reduce overall energy use, we promote innovative thinking and energy-efficient technology when choosing products. When we make an environmental assessment of construction products we use the BVB system, which is the property industry's environmental assessment database for construction materials.

**Waste management**

Increased recycling of waste is a sustainability issue that has been prioritized both by us and our tenants. New communal sorting rooms open up potential to improve the efficiency of the sorting process and the introduction of more fractions, but also to coordinate in a way that the amount of transport to and from the properties is reduced. Expansion of the sorting stations for our tenants and the creation of new sorting rooms have

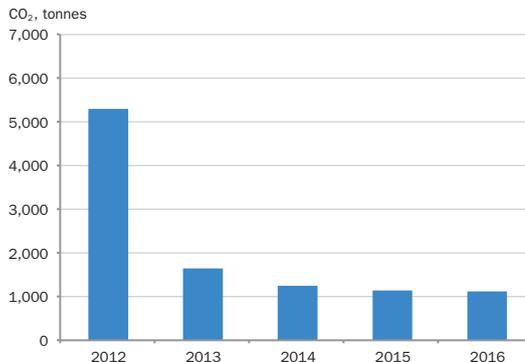
Total energy, corrected for a normal year



■ kWh (norm) sq m<sup>-1</sup>

1) Comparable holdings, excluding electricity used for business operations

Carbon emissions from energy use



taken place at eight properties where waste can be sorted into 12 fractions.

Hufvudstaden's target is to reduce the total volume of waste and ensure that as much waste as possible is recycled or reused. In those properties that have had a waste sorting system in place for both stores and offices, we have noted that the proportion of sorted waste is approximately 50 per cent.

**Green leases**

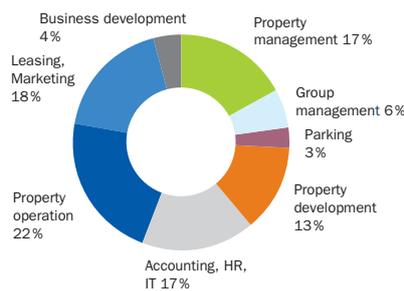
Green leases reinforce collaboration with the tenants and create conditions that allow us to continue to develop our environmental work. The signing of the lease means that the tenant and Hufvudstaden establish an action plan that incorporates measures that will contribute to a better environment. Several green leases were signed in 2016. A green lease is an annex to the normal lease and provides an opportunity for us to maintain an ongoing dialogue on environmental issues and create a strategy for reducing energy use and other key measures.

**Environmental certification**

The aim in conjunction with all major projects and redevelopment work is to certify according to the *Miljöbyggnad* classification system, gold or silver category. *Miljöbyggnad* is based on Swedish construction rules and regulations and other official directives as well as building practice in Sweden. In *Miljöbyggnad*,

a building can be placed into the bronze, silver or gold category, where bronze corresponds to the current legal stipulations. With *Miljöbyggnad*, we have an independent examination to determine whether the building satisfies energy, indoor environment and material stipulations. At present, around 30 per cent of the Hufvudstaden holdings are certified according to either the *Miljöbyggnad* or Green Building systems.

Employees per working area



**Employees Organization**

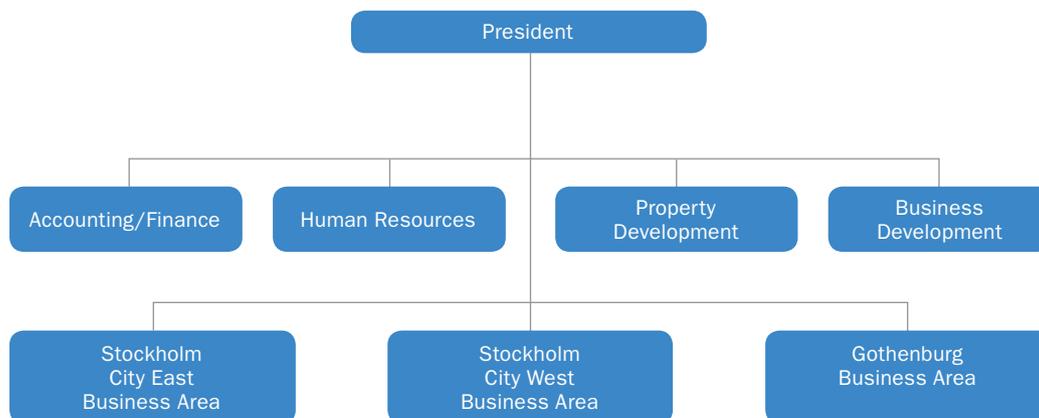
Hufvudstaden's operations are organized into three business areas: Stockholm City East, Stockholm City West (which includes the NK department stores in Stockholm and Gothenburg) and Gothenburg. The Accounting/Finance, Human Resources, Property Development and Business Development functions support work on the operating level. We also carry on our own parking operations through the subsidiary Parkaden AB. Hufvudstaden's

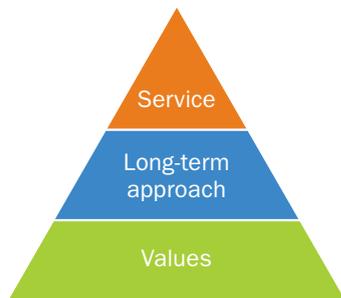
group management comprises the President, three business area heads – one of whom is the Vice President – and the heads of Accounting/Finance, Property Development and Human Resources.

A large number of development projects are in progress in Stockholm and Gothenburg and to meet requirements the organization was reinforced during the year with new staff employed within digital business development, property development and property management. One of our success factors is the capacity to handle the majority of our operations in-house.

**Value-driven corporate culture**

Our core values are quality, honesty, attentiveness and commitment. These values are the most important means at our disposal in the task of managing and controlling our operations to achieve the Company's vision and objectives and ensuring responsible enterprise. They are also the basis of Hufvudstaden's corporate culture. They involve delivering quality in everything we do, listening actively both internally and externally, being honest with ourselves and in our dealings with others, and being committed to the work we do. Our aim is for each employee to adhere to our values. The same line of thinking can be found in our Code of Conduct, in which ethics and morals are further core elements.





**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. In the index, a number of key human resource indicators are compared to those at other companies, both within and outside the industry. In 2016, Hufvudstaden came out top in this survey, both in the property sector and overall. Areas that are included in the survey include the number of people employed on a permanent basis, education and training time during the year, overtime worked, the level of absenteeism due to illness, the number of staff who have left the company, and staff responsibility, i.e. the size of the group that each manager is responsible for.

As mobility on the labour market is increasing, we are focusing on ensuring that we continue to be, and are perceived to be, an attractive employer. Hufvudstaden offers stimulating duties, good potential for development and a variable remuneration system in the form of a bonus. During interviews with our employees, a number of factors emerged at Hufvudstaden that were regarded by employee, as being particularly important. These included the opportunity to work together with expert colleagues

Key figures 2016	Total	Men	Women
Employees, number <sup>1)</sup>	116	71	45
Managers, number <sup>1)</sup>	28	21	7
Average age, years <sup>1)</sup>	42	42	42
Staff turnover, %	9	4	16
Absenteeism due to illness, %	1.4	1.4	1.3

1) As at December 31

and that Hufvudstaden is an employer that lives up to its values and adopts a long-term approach in its operations. The opportunity to work with attractive, centrally located properties was a further aspect that employees appreciated.

In this year's Employee Satisfaction Survey, the response rate was 94 per cent. A high proportion of employees were satisfied with their working situation. The highest scores were in Leadership, Hufvudstaden as an employer and Pride in working at Hufvudstaden.

**Working environment**

We ensure a good working environment, both physically and psychosocially, and that all employees are covered by collective agreements. We work in compliance with the diversity policy, which states how we strive to promote diversity and equality and counteract discrimination within the organization. All employees are offered an equal opportunity to develop and unfounded salary differences are counteracted. In-house communication takes place via an active intranet and at regular staff meetings.

The working environment is being developed continuously through a specially appointed working environment group made up of representatives from various parts of the organization. The group is divided into three working areas: working environment, health and job satisfaction. The purpose of pursuing working environment initiatives within the Company is to review risks, propose suitable measures and promote development within each area. During the year, the group was involved in a range of activities, such as a training programme in fire and safety, and health enhancement activities that included a ski trip, a golfing activity and jogging groups.

During the year, we completed a new office in Gothenburg, a workplace where we have the scope to be flexible and to grow in line with the needs and opportunities presented to us as the business grows. In Stockholm, we have formulated a concept relating to how the office should function and to ensure that we can function optimally in our working

environment. The new office in Stockholm is currently being developed and will be completed in the next few years.

All employees in the Company meet at the annual staff conference to share experiences and increase the feeling of affinity and belonging. This year the conference took place in Gothenburg, where we visited our properties and had an opportunity to look at current projects.

**Healthy employees**

Hufvudstaden adopts a preventative approach to health through regular health checks and massage at the workplace. During the year, we and our company healthcare provider, Avonova, conducted a health survey and there was a high level of interest and involvement. We regard the fact that our employees are interested in their personal health as a success factor for the Company. The results revealed that many of our employees are active both at work and outside work.

All employees are covered by health insurance, which ensures rapid, qualified care in the event of illness. We offer an annual health and fitness allowance, which many of our employees take advantage of. To ensure a low level of absenteeism due to illness, we encourage physical activity, both at work and outside work. Absenteeism due to illness in 2016 was just over 1 per cent.

**Career and development**

Our ambition is to retain and develop talented employees. New challenges give employees the opportunity to grow within the Company and at the same time acquire broader knowledge of the Company's different working areas. Our aim is to as far as possible fill vacant positions on the management level and at other levels by recruiting from within the Company.

*Employee development*

Over the past 10 years the average tenure at Hufvudstaden has been 8 years and the figure for 2016 was 7 years. Our focus is firmly on attracting employees who intend to stay with the Company.



# HUFVUDSTADEN

*Gothenburg*

All new employees are offered a comprehensive induction programme, which includes taking part in an induction day, which is run by a number of our managers. We also have annual appraisal discussions that cover goals and achievement of goals as well as skills development and related matters, after which an individual activity plan is drawn up.

*Leadership development*

We are a company with a large number of small units and where the majority of managers are responsible for a relatively small number of employees. This is a model that we believe in and statistically it is strongly linked to a high degree of job satisfaction and a low level of absenteeism due to illness. Being able to continually identify and develop employees with leadership qualities is a priority within the Company. Hufvudstaden focuses consciously on giving younger employees the opportunity at an early stage to grow into the role of manager.

We have four leadership criteria at Hufvudstaden: courage, inspirational conduct, forward-thinking and acting as a role model. These criteria function as watchwords in the day-to-day life of the managers. They also act as a starting point when we review the development of our managers and the results they achieve.

Each year we arrange a management conference where the participants are given the opportunity to share experiences and discuss leadership. We also have an ongoing training programme for managers, including a basic training programme for new managers and courses dealing with the psychosocial working environment.

**Employees of the future**

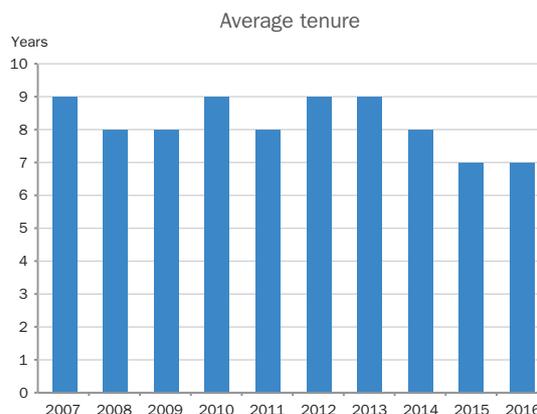
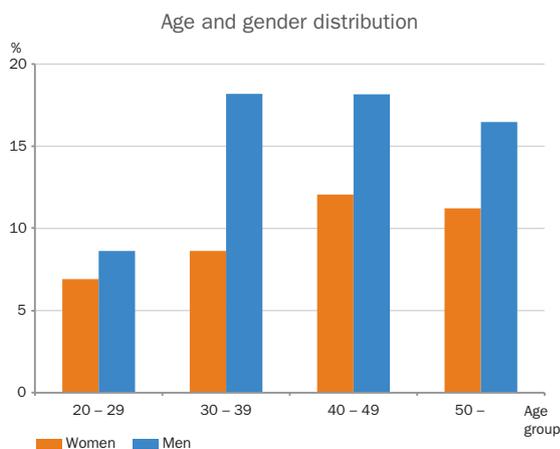
To facilitate future recruitment needs, Hufvudstaden builds up relations with students. Each year we offer them the opportunity to take up a placement, both during the time they are studying and after they graduate. We take part in *LAVA*, the labour market day run by the Royal Institute of Technology, and for many years we have also run a special day for students, mainly from the Royal Institute of Technology. The results from the student day mean that we can ensure a continuous influx of young employees into our organization. This is a model that we firmly believe in and which has proved to work well and resulted in several permanent recruitments and placements. We also established the same approach in Gothenburg during the year, where we took part in the *VARM och CHARM* labour market day arranged by Chalmers University of Technology, which was subsequently

followed up by a fully subscribed student day. There is considerable interest in these activities and the evaluation reveals that the majority of students could envisage working for Hufvudstaden in the future. This type of collaboration with students is just one of the strategies that we employ to find the most professional employees in the industry in combination with reinforcing our brand.

In the main, our recruitment takes place using our own experts and with a recruitment system as support. By doing so, we are able to maintain full control over the process and ensure that we carry out value-driven recruitment in combination with building up a register of potential employees who are interested in working for the Company. This is an important basis for our strategic work and ensures access to skilled and knowledgeable staff in the future.

**Sustainability control <sup>1)</sup>**

Sustainability work is integrated into structure processes for the control and follow-up of business operations. Detailed process descriptions have been prepared, covering everything from how construction should take place to how leases should be signed.



*1) Our Sustainability Report has been prepared in accordance with Global Reporting Initiative (GRI G4), Core level, and is presented each year in February. We have also taken account of the property industry's sector-specific supplements when preparing the Report. A GRI index can be found on the Hufvudstaden website.*



# HUFVUDSTADEN

*Stockholm*

# Property development

There has been a strong rate of growth in both Stockholm and Gothenburg and demand on the market is for office premises that offer a high degree of flexibility and efficient use of floor space, as well as retail premises in attractive locations. Hufvudstaden is working actively to develop its properties, both with regard to renovation and refurbishment of existing premises and the creation of new development rights. Together with other property owners and the city authorities, we are also developing the environments outside our properties to raise the general attractiveness of the areas in which we operate. The aim is to create good growth in value and to work closely with customers to adapt offices and stores to their specific conditions and needs.

## Business development

Business development experts within office, retail and digital development have been recruited to the Business Development unit. The aim of the unit is to initiate and run commercial projects with the ultimate goal of improving the Company's profitability. The unit has identified around 20 projects, varying in size. A number of the projects are at the enquiry stage although implementation decisions have been taken regarding a number of projects in Gothenburg and Stockholm.

The needs of office customers are changing, with a growing demand for a higher level of service and greater flexibility. This has led to a rise in the number of serviced office facilities, mainly in the Stockholm area. In response, Hufvudstaden has broadened its offering in certain premises by creating 'turnkey offices' with more flexible leases. The concept that has been created is being marketed under the *REDO* banner. We have also noted an increase in demand for flexibility in the retail sector, where there is interest in testing the marketplace for a limited period. With this in mind, Hufvudstaden is able to offer premises for use as 'pop-up stores', allowing retail tenants to take on premises on a short lease.

The rapid development in digitalization in society has led to changes in customer needs, wishes and expectations. To meet these changes, the Company

has embarked on a digital transformation programme aimed at the continuous adaptation of the Company's working approach, operations and business models to external digital development.

## Property development

The Property Development department runs the refurbishment and development projects in our properties. The projects can be divided principally into maintenance projects and adaptation of existing properties, as well as large development projects involving existing or new development rights. To meet the demand from the market, adaptation of a number of premises took place during the year. The outcome of these development measures is buildings that offer improved environmental performance, a higher technical standard and more efficient and flexible planning of available floor space. Customers have a better product and Hufvudstaden has a higher yield and net operating income in the long term.

Project development takes place in close collaboration with the business development and property management organization. During the development process, we endeavour to achieve sustainable architecture with a distinct feeling of quality. The properties should be perceived as attractive, not only today but also well into the future. There is considerable emphasis on creating a product that is easy to maintain from a long-term management point of view. 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. Projects are procured and controlled by Hufvudstaden's own project managers. They are involved at every stage in the project and work on a daily basis with project control, co-ordination with the tenant and working environment issues. This is necessary if Hufvudstaden is to meet strict demands for quality, flexibility and long-term thinking.

During the past five years, Hufvudstaden has on average invested around SEK 330 million per year in its projects. Approximately half of this amount was related to adaptation of premises. Maintenance projects and major development

projects each account for one-quarter of the total investment in existing properties, which in 2016 amounted to around SEK 540 million.

## Current major projects

### *Härbärgat block*

One of the larger projects is the development of the Härbärgat block in Gothenburg. Work during the year focused mainly on early-stage examinations of the foundations, building frame and general utility systems, as well as volume studies. Work will take place in close collaboration with the City of Gothenburg and the aim is to produce a new detailed plan for the whole block. Alongside the detailed planning work, the City of Gothenburg has carried out programme work for the south-eastern part of the city, which will support the planning process and provide general guidelines for the development of the Fredstan area.

The foundations of the property on the corner of Fredsgatan and Södra Hamngatan have been reinforced and load-bearing main partition walls at street level and one floor up have had more joists added to create new, flexible store solutions. Reinforcement of the foundations is necessary to counteract an uneven degree of subsidence in the existing foundations and to secure the property before major construction work commences in the area around the building. A new, strong brand that has chosen to establish operations in the property is Michael Kors.

### *Femman*

Redevelopment of the Femman Precinct in Gothenburg has now entered its second year and around 80 per cent of the stores have been completed. The facades facing inwards towards Nordstan have been given a new look and retail operations have been moved out onto the balconies on the upper floor. The communication routes have been changed and renovated to create the best possible sight lines. The entrances have been given a new, more distinct design, resulting in an attractive and welcoming feeling. To improve contact between the different floors, new openings have been made in the floor structure and in the centre a wall of green plants has been

created, linking the three floors. Digital orientation signs have been installed to make it easy for customers to find their favourite stores. To ensure that customers feel happy and stay for long time, cafeterias, a juice bar and new, modern toilet facilities have been added to complement the attractive range of stores. The project is scheduled for completion in 2017.

#### *Fyran*

The Fyran property in Nordstan in Gothenburg has been the site of several projects during the year. Store facades and signage out towards Köpmansgatan have been renewed and the arcades out towards Östra Hamngatan and Köpmansgatan have been enclosed. These changes have resulted in more attractive store premises and a more pleasant street environment. At present, all the floor space within the project has been let. For many office tenants, the entrance is a key issue when choosing premises. It should feel open and welcoming and at same time



it should give a good impression when viewed by visitors and employees. To create a better overall feeling for the offices, all the entrances have been renovated and entry systems and lifts have been replaced. The total renovation of the facade of the property was also completed during the year. Over a period of two years, the marble facade, which was in need of renovation, has been replaced by a light Nordic granite facade, which has reinforced the identity of the property.

#### *NK Gothenburg*

Several potential development projects have been identified for the NK proper-



ty. The first project to be carried out involved moving the line of the building out to the facade plane, with the result that the existing arcades on the ground floor have been enclosed. This generated more floor space in the department store and created an entrance directly from the street for the new stores. By doing so, a more pleasant and safer urban space was established, which also helped to reinforce the whole of the Fredstan retail area. The project was completed during the year.

#### *Bibliotekstan*

A new detailed plan was adopted in 2015 for the Skären 9 property, which is located in the Bibliotekstan area of Stockholm. The plan will result in a further 2–3 floors with additional rentable floor space of around 2,500 square metres. System documentation has now been completed and work on preparing the construction documents will commence once a lease with a main tenant has been signed.

The Vildmannen 7 property was constructed on Biblioteksgatan at the end of the 19th century. The property underwent major renovation in the 1930s, which included reconstructing the facade on the ground floor. Over time, the property has had very low levels of vacant space although during the year the biggest tenant, Erik Penser Bank, which leased most of the property, moved to other premises within the Hufvudstaden holdings. This will allow a complete renovation of the entire property to be carried out. The project includes recreating the original ground

floor facades, which will enhance the attractiveness of the stores and reinforce this culturally and historically important street environment in Bibliotekstan. Major reconstruction work will also be carried out, where load-bearing main partition walls will have additional steel pillars and beams. This will facilitate the creation of new, open and flexible planning solutions. The project has already commenced and will be completed in 2018.

#### **Adaptation of premises**

Most of the redevelopment in the Hufvudstaden property holdings takes the form of adaptation for new or existing tenants. When premises become vacant, an evaluation is made of the technical standard to assess whether there are any refurbishment requirements. Following initial refurbishment, the premises are adapted to the needs of the new tenant. There is an increasing demand among tenants for open-plan arrangements with more efficient use of floor space. This has increased the need for ventilation and cooling and older installations frequently need to be replaced by the latest technology to ensure an optimal indoor climate. Hufvudstaden owns many properties that are adjacent to each other. This allows premises to be integrated with adjoining floor space with the aim of optimizing flexibility. In all redevelopment, the emphasis is on preserving the specific character of the building and its architectural value.

During 2016, renovation and adaptation of approximately 29,000 square metres of floor space was completed. These adaptations took place both for new tenants as well as existing tenants in conjunction with an extension of the lease or an expansion of the floor space.

The number of premises that have been adapted during the year is lower than in 2015, the main reason being the low level of vacant space. One of the largest adaptation projects in Stockholm was carried out at the new Erik Penser Bank office in the Oxhuvudet 18 property. In Gothenburg, extensive adaptation work has been carried out for Unionen and Deloitte.

# Stockholm City East Business Area

## Property holdings

Historically, the Stockholm City East Business Area has been the core of Hufvudstaden's property holdings since the Company was founded in 1915. The business area comprises 16 (16) properties, divided into two management areas, Norrmalmstorg and Kungsgatan. Norrmalmstorg comprises properties in Bibliotekstan. Kungsgatan comprises properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The properties are entirely commercial and consist of office and retail premises.

## Development of holdings

The task of developing Bibliotekstan into the foremost fashion area in Scandinavia has continued. This has led to an increase in the stores' turnover, which has in turn resulted in an increase in rental revenue for Hufvudstaden. There has been considerable interest shown by high-end international brands in establishing operations in the area. Stores that opened in 2016 include the luxury brands Chanel and Céline. Events that

took place during the year include The fashion week in August and the Christmas activities. In the Vildmannen 7 property, a complete project commenced, affecting both office and store

Largest tenants	
Office	Sq m
Danske Bank	10,600
Advokatfirman Vinge	7,900
Swedish Financial Supervisory Authority	6,800
KG10	3,800
Swedish Export Credit Agency	3,600

Retail	Sq m
Zara	2,900
Urban Outfitters	1,900
Stadium	1,600
Alewalds	1,300
McDonald's	1,300

space. The premises will be opened up to create modern, flexible space utilization solutions and the original ground floor facades will be reinstated.

At the junction of Sveavägen/Kungsgatan, the large LED system on the facade has proved to be a highly

popular feature in the urban landscape and during the year it received the Stockholm Signage Award in the Innovation category.

A number of office leases were signed during the year, which has led to the level of vacant space at the year-end, excluding current projects, reaching a record low 2.1 per cent. A number of major office tenants, including Erik Penser Bank, the Swedish Financial Supervisory Authority and King, have all had their office space changed and/or expanded.

## Rental market

The market 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 prime locations were between SEK 5,000 and SEK 7,000 per square metre per year, excluding the property tax supplement.

Rents for retail premises have also shown good growth and market rents for prime locations ranged from SEK 14,000 to SEK 24,000 per square metre per year, excluding the property tax supplement.

Property holdings		
	2016	2015
Number of properties	16	16
Rentable floor space, sq m	150,976	150,978
– of which offices	102,246	102,286
– of which stores and restaurants	36,623	36,643
Annual rent, SEK m	792	759
Rental vacancy level, %	3.3	4.2
Floor space vacancy level, %	4.6	6.2

New leases and renegotiations		
	2016	2015
New leases, sq m	8,000	13,700
New leases, annual rent SEK m	44	78
Renegotiations, sq m	13,500	20,500
Renegotiations, annual rent SEK m	81	93

Profit, property management <sup>1)</sup>		
SEK m	2016	2015
Net revenue	751.9	703.8
Maintenance	-14.7	-19.9
Operation and administration	-80.9	-79.8
Other costs	-79.0	-76.8
Total costs	-174.6	-176.5
Gross profit	577.3	527.3

1) Comparable holdings

**Customers**

The office tenant structure within the Business Area consists mainly of 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 Alritz, Vinge and White & Case. In total, there are 297 customers in the Business Area. The ten largest customers lease 49,000 square metres (48,000), representing annual rent revenue of SEK 254 million (249).

Store tenants in Bibliotekstan are

largely younger Scandinavian brands such as Byredo, Hope, Rodebjer, Our Legacy and Whyred, alongside larger international brands and retail chains such as Burberry, By Marlene Birger, Chanel, Céline, Filippa K, Gant, Georg Jensen, Michael Kors, Prada, Ralph Lauren and Zara.

The larger store tenants along Kungsgatan are mainly chain stores, such as Adidas, Alewalds, Cervera, Naturkompaniet, Nespresso, Stadium, Ströms, Telenor and Telia.

The Business Area has a number of Stockholm's more high-end restaurants and cafes, including Burger & Lobster, Carotte, Koloni, Prinsen, Vau De Ville and Wienercaféet. These units play an important part in maintaining the attractiveness of the area.

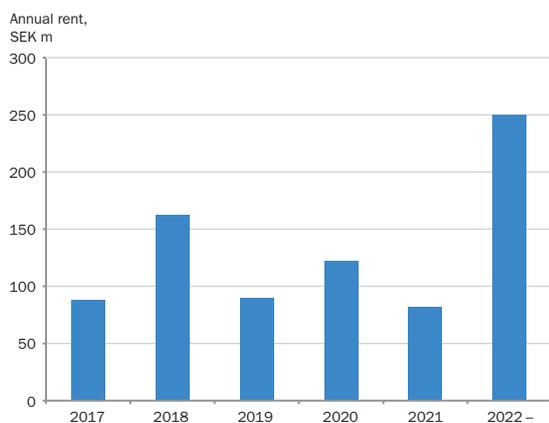
**Brands within the Business Area**

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

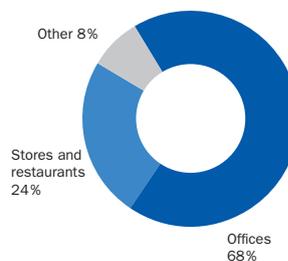
*Birger Jarlspassagen.* The passage, located between Birger Jarlsgatan and Smålandsgatan, is of considerable cultural, historical and architectural value.

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

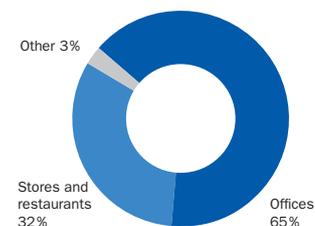
Lease term structure



Rentable floor space per type of premises



Annual rent per type of premises





SVEAVÄGEN  
*Stockholm*



# BIBLIOTEKSTAN

*Mäster Samuelsgatan, Stockholm*

# Stockholm City West Business Area

## Property holdings

The Stockholm City West Business Area comprises 8 (8) properties in Stockholm and 1 (1) in Gothenburg. It includes properties in the areas to the south and west of Hötorget and on Regeringsgatan, and the NK properties in Stockholm and Gothenburg. The holdings are entirely commercial and comprise office and retail properties as well as the Parkaden multi-storey car park. The properties are located on Drottninggatan, Hamngatan, Klarabergsgatan, Regeringsgatan, Västra Trädgårdsgatan and in Gamla Stan in Stockholm, and on Östra Hamngatan in Gothenburg.

## Development of holdings

In the NK property in Stockholm, redevelopment of the offices continued during the year. Following completion in 2017, and after the new tenants have moved in, all the 11,000 square metres of floor space will in principle have been converted into modern offices in which efficient use has been made of all the available floor space. A major lease was signed in the Orgelpipan 7 property with Rud Pedersen, which previously leased smaller premises in another of Hufvudstaden's properties. There have also been a couple of adaptations made in other properties prior to tenants moving in, including Certezza, Loomis and Sirocco.

Work is continuing in the NK department stores to develop the concept for reinforcing the brand and increasing revenue. New departments that opened at NK Stockholm during the year included

Largest tenants	
Office	Sq m
Knowit	3,500
EnterCard	2,500
AG Advokat	2,500
Investment AB Janus	2,100
Starbreeze Studios	1,900
Retail	Sq m
Departments & Stores	11,400
Rizzo	1,700
Harjak & Månsson	1,600
Northern Classic	1,600
ICA	1,500

Isabel Marant and Rebecca Minkoff. In addition, a number of existing departments have been redeveloped and the range has been upgraded. At NK Gothenburg, the arcades along Drottninggatan and Kyrkogatan have been enclosed. The new floor space that has been created has been leased to, among others, NK Gelato and Juicekällan.

## Rental market

The market rent trend for office premises in prime locations in Stockholm was very

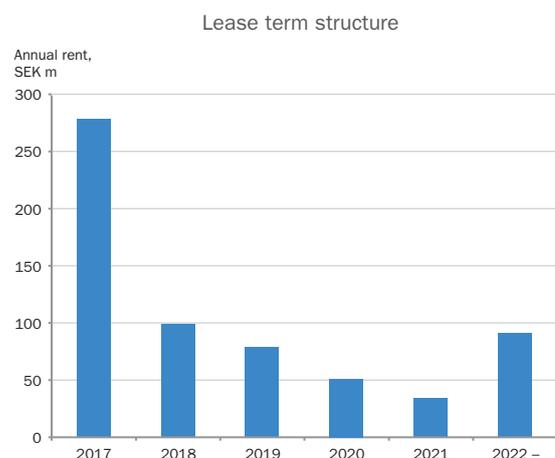
strong during the year and rents were between SEK 5,000 and SEK 7,000 per square metre per year, excluding the property tax supplement. The rental market during the year for retail premises continued to be good. The market rents for the best retail space in prime locations, excluding NK, were between SEK 4,000 and SEK 14,000 per square metre per year, excluding the property tax supplement. Following the signing of new and renegotiated leases at NK Stockholm, market rents are between SEK 14,000 and SEK 24,000 per square metre per year, excluding the turnover-based rent supplement and the property tax supplement. The equivalent rent levels for NK Gothenburg are between SEK 6,000 and SEK 15,000 per square metre.

## Customers

The ten largest customers lease 33,000 square metres (32,000), representing annual rent revenue of SEK 254 million (249). Of the Business Area's 218 customers, the predominant sectors are law firms, advertising agencies, IT and media companies, organizations and banks.

The store tenants are both domestic and international companies with strict demands regarding store design and marketplace. The tenants frequently represent very well-known brands that

Property holdings		
	2016	2015
Number of properties	9	9
Rentable floor space, sq m	149,274	149,009
– of which offices	46,082	46,084
– of which stores and restaurants	44,937	44,645
Annual rent, SEK m	660	640
Rental vacancy level, %	2.9	1.9
Floor space vacancy level, %	3.9	3.1
New leases and renegotiations		
	2016	2015
New leases, sq m	5,200	5,300
New leases, annual rent SEK m	24	24
Renegotiations, sq m	23,500	20,100
Renegotiations, annual rent SEK m	109	126



only establish operations at a few select locations. This applies in particular to the NK department stores in Stockholm and Gothenburg.

**AB Nordiska Kompaniet**

The wholly owned subsidiary AB Nordiska Kompaniet owns the NK properties in Stockholm and Gothenburg as well as the NK brand. The two department stores are included in the Stockholm City West Business Area.

In 2016, Wi-Fi was installed in both department stores. During the autumn campaign, a fashion show was held at Kulturhuset Stadsteater in Stockholm, including a live broadcast on Facebook, which had considerable impact. The theme for the 2016 Christmas display was “A Magical Christmas Forest”. Children of different ages were given the opportunity to draw their magical Christmas forests and these drawings were then used as inspiration for the window displays.

**The NK brand**

NK is now 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 retailing in the department stores, generating increased rent revenue and raising the value of the properties. This success is founded on close cooperation between the property owner and the proprietors through a proprietors' association. Cooperation is developed further by having the right mix of proprietors, a lively and attractive marketplace and continuous marketing directed at the right target groups.

Hufvudstaden and the proprietors' association work together to formulate annual marketing plans to reinforce NK as a brand and a destination.

**Retail market**

The retail trade has developed positively for several years. According to the Retail Survey Index DHI, sales within the durable goods sector increased in terms of price by 4.0 per cent in 2016. Clothing increased by 1.2 per cent. The turnover for the NK department stores

almost reached the record level of 2015 and ended the year at SEK 3,237 million (3,310).

**Parking operations**

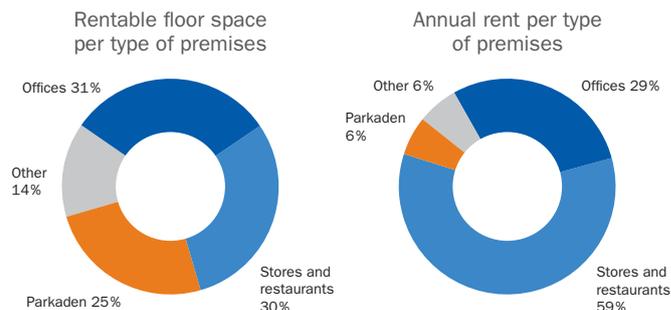
The wholly owned subsidiary Parkaden AB runs parking operations in two Hufvudstaden properties in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget in the Orgelpipan 7 property near the Central Station, with 455 parking spaces.

In 2016, the traffic situation around Parkaden was affected by resurfacing of the road on Hamngatan and the construction project at Gallerian. Despite this, parking operations still managed to report an increase in revenue.

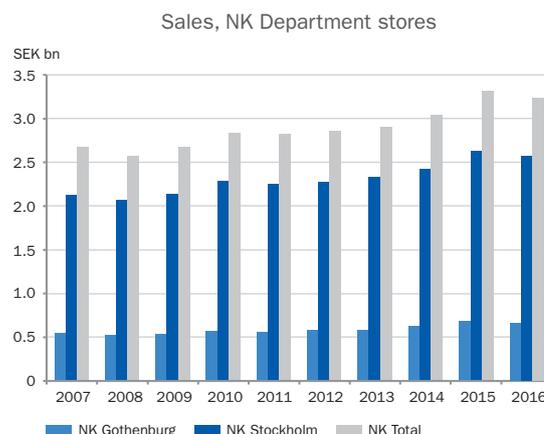
The rise in the number of electric cars has led to a high demand for charging points. To meet this demand, more charging points were installed in the Parkaden multi-storey car park.

Profit, property management <sup>1)</sup>		
SEK m	2016	2015
Net revenue	666.0	636.8
Maintenance	-10.8	-11.8
Operation and administration	-127.7	-126.3
Other costs	-79.0	-71.9
Total costs	-217.5	-210.0
Gross profit	448.5	426.8

1) Comparable holdings



NK Department stores		
	2016	2015
<i>NK Stockholm</i>		
Rentable retail space, sq m	24,212	24,212
Rentable storage space, sq m	3,557	3,540
Number of departments	103	99
Number of restaurants	9	8
Sales, including VAT, SEK m	2,571	2,626
<i>NK Gothenburg</i>		
Rentable retail space, sq m	10,180	9,888
Rentable storage space, sq m	1,284	1,326
Number of departments	50	42
Number of restaurants	1	2
Sales, including VAT, SEK m	666	684





NORDISKA KOMPANIET

*Hamngatan, Stockholm*



NORDISKA KOMPANIET

*Östra Hamngatan, Gothenburg*

# Gothenburg Business Area

## Property holdings

The Gothenburg Business Area comprises 4 (3) properties, located in the Gothenburg CBD and divided into two areas, the Härbärg block and Nordstan. The property in Nordstan comprises two units, one facing Östra Hamngatan, Fyran, and one facing the Central Station, Femman.

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, square and pedestrianized streets. Nordstan is one of the leading shopping centres in Sweden with attractive retail stores, parking and modern offices in the best possible commercial location. Nordstan receives around 35 million visitors each year, of whom more than 10 million visit Femman. Retail revenue was just over SEK 4 billion, of which Femman accounted for around SEK 730 million and Fyran around SEK 330 million.

In March, the Company took possession of the Inom Vallgraven 3:2 property, located on Stora Nygatan.

The property is partly vacant and is regarded as a development property.

## Development of the holdings

The Femman Precinct comprises approximately 16,000 square metres of retail

Largest tenants	
Office	Sq m
Swedish Customs	9,100
Swedish Social Insurance Agency	4,600
Alektum Group	4,000
Advokatfirman Vinge	3,800
Grant Thornton	2,800

Stores	Sq m
H&M	2,300
Nilson Group	2,000
Cassels	1,900
KappAhl	1,700
Femmans Sport	1,400

floor space on three floors. Major redevelopment of the retail space has been in progress since 2015, and in November 2016 the upgraded Femman was launched with a new logotype and new digital orientation signs. Several new stores opened during the year, including Calzedonia,

Granit, Pelle P and Victoria's Secret. The bakery store Gateau and the restaurant Pane Fresco opened in the precinct, both of which were regarded as valuable additions by the office tenants in the property. The whole project is expected to be completed during 2017.

In Fyran, a project has been completed with the old marble facade, which was beginning to look worn, being replaced with light Nordic granite. Enclosure of the arcades along Östra Hamngatan and Köpmansgatan was completed, resulting in more retail space and renovated office entrances. Both the projects are expected to reinforce the property from a commercial perspective, which has been confirmed in conjunction with new leases at attractive rent levels.

In Nordstan, the Cooperative Association, working in collaboration with the property owners, has, among other things, adapted the multi-storey car park to the needs of customers with improved lighting. They have also established a new centre for security operations in Nordstan.

Hufvudstaden, the City of Gothenburg and Vasakronan have joined forces

Property holdings		
	2016	2015
Number of properties	4	3
Rentable floor space, sq m	88,707	87,236
– of which offices	50,787	49,777
– of which stores and restaurants	31,242	30,965
Annual rent, SEK m	300	277
Rental vacancy level, %	7.6	11.4
Floor space vacancy level, %	8.6	11.2

New leases and renegotiations		
	2016	2015
New leases, sq m	4,100	7,200
New leases, annual rent SEK m	22	30
Renegotiations, sq m	7,200	8,000
Renegotiations, annual rent SEK m	25	30

Profit, property management <sup>1)</sup>		
SEK m	2016	2015
Net revenue	285.2	271.9
Maintenance	-3.5	-2.7
Operation and administration	-53.6	-50.8
Other costs	-28.3	-27.1
Total costs	-85.4	-80.6
Gross profit	199.8	191.3

1) Comparable holdings

to produce a planning programme for the development of the south-east part of the city, which is now called Fredstan. The aim is for the area to acquire a unique range of stores and restaurants. Together we have developed areas and meeting points, as well as new, attractive offices and homes, making this into a vibrant street space and an exciting totality. In the corner property, facing Fredsgatan, Michael Kors has opened its first store in Gothenburg. On the Härbärgat block, work is continuing on a new detailed plan aimed at creating new, modern offices and attractive stores.

During 2016, adaptation of premises was carried out for a number of tenants in conjunction with the signing of new or renegotiated leases. The premises have thus been adapted to satisfy the tenants' wishes and needs. Tenants that have moved into new or redeveloped premises include Albis Plastic Scandinavia, Deloitte and Unionen.

The level of vacant space within the Business Area fell during the year and the figure, excluding current projects, stood at 3.3 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 between SEK 2,400 and SEK 3,200 per square metre per year, excluding the property tax supplement. In the case of stores, the rent trend continued to be good. Prime location premises attracted rents of between SEK 6,000 and SEK 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, the media, public authorities and organizations. The store customers appreciate attractive, centrally located market and commercial locations and during the year several new Swedish and international

companies showed an interest in Gothenburg. There are 158 customers in the Business Area. The ten largest customers lease 34,000 square metres (33,000), representing annual rent revenue of SEK 102 million (95).

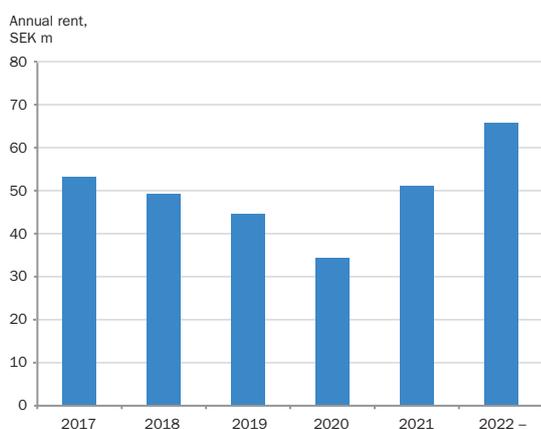
**Brands within the Business Area**

*Femman.* Femman is one of the strongest brands in the retail trade in western Sweden and represents a wide range within the clothing and durable goods sectors.

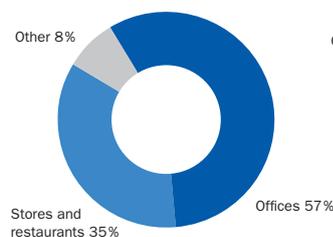
*Fredstan.* Fredstan comprises the block around Fredsgatan between Brunnsparken and Trädgårdsföreningen. Hufvudstaden, Vasakronan and the City of Gothenburg have formulated a planning programme aimed at developing the area.

*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.

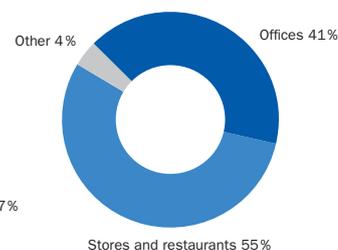
Lease term structure



Rentable floor space per type of premises



Annual rent per type of premises





FEMMAN

*Nordstan, Gothenburg*



**NORDISKA KOMPANIET**

*Kyrkogatan, Gothenburg*

# Administration Report

The Board of Directors and the President hereby present the Annual Report and the consolidated accounts 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. L E 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.

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 23, 2017.

## *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 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.

### **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 2016 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, 2016, 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 16, 2017).

### **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 specific 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 sent out is published in *Dagens Nyheter*.

The 2016 Annual Meeting was held on March 17, 2016. A total of 478 shareholders, representing 122,317,638 series A shares and 8,260,297 series C shares, were present and they represented 948,347,338 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 presented

Income Statement and Balance Sheet as well as the Consolidated Income Statement and Consolidated Balance Sheet, and to allocate the unappropriated earnings in such a way that SEK 3.10 per share was 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 remuneration to the members of the Board of Directors and the auditors. In addition, Claes Boustedt, Peter Egardt, Louise Lindh, Fredrik Lundberg, Sten Peterson, Anna-Greta Sjöberg and Ivo Stopner were re-elected as members of the Board of Directors and Fredrik Lundberg was re-elected as Chairman. Liv Forhaug and Fredrik Persson were elected as new members of the Board of Directors. KPMG AB was re-elected as the auditing company with Joakim Thilstedt as lead auditor. All appointments were for the period up to the end of the next Annual Meeting. Finally, a decision was reached at the meeting on 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.

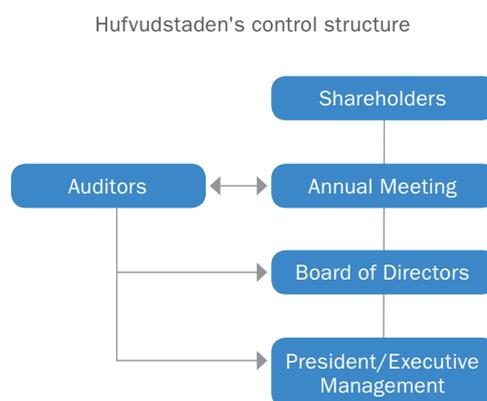
The 2017 Annual Meeting will be held in Stockholm on March 23, 2017.

#### 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 (in addition to the members appointed statutorily by another party other than through election at a general meeting). 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. The main shareholder proposes a person to chair the meeting, a Board of Directors,

a Chairman and fees for the Board of Directors. The Board of Directors presents a proposal for an auditor and the fee for the auditor. Other shareholders can submit nomination proposals at the address stated on the website. Proposals are made public no later than in conjunction with the summons to the Annual Meeting.

As a basis for its proposal prior to the 2017 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. The skills, experience and background of the proposed members are taken into account, as is the gender division within the Board of Directors. The election committee procedure applied at Hufvudstaden is a deviation from the Code.



#### 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 work of the Company. 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 that 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

During the 2016 financial year, the Board of Directors held eight meetings, 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 a principle nature 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 were current major projects, including the Company's digital transformation, upgrading of the Femman Precinct in the Nordstan Shopping Centre, development and refurbishment of the Härbärg block in Gothenburg, and a review of the Company's finance policy. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2015 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 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 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 whole of the Board of Directors perform the duties that rest with an Audit 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 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 whole of the Board of Directors, apart from the President, perform the duties that rest with a Remuneration Committee, including following up and evaluating programmes governing variable remuneration to senior executives. This includes both current programmes and programmes that were concluded 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, the three business area heads, one of whom is the Vice-President, as well as the Head of Accounting/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 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 2016 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, Alfa Laval, Holmen, LE Lundbergföretagen and Modern Times Group, MTG.

The Board meets the Company's 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. 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 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.

#### Remuneration

##### Board of Directors

Remuneration to the Board of Directors is decided at the Annual Meeting. At the Annual Meeting in 2016 it was decided that remuneration for the period up to the next Annual Meeting, totaling SEK 2,025,000, 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 450,000, and the other seven non-employed members, who each receive SEK 225,000.

##### Executive Management

Guidelines for salaries, bonuses and other remuneration to the Company's senior executives are decided at the Annual

Name	Function	Attendance <sup>1)</sup>	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	8	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun <sup>2)</sup>		2	Yes	Yes
Peter Egardt		8	Yes	Yes
Liv Forhaug <sup>3)</sup>		6	Yes	Yes
Louise Lindh		8	Yes	No
Hans Mertzig <sup>2)</sup>		2	Yes	Yes
Fredrik Persson <sup>3)</sup>		6	Yes	Yes
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg		8	Yes	Yes
Ivo Stopner	President	8	No (employee)	Yes

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

2) Stepped down from the Board at the Annual Meeting in March 2016.

3) Elected to the Board at the Annual Meeting in March 2016.

Meeting. It was decided at the meeting that the same guidelines shall apply for 2016, which mainly corresponded to the guidelines decided at the 2015 Annual Meeting, 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 have been followed since the 2016 Annual Meeting and a proposal that unchanged guidelines will be applied in 2017 will be presented for a decision at the 2017 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 2017 Annual Meeting. The auditor's statement on whether guidelines for remuneration to senior executives, which were adopted at the Annual Meeting in 2016, 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 2016 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 2016, the bonus cost for all employees was SEK 5.9 million (5.3), or an average of SEK 244,000 per person for the executive management, including the President, and an average of SEK 41,000 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 examines 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, an information policy. Internal communication to and from the Board and 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 that reporting to the Board functions 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



# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*



NORDISKA KOMPANIET

*Regeringsgatan, Stockholm*

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.

## **Operations**

### **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 market-places.

### **Key events during the financial year**

There is uncertainty surrounding the economic and geopolitical situation in the world. In Europe, government elections have dominated debate and the economic recovery has continued. Growth in the USA was lower than the previous year although the employment rate has improved. The US central bank is positive about the future and at the end of the year it raised the key rate.

The Swedish economy continued to develop well during 2016 with a good rate of growth of around 3.5 per cent. Growth is being driven mainly by public consumption and housing construction. The central bank cut the key rate at the beginning of the year to -0.50 per cent. Exports have improved as a result of the aggressive monetary policy adopted by the central bank. The policy has weakened the value of the krona. Inflation was slightly higher than previously at around 1.0 per cent.

Investments in infrastructure projects have continued, mainly in the city regions and in particular the Stockholm and Gothenburg regions. Regional growth in these cities is strong and the increase in population is above the European average. Thanks to the growing service sector, low interest rates and rising employment, there has been an increase in consumption. Tourism has also contributed to the rise in turnover in the retail sector.

The rental market in the Stockholm CBD and the Gothenburg CBD has been strong with a high demand for office space, which has resulted in low levels of vacant space. In the Stockholm CBD, the level of vacant space for offices was around 2 per cent at the end of 2016. The increase in employment and the fall in vacant space has led to a rise in market rents, which at the year-end were between SEK 5,000 and SEK 7,000 per square metre per year, excluding the property tax supplement. In the Gothenburg CBD, the level of vacant office space at the end of 2016 was around 3 per cent. Market rents at the year-end were between SEK 2,400 and SEK 3,200 per square metre per year, excluding the property tax supplement.

Turnover in the retail sector has grown for several years although margins in the retail sector have been affected by a lower rate of inflation and rising costs. There is still a good level of demand for our store premises and there was a slight rise in market rents. In Bibliotekstan, several international fashion brands opened new stores, which will reinforce the marketplace even further. The NK department stores achieved a high turnover, SEK 3,237 million (3,310).

The intensified focus on projects is continuing and several major development projects were in progress during the year. In Stockholm, a complete project began in the Vildmannen 7 property, where both office and store space will be modernized. The Femman Precinct in Gothenburg is undergoing a complete upgrade and the project will be completed in 2017. One of the larger projects in Gothenburg is the development of the Härbärgat block. The project is at the investigation stage and in one of the properties reinforcement of the foundations and redevelopment to make way for new stores has been completed. In addition to major development projects, adaptation of 29,000 square metres of floor space took place.

Rent renegotiations within the Group resulted in a rent increase of 10 per cent, of which stores increased by 9 per cent and offices by 12 per cent. The high level of demand, mainly for office premises, has resulted in a low level of vacant space of 2.6 per cent, excluding current development projects.

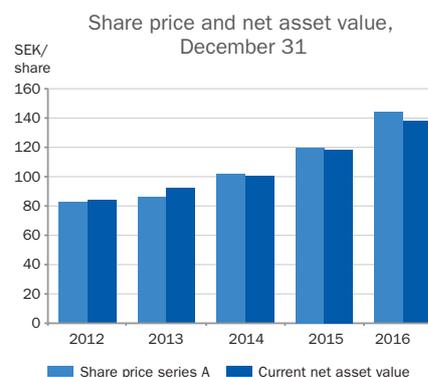
Operating profitability has strengthened and Hufvudstaden's financial position continues to be good. The net loan-to-value ratio was 15 per cent, the equity ratio was 61 per cent and the interest coverage multiple was 8.6. The transaction volume on the property market reached a new record level of SEK 200 billion. The Company's property holdings increased in value during the year, which can be attributed mainly to higher rents and lower yield requirements.

### **Property holdings**

At the end of the year, Hufvudstaden owned 29 properties (28). Rentable floor space was 283,700 square metres in Stockholm and 105,300 square metres in Gothenburg, making a total of 389,000 square metres (387,200).

The total rental vacancy level in the Group as at December 31, 2016 was 3.9 per cent (4.5) and the floor space vacancy level was 5.3 per cent (6.1). In Stockholm, the rental vacancy level was 3.1 per cent and in Gothenburg 6.9 per cent. Excluding current projects, the figures were 2.4 per cent and 3.6 per cent.

During the year, 44,200 square metres (48,600) were renegotiated at a



total value of SEK 215 million per year and new leases were signed for 17,300 square metres (26,200).

### **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, 2016. To assure the valuation, external valuations were commissioned from three valuation companies. The external valuations made at the turn of the year were equivalent to 34 per cent of the fair value and the corresponding

erties can be sold via a limited company without tax implications. The assessed deferred tax has been set at 5 per cent.

### Opportunities and risks

The Swedish finance market has stabilized although there still remains some uncertainty in the Eurozone. In order to increase confidence in the financial system within the EU, the level of regulation has increased and more extensive reporting and reconciliation of transactions is required. Our focus is therefore on the ongoing identification of operating risks and assessment of the Company's financial risks.

Hufvudstaden's financing potential has been guaranteed, among other things, through loan assurances. The framework is SEK 4 billion, of which SEK 2.0 billion was unutilized. SEK 900 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. Loans falling due in 2017 amount to SEK 1,750 million, see Note 25. The interest risk has been handled by hedging the interest level with interest derivatives for SEK 3,250 million of the total borrowing of SEK 6,650 million. SEK 2,300 million carry a fixed rate of interest. The fixed interest period was 1.9 years and the average annual equivalent rate was 2.1 per cent. The Company also has financing options through an MTN programme with a limit of SEK 4 billion. The commercial paper programme for short-term borrowing totals SEK 2 billion. To minimize bad debts, new customers are subject to credit checks and there is continuous monitoring of accounts receivable and rent receivables.

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 macroeconomic factors, such as the business climate, interest rates, regional development in Stockholm and Gothenburg and political decisions. Good planning and clear strate-

gies 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 in 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 risk, however, is limited by Hufvudstaden's concentration on properties in the most attractive commercial locations. 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. The rent level for leased premises with lease terms of three years or more are linked to the consumer price index and certain agreements also have a minimum indexation level. The majority of leases are not affected by a fall in the index. 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 for Hufvudstaden's office premises than for retail premises. There should always be some vacant space in order to offer the tenants 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 a long lease term.

Net asset value, December 31, 2016		
	SEK million	SEK/share
Equity according to the Balance Sheet	23,047.4	112
<i>Reversal</i>		
Derivatives according to the Balance Sheet	91.9	0
Deferred tax according to the Balance Sheet	7,102.5	34
<b>Non-current net asset value (EPRA NAV)</b>	<b>30,241.8</b>	<b>146</b>
<i>Deduction</i>		
Derivatives according to the above	-91.9	0
Assessed actual liability, deferred tax, 5%	-1,614.2	-8
<b>Current net asset value (EPRA NNNAV)</b>	<b>28,535.7</b>	<b>138</b>

proportion at the mid-year point was 36 per cent.

The fair value of the property holdings as at December 31, 2016 was set at SEK 36.5 billion (31.7). The unrealized change in value was SEK 4,160.1 million (3,426.5).

#### *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 method and assumptions can be found in Note 17.

#### *Net asset value*

Based on the valuation of the property holdings, the long-term net asset value (EPRA NAV) according to the Balance Sheet was SEK 30.2 billion or SEK 146 per share. The actual net asset value (EPRA NNNAV) was SEK 28.5 billion or SEK 138 per share following a deduction for assessed deferred tax. This assessment is made in the light of current tax legislation, which means that prop-

Sensitivity analysis, property valuation <sup>1)</sup>		
	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq m	SEK 1,000 million
Property costs	SEK 50/sq m	SEK 500 million
Rental vacancy level	1.0 percentage points	SEK 480 million
Yield requirement	0.25 percentage points	SEK 2,350 million

1) Valuation date 31-12-2016.

### Turnover-based rent

Turnover-based rent is mainly applied at the NK department stores but also in other retail properties. Hufvudstaden is striving to increase the proportion of lease agreements with turnover-based rent as they offer revenue potential while at the same time the guaranteed minimum rent in turnover-based leases limits the risk of a fall in rents.

### Operation and maintenance

Hufvudstaden is working actively to optimize the properties' energy use and 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 very focused in 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 below.

The reported effects on profit in conjunction with changes in the rent level, vacancy level, operating and maintenance costs, property tax and interest expense, refer to the effects that would have occurred during the 2016 financial year if the changes had occurred at the beginning of 2016.

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.

### Non-financial result indicators

Corporate social responsibility, both internally and externally, is a prerequisite for success. 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 the day-to-day work.

### Environmental impact

Hufvudstaden is working actively to reduce negative environmental impact by, for example, reducing energy use and demanding the use of environmentally adapted products. Sustainability information for the Company is presented according to the Global Reporting Initiative standard.

### 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

Hufvudstaden's property holdings are concentrated in central Stockholm and central Gothenburg. Development in both cities is positive with a high rate of growth, which is continuing to facilitate

expansion. The property market is strong with low interest rates, good access to financing, particularly for properties in good locations, as well as a lack of attractive alternative investment options. This has led to a considerable demand to invest in properties in our sub-markets although there is limited availability as few companies are looking to sell. Yield requirements have fallen to historically low levels. The assessment is that low interest rates will continue, which it is assumed will lead to a continuation of the high demand for properties.

The increase in employment, financial growth and a strong level of private consumption are having a positive impact on the rental market with falling levels of vacant space and rising rents for both office and retail premises. The cities are also benefiting from growth in domestic and international tourism. The assessment is that there is scope for the good rate of development in our market areas to continue.

Rapid advances in digitalization have led to changes in needs and expectations. To adapt working methods in our operations to these developments, we have embarked upon a digital transformation programme. Establishment of the Business Development unit will reinforce the project organization, which will help move commercial projects forward with the aim of developing the Group's already attractive property holdings even further. The outcome from the projects will lead to increased profitability and higher property values. Property acquisitions to supplement existing holdings could be implemented if the opportunity arose. These investments would take place within the framework of the Company's solid financial position and the financial goals will continue to be achieved in the future.

### Dividend and allocation of profit

The Board of Directors has proposed a dividend of SEK 3.30 per share, or a total of SEK 680.7 million. The Board of Directors proposed allocation of unappropriated earnings is presented in full in Note 24 and on page 88.

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

### Change in pre-tax profit, excluding changes in value

	Change +/-	Impact on profit, excluding changes in value before tax, +/-
Rent level	SEK 100/sq m	SEK 39 million
Vacancy level <sup>1)</sup>	1 percentage point	SEK 17 million
Operation and maintenance	10 per cent	SEK 14 million
Property tax <sup>2)</sup>	1 percentage point	SEK 15 million
Interest rate <sup>3)</sup>	1 percentage point	SEK 67 million

1) Vacant floor space is estimated at SEK 4,400 per square metre.

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

3) Without taking into account the fixing of interest through derivatives. For details of the effect, including derivatives, see Note 2.



# BIRGER JARLSPASSAGEN

*Stockholm*

## Income Statements – Group

SEK m	Note	2016	2015
<i>Net revenue</i>			
Property management	3–5	1,703.1	1,610.7
Parking operations		86.8	78.3
		<b>1,789.9</b>	<b>1,689.0</b>
<i>Property management costs</i>			
– Maintenance		-29.0	-34.4
– Operations and administration		-262.2	-256.5
– Ground rents		-21.8	-21.5
– Property tax		-164.5	-154.1
<b>Property management expenses</b>		<b>-477.5</b>	<b>-466.5</b>
Parking operations, costs		-50.0	-50.4
<b>Cost of operations</b>	6–11	<b>-527.5</b>	<b>-516.9</b>
<b>Gross profit</b>		<b>1,262.4</b>	<b>1,172.1</b>
– of which Property management		1,225.6	1,144.2
– of which Parking operations		36.8	27.9
Central administration	7–11	-42.9	-38.8
<b>Operating profit before changes in value</b>		<b>1,219.5</b>	<b>1,133.3</b>
<i>Changes in value</i>			
– Investment properties	12	4,160.1	3,426.5
– Interest derivatives		45.4	11.8
<b>Operating profit</b>		<b>5,425.0</b>	<b>4,571.6</b>
<i>Financial income and expense</i>			
Financial income	13	0.3	1.2
Financial expense	14	-141.4	-124.2
		<b>-141.1</b>	<b>-123.0</b>
<b>Profit before tax</b>		<b>5,283.9</b>	<b>4,448.6</b>
Tax	16	-1,163.7	-978.5
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>4,120.2</b>	<b>3,470.1</b>
Other comprehensive income		–	–
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>4,120.2</b>	<b>3,470.1</b>
Profit for the year per share before and after dilution, SEK	24	19.98	16.82
Dividend per share, SEK (proposed)		3.30	3.10

# Comments

## Property management

Net rent revenue from property management during the year totalled SEK 1,703.1 million (1,610.7), equivalent to an increase of 6 per cent. The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases and reduced costs for vacant space. During the year, Hufvudstaden renegotiated leases equivalent to SEK 215 million in annual rent revenue. Renegotiations for both office and retail premises resulted in an average increase in rent levels of 10 per cent (6). The level of vacant space fell during the year from 4.5 per cent to 3.9 per cent. The lower level of vacant space can be attributed mainly to offices in Stockholm. The level of vacant space, excluding current development projects, was 2.6 per cent (3.2).

The turnover-based rent supplement was SEK 16.0 million (18.1), of which the NK properties accounted for SEK 13.8 million (16.9). Turnover at the NK department stores was approximately SEK 3,237 million (3,310). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents.

Maintenance costs amounted to SEK 29.0 million (34.4). Operating costs amounted to SEK 183.0 million (185.6). The fall in operating costs can be ascribed mainly to lower letting costs.

Administration costs totalled SEK 79.2 million (70.9). The increase was the result of staff reinforcement within business development and property management.

Property tax amounted to SEK 164.5 million (154.1). The cost of property tax has mainly been passed on to the tenants. Overall, this means that the total cost for property management amounted to SEK 477.5 million (466.5).

The gross profit for the year was SEK 1,225.6 million (1,144.2).

## Parking operations

Parking operations comprise operations at Parkaden AB.

Net revenue was SEK 86.8 million (78.3). The increase can be attributed mainly to a rise in short-term parking and contract parking revenue. Costs totalled SEK 50.0 million (50.4) and gross profit amounted to SEK 36.8 million (27.9).

## Changes in value

Changes in the value of investment properties totalled SEK 4,160.1 million (3,426.5). The unrealized increase in value can be attributed mainly to the effect of higher rents in conjunction with new and renegotiated leases and a slightly lower yield requirement. The average yield requirement in conjunction with the above valuation was 3.9 per cent (4.1).

Changes in the value of interest derivatives totalled SEK 45.4 million (11.8). 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 0.3 million (1.2). Financial expense amounted to SEK -141.4 million (-124.2). Interest expense increased due to higher lending.

## Tax

The Group's tax expense was SEK -1,163.7 million (-978.5), of which SEK -152.7 million (-105.5) was current tax and SEK -1,011.0 million (-873.0) was deferred tax. The increase in deferred tax can be ascribed to higher unrealized changes in the value of the property holdings.

## Profit for the year

The profit for the year was SEK 4,120.2 million (3,470.1). The higher profit can be attributed mainly to higher unrealized changes in the value of the property holdings.

## *Balance Sheets – Group*

SEK m	Note	31-12-2016	31-12-2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	36,517.3	31,740.5
Tangible fixed assets	18	6.6	7.4
Non-current receivables	20	11.9	10.3
<b>Total fixed assets</b>		<b>36,535.8</b>	<b>31,758.2</b>
<b>Current assets</b>			
Accounts receivable	21	15.2	20.6
Prepaid tax		–	31.6
Other receivables		2.5	23.8
Prepaid expense and accrued income	22	41.5	45.2
Cash and bank holdings	23	1,113.8	443.2
<b>Total current assets</b>		<b>1,173.0</b>	<b>564.4</b>
<b>TOTAL ASSETS</b>		<b>37,708.8</b>	<b>32,322.6</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Profit brought forward, including profit for the year		21,362.9	17,882.2
<b>Total equity</b>	24	<b>23,047.4</b>	<b>19,566.7</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	4,000.0	4,650.0
Deferred tax liabilities	26	7,240.2	6,229.2
Other non-current liabilities		106.4	157.6
Other provisions	27	14.9	12.9
<b>Total non-current liabilities</b>		<b>11,361.5</b>	<b>11,049.7</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	2,650.0	1,100.0
Accounts payable		87.4	102.5
Income tax liability		15.2	–
Other liabilities	28	157.7	108.8
Accrued expenses and prepaid income	30	389.6	394.9
<b>Total current liabilities</b>		<b>3,299.9</b>	<b>1,706.2</b>
<b>Total liabilities</b>		<b>14,661.4</b>	<b>12,755.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>37,708.8</b>	<b>32,322.6</b>

## Comments

### Investment properties

The carrying amount for properties in the Group was SEK 36,517.3 million (31,740.5). The increase in the properties' fair value can be attributed to unrealized changes in value totalling SEK 4,160.1 million (3,426.5) and investments in current development projects in the property holdings, mainly in Gothenburg, during the year totalling SEK 538.3 million (496.6). Investment properties in the Group are reported at fair value according to IAS 40, which means there is no impairment. The valuation method is described in Note 17. The properties' fiscal residual value was SEK 3.4 billion (3.5).

### Cash and cash equivalents

Cash and cash equivalents amounted to SEK 1,113.8 million (443.2). 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 2,950 million (2,850). At the year-end, Hufvudstaden's commercial paper totalled SEK 900

million (800) and bond loans totalled SEK 2,800 million (2,100). Borrowing totalled SEK 6,650 million (5,750). The average fixed interest period was 1.9 years (2.2), the capital tie-up period was 2.7 years (2.2) and the average annual equivalent interest cost at the year-end was 2.1 per cent (2.1). Net debt totalled SEK 5,536.2 million (5,306.8). Financial items included in net debt are listed in Note 25.

### Deferred tax liabilities

Deferred tax liabilities amounted to SEK 7,240.2 million (6,229.2). The change can be attributed to deferred tax on unrealized changes in value.

## Changes in equity – Group

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
<b>Opening equity 01-01-2015</b>	<b>1,056.4</b>	<b>628.1</b>	<b>15,010.3</b>	<b>16,694.8</b>
Profit for the year			3,470.1	3,470.1
Other comprehensive income for the year			–	–
Comprehensive income for the year			3,470.1	3,470.1
Dividend			-598.2	-598.2
<b>Closing equity 31-12-2015</b>	<b>1,056.4</b>	<b>628.1</b>	<b>17,882.2</b>	<b>19,566.7</b>
<b>Opening equity 01-01-2016</b>	<b>1,056.4</b>	<b>628.1</b>	<b>17,882.2</b>	<b>19,566.7</b>
Profit for the year			4,120.2	4,120.2
Other comprehensive income for the year			–	–
Comprehensive income for the year			4,120.2	4,120.2
Dividend			-639.4	-639.4
<b>Closing equity 31-12-2016</b>	<b>1,056.4</b>	<b>628.1</b>	<b>21,363.0</b>	<b>23,047.4</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 17, 2016, 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 2016.

During 2016, a dividend of SEK 3.10 per share was paid to the Company's shareholders, totalling SEK 639,424,392.

The proposed dividend according to the allocation of unappropriated earnings is SEK 680.7 million. (See Definitions, page 103, Dividend).



# NORDISKA KOMPANIET

*Hamngatan, Stockholm*

## *Cash flow statements – Group*

SEK m	2016	2015
<b>Current operations</b>		
Profit before tax	5,283.9	4,448.6
Depreciation and impairment of assets	3.0	8.2
Unrealized change in value, investment properties	-4,160.1	-3,426.5
Unrealized change in value, interest derivatives	-45.4	-11.8
Other changes	1.9	2.3
Income tax paid	-105.7	-90.0
<b>Cash flow from current operations before changes in working capital</b>	<b>977.6</b>	<b>930.8</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (-) in operating receivables	28.6	-35.2
Increase (+) / Decrease (-) in operating liabilities	22.5	71.9
<b>Cash flow from current operations</b>	<b>1,028.7</b>	<b>967.5</b>
<b>Investments</b>		
Investment in properties	-616.7	-496.6
Investment in equipment	-2.2	-3.7
Sale of equipment	0.2	-
<b>Cash flow from investments</b>	<b>-618.7</b>	<b>-500.3</b>
<b>Financing</b>		
Loans raised	3,300.0	2,200.0
Amortization of loans	-2,400.0	-2,100.0
Dividend paid	-639.4	-598.2
<b>Cash flow from financing</b>	<b>260.6</b>	<b>-498.2</b>
<b>Cash flow for the year</b>	<b>670.6</b>	<b>-31.0</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>443.2</b>	<b>474.2</b>
<b>Cash and cash equivalents at the year-end</b>	<b>1,113.8</b>	<b>443.2</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	0.7	1.8
Interest paid	134.3	119.8

## Comments

### Cash flow from current operations

Cash flow from current operations before changes in operating capital increased by SEK 46.8 million to SEK 977.6 million (930.8). The increase can be attributed mainly to improved profit. Changes in working capital increased cash flow by SEK 51.1 million (36.7). Cash flow from current operations thus totalled SEK 1,028.7 million (967.5).

### Cash flow from investments

Cash flow from investments amounted to SEK -618.7 million (-500.3) and refers to the acquisition of the property Inom Vallgraven 3:2 and investment in existing holdings and equipment.

### Cash flow from financing

Cash flow from financing increased by SEK 741.6 million to SEK 243.4 million (-498.2). Net borrowing increased by

SEK 900 million compared to an increase of SEK 100 million the previous year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK 670.6 million (-31.0).

### Cash and cash equivalents

The Group's cash and cash equivalents totalled SEK 1,113.8 million (443.2) 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, 2016, Hufvudstaden had non-current loan assurances of SEK 4.0 billion. At the year-end, SEK 2.0 billion was unutilized, of which SEK 900 million was reserved to cover outstanding commercial paper loans. The commercial paper programme totalled SEK 2.0 billion, of which SEK 900 million was outstanding at the year-end. The unutilized amount is SEK 1.1 billion. The Company's MTN programme has a limit of SEK 4.0 billion, of which SEK 2.8 billion has been issued. The unutilized amount is SEK 1.2 billion.

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	2016	2015
Net revenue	5	1,104.0	1,038.4
Operating costs	6–11	-729.8	-715.5
<b>Gross profit</b>		<b>374.2</b>	<b>322.9</b>
Central administration	7–11	-42.9	-38.8
Changes in value	12	45.4	11.8
<b>Operating profit</b>		<b>376.7</b>	<b>295.9</b>
<b>Profit from financial items</b>			
Group contributions received		357.3	331.9
Financial income	13	0.3	1.2
Financial expense	14	-141.3	-124.2
		<b>216.3</b>	<b>208.9</b>
<b>Profit after financial items</b>		<b>593.0</b>	<b>504.8</b>
Appropriations	15	156.5	1.7
<b>Profit before tax</b>		<b>749.5</b>	<b>506.5</b>
Tax	16	-165.9	-111.3
<b>PROFIT FOR THE YEAR</b>		<b>583.6</b>	<b>395.2</b>

<b>Statement of Comprehensive Income</b>			
SEK m	Note	2016	2015
Profit for the year		583.6	395.2
Other comprehensive income		–	–
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>583.6</b>	<b>395.2</b>

<b>Balance Sheets</b>			
SEK m	Note	31-12-2016	31-12-2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	8,086.3	8,073.6
Tangible fixed assets	18	3.9	4.8
		<b>8,090.2</b>	<b>8,078.4</b>
<i>Financial fixed assets</i>			
Participations in Group companies	19	2,886.9	2,824.8
Non-current receivables	20	11.8	10.2
<i>Total financial fixed assets</i>		2,898.7	2,835.0
<b>Total fixed assets</b>		<b>10,988.9</b>	<b>10,913.4</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Accounts receivable	21	2.5	3.1
Other receivables		1.8	20.5
Prepaid tax		–	37.9
Receivables from Group companies		436.0	372.2
Prepaid expenses and accrued income	22	26.4	24.2
<i>Total current receivables</i>		466.7	457.9
Cash and bank holdings	23	1,083.4	442.6
<b>Total current assets</b>		<b>1,550.1</b>	<b>900.5</b>
<b>TOTAL ASSETS</b>		<b>12,539.0</b>	<b>11,813.9</b>

<b>Balance sheets, cont'd</b>			
SEK m	Note	31-12-2016	31-12-2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital (211,271,933 shares)		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		1,181.1	1,425.3
Profit for the year		583.6	395.2
<b>Total non-restricted equity</b>		<b>1,764.7</b>	<b>1,820.5</b>
<b>Total equity</b>	24	<b>3,743.4</b>	<b>3,799.2</b>
<i>Untaxed reserves</i>			
	29	665.0	821.6
<i>Provisions</i>			
Pension provisions	27	14.7	12.7
Provisions for taxes	26	901.4	888.1
<b>Total provisions</b>		<b>916.1</b>	<b>900.8</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	4,000.0	4,650.0
Liabilities to Group companies		0.7	0.7
Other liabilities		102.3	153.3
<b>Total non-current liabilities</b>		<b>4,103.0</b>	<b>4,804.0</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	2,650.0	1,100.0
Accounts payable		63.8	74.2
Liabilities to Group companies		26.7	10.9
Income tax liability		16.9	–
Other liabilities	28	93.7	36.9
Accrued expenses and prepaid income	30	260.4	266.3
<b>Total current liabilities</b>		<b>3,111.5</b>	<b>1,488.3</b>
<b>Total liabilities</b>		<b>8,795.6</b>	<b>8,014.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,539.0</b>	<b>11,813.9</b>

**Changes in equity**

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings, including profit for the year	Total
<b>Opening equity 01-01-2015</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,023.5</b>	<b>4,002.2</b>
Profit for the year				395.2	395.2
Other comprehensive income for the year				-	-
Comprehensive income for the year				395.2	395.2
Dividend, Parent Company				-598.2	-598.2
<b>Closing equity 31-12-2015</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,820.5</b>	<b>3,799.2</b>
<b>Opening equity 01-01-2016</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,820.5</b>	<b>3,799.2</b>
Profit for the year				583.6	583.6
Other comprehensive income for the year				-	-
Comprehensive income for the year				583.6	583.6
Dividend, Parent Company				-639.4	-639.4
<b>Closing equity 31-12-2016</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,764.7</b>	<b>3,743.4</b>

**Comments**

Net revenue was SEK 1,104.0 million (1,038.4). The increase can be attributed to higher gross rents in conjunction with new and renegotiated leases. The gross profit amounted to SEK 374.2 million (322.9). The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases and reduced costs for vacant space.

Net financial income and expense was SEK 216.3 million (208.9). Financial items include group contributions from subsidiaries totalling SEK 357.3 million (331.9).

Cash and cash equivalents at the year-end totalled SEK 1,083.4 million (442.6). Net investment in existing property holdings and equipment totalled SEK 158.2 million (117.8). Acquisitions of subsidiaries totalled SEK 62.1 million.

**Cash Flow Statements**

SEK m	2016	2015
<b>Current operations</b>		
Profit after financial items	593.0	504.8
Depreciation and impairment of assets	146.7	143.9
Unrealized changes in value, interest derivatives	-45.4	-11.8
Group contribution	-357.3	-331.9
Other changes	2.1	2.2
Income tax paid	-97.9	-89.1
<b>Cash flow from current operations before changes in working capital</b>	<b>241.2</b>	<b>218.1</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (-) in operating receivables	308.6	328.2
Increase (+) / Decrease (-) in operating liabilities	50.7	38.3
<b>Cash flow from current operations</b>	<b>600.5</b>	<b>584.6</b>
<b>Investments</b>		
Acquisition of subsidiaries	-62.1	-
Investment in properties	-156.8	-115.7
Investment in equipment	-1.6	-2.1
Sale of equipment	0.2	-
<b>Cash flow from investments</b>	<b>-220.3</b>	<b>-117.8</b>
<b>Financing</b>		
Loans raised	3,300.0	2,200.0
Amortization of loans	-2,400.0	-2,100.0
Dividend paid	-639.4	-598.2
<b>Cash flow from financing</b>	<b>260.6</b>	<b>-498.2</b>
<b>Cash flow for the year</b>	<b>640.8</b>	<b>-31.4</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>442.6</b>	<b>474.0</b>
<b>Cash and cash equivalents at the year-end</b>	<b>1,083.4</b>	<b>442.6</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	0.5	1.6
Interest paid	134.2	119.7

# Notes

## Note 1. Accounting principles

### General information

Hufvudstaden AB (publ) 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. L E 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 2016 have been approved for publication according to a decision reached by the Board on February 16, 2017. It is proposed that the Annual Report and Consolidated Financial Statements be adopted at the Annual Meeting on March 23, 2017.

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 important 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, which is 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 rental revenue, long-term rental vacancy level and normalized operating and maintenance costs. 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 on the property level. 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 17.

### New accounting principles

#### New standards that came into effect in 2016

New and amended standards that came into effect in 2016 have not had any material effect on the Group's financial statements.

#### New standards that will come into effect in 2017 and later

A number of new and amended IFRS will come into effect during the coming financial years and have not been applied in the preparation of these financial statements. The amendments are not expected to have any material effect on the consolidated financial statements with the exception of the following:

IFRS 9 Financial Instruments will come into effect on January 1, 2018. The standard will mean a new classification of financial instruments and a new model for making provisions for credit losses and handling of hedge accounting. These will not have any material effect on Hufvudstaden apart from a change in the documentation.

IFRS 15 Revenue Recognition will also come into effect on January 1, 2018. Hufvudstaden's revenue comprises rental revenue, which is reported according to IFRS 16, and consequently the introduction is not expected to have any material effect on the consolidated financial statements.

IFRS 16 Leasing will be applied from January 1, 2019. The standard will affect reporting of the Group's operational lease agreements, where the Group is the lessee. For this type of lease agreement, a future value is calculated and reported in the balance sheet. The Group has a small number of agreements of this nature and consequently the assessment is that the standard will not have any major effect on the consolidated financial statements.

#### Changes in Swedish regulations

Changes during 2016 have not had any material effect 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, 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 resale and are reported according to IFRS 5.

### Consolidated accounts

The consolidated accounts 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 or 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 accounts. 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 income and costs

Net revenue from property management includes rental revenue as well as costs passed on, such as property tax and media costs. Rental revenue is allocated to a specific period on a linear basis over the period of the lease. Rent paid in advance is thus reported as prepaid rental revenue.

#### Income from property sales

Income from property sales is reported on the completion date. 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.

*Continuation, Note 1.***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 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 etc. 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 2016 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 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**

The Group classifies financial assets as follows: Financial assets valued at fair value through profit or loss, Loan receivables or Accounts receivable. The financial liabilities are classified as follows: Financial liabilities valued at fair value through profit or loss or Other financial liabilities. Classification depends on the purpose for which the financial asset or liability was acquired.

A financial instrument is valued initially at fair value with a supplement for transaction costs, with the exception of the 'financial asset' and 'financial liability' categories valued at fair value in profit or loss, which are reported at the 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. Hufvudstaden has not identified any embedded derivatives that should be separated from their host contracts and reported separately.

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

This category comprises two sub-groups: financial assets and liabilities, when held for trading purposes, i.e. where the main purpose is to sell or repurchase in the short term, and other financial assets and liabilities which the Company has initially chosen to place in this category (according to what is known as the Fair Value Option). 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.

**Loan receivables and accounts receivable**

Receivables are valued at amortised cost. The amortised cost is determined based on the effective interest rate calculated at the time of acquisition. The expected term of the account receivable is short and consequently the value is reported at the nominal amount without discounting. Accounts receivable and loan receivables are reported at the amounts at which they are expected to be paid, i.e. following a deduction for doubtful receivables.

Cash and bank holdings are reported at the nominal value. The overdraft facility is related to loan liabilities under current liabilities.

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

This category includes rent receivables, customer receivables, cash and bank holdings, loan receivables and other receivables.

**Other financial liabilities**

All loans are reported at amortised cost, which means that the value is adjusted by any discounts or premiums in conjunction with the raising or repayment of the loan as well as costs in conjunction with raising the loan, allocated over the term of the loan. The period allocation is calculated based on the effective interest rate for the loan. Any profit or loss that arises when the loan is repaid is reported in the Income Statement.

Liabilities are reported initially at fair value and thereafter at amortised cost. This category includes loans as well as 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.

**Tangible fixed assets**

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

**Depreciation, Property Management**

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

**Depreciation, Parking Operations**

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

**Depreciation principles**

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

## Continuation, Note 1.

**Investment properties**

Investment properties are properties that are held for the purposes of securing rental revenue and/or an increase in value. Initially, investment properties are recognised at 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 20–30 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.

**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 result from discontinued operations.

**Provisions**

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

**Contingent liabilities**

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

**Cash Flow Statements**

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

**Segment reporting**

From an accounting point of view, a segment is an identifiable part of the Group

that provides services that are exposed to risks and opportunities that are different from other segments. The Group's operations are divided into two segments, Property Management and Parking Operations. This division is in compliance with the manner in which operations are followed up internally.

**PARENT COMPANY ACCOUNTING PRINCIPLES**

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

Group contributions received are reported under Financial items and group contributions granted are reported under Investment in shares in subsidiaries.

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

Mergers are reported according to BFAR 1999:1.

**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 accounts, 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 in RFR 2 for investment properties, 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 17.

**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. Percentages for depreciation are reported in Note 17.

**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 with short fixed interest periods and interest swaps are used 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.

## Continuation, Note 2.

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

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

**Financing risk**

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. The aim is to have financing from at least three of the major banks and a loan portfolio with a spread of due dates and long terms. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the rescheduling of loans and investments. In addition, the Company has a commercial paper programme and an MTN programme. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis. The Executive Management prepares rolling forecasts for the Group's liquidity on the basis of expected cash flows. Hufvudstaden's borrowings amounted to SEK 6,650 million at the year-end. The average fixed interest period was 1.9 years (2.2), the average capital tie-up period was 2.7 years (2.2) and the average annualized equivalent interest cost was 2.1 per cent (2.1). Net debt totalled SEK 5,536.2 million compared to SEK 5,306.7 million at the end of 2015. As at December 31, 2016, the Group had non-current loan assurances of SEK 3 billion and current loan assurances of SEK 1 billion. Of these amounts, SEK 2 billion was unutilized, of which SEK 900 million was reserved to cover outstanding commercial paper. There is also a commercial paper programme of SEK 2 billion, of which SEK 1.1 billion was unutilized, as well as an MTN programme of SEK 4 billion, of which SEK 1.2 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, 2016**

Year due	Interest payments, SEK m	Of which swaps, SEK m	Nominal amount, SEK m <sup>1)</sup>	Proportion, %
2017, Q 1	61.9	18.9	250.0	4
2017, Q 2	19.5	17.7	250.0	4
2017, Q 3	25.2	17.1	-	-
2017, Q 4	24.0	15.9	1,250.0	18
2018	84.7	29.2	1,200.0	18
2019	42.1	4.7	500.0	8
2020	35.0	-	900.0	14
2021	26.6	-	2,000.0	30
2022	4.2	-	300.0	4
Total	323.2	103.5	6,650.0	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 91.9 million.

**Interest risk**

The 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. Investment of surplus liquidity is made in financial instruments with a short fixed interest period, thus limiting the Group's exposure to an interest risk in investments.

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 the net debt should normally be 1–4 years. Loans are normally raised at a variable rate of interest and derivatives are used to achieve the desired fixed interest structure. As at December 31, 2016, the Group's fixed interest period was 1.9 years. A change in the market interest rate (STIBOR 3 months) by +1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would affect Hufvudstaden's interest expense in 2017 to the amount of +SEK 27 million (36) and SEK -20 million (36) in the event of a change in the market interest rate of -1 percentage point. The differ-

ence between the interest cost can be explained by the fact that certain agreements stipulate a minimum rate of interest. At the same time, the change in the interest rate would entail a change in value in interest derivatives to the amount of SEK 45 million (83) in the result.

**Fixed interest structure, December 31, 2016  
(Including effect of interest derivatives)**

Year due	Credit, SEK m	Interest derivatives, SEK m	Net, SEK m	AER, % <sup>1)</sup>
2017	4,350.0	-1,750.0	2,600.0	2.0
2018	500.0	1,300.0	1,800.0	2.1
2019	500.0	450.0	950.0	2.7
2021	1,000.0	-	1,000.0	1.5
2022	300.0	-	300.0	2.1
Total	6,650.0	0	6,650.0	2.1

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, cash and cash equivalents as well as financial derivative agreements with positive values, which as at the year-end had a collective carrying value of SEK 1,129.0 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. Rent receivables are invoiced in advance.

The Group's ten largest tenants represent 24 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.

**Concentration of credit risk, December 31, 2016<sup>1)2)</sup>**

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	84	3,526	0.2
100 – 499	89	23,764	1.5
500 – 999	123	92,931	5.7
1,000 – 2,499	163	255,498	15.7
2,500 – 4,999	91	323,824	19.8
5,000 – 9,999	41	288,958	17.7
10,000 –	30	643,556	39.4
Total	621	1,632,057	100.0

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

2) Annual rent as at December 31, 2016.

**Fair value**

The fair value of financial instruments traded on an active market (such as financial assets held for sale) 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 amortised cost with a deduction for possible impairment, the fair value is considered to be in line with the carrying value as these instruments have a very short term. Interest-bearing liabilities mainly have a three-month fixed interest period, whereupon the fair value is considered to concur essentially with the carrying value.

Continuation, Note 2.

Information regarding fair values, financial instruments										
SEK m	Items valued at fair value								Total carrying amount	
	through profit or loss		Accounts receivable and loan receivables		Other liabilities		Non-financial items			
	Derivatives		2016	2015	2016	2015	2016	2015	2016	2015
<b>GROUP</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables				11.9	10.3				11.9	10.3
Current receivables				41.6	72.3			17.6	17.3	59.2
Cash and cash equivalents				1,113.8	443.2					1,113.8
Non-current liabilities	67.1	129.6				4,052.2	4,690.9			4,119.3
Current liabilities	24.8	7.8				2,973.6	1,411.2	286.3	287.2	3,284.7
<b>PARENT COMPANY</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables				11.8	10.2					11.8
Current receivables				28.0	44.6			2.7	3.2	30.7
Cash and cash equivalents				1,083.4	442.6					1,083.4
Non-current liabilities	67.1	129.6				4,049.9	4,686.4			4,117.0
Current liabilities	24.8	7.8				2,874.0	1,296.9	169.1	172.7	3,067.9

The fair value concurs essentially with the carrying value. For bond loans with a fixed rate of interest the undervalue is SEK -44.2 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, which mainly follows the geographical division of the rental market into sub-markets. In the Parent Company, there is only the Property Management segment. The following presentation shows income and costs as well as assets and investments for the different business areas for 2016 and the comparison year 2015.

**Property Management**

SEK m	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>GROUP</b>								
<i>Income and costs <sup>1)</sup></i>								
Net revenue	751.9	703.8	666.0	636.8	285.2	270.1	1,703.1	1,610.7
<i>(of which turnover-based rent)</i>	(0.8)	(-)	(13.8)	(16.9)	(1.4)	(1.2)	(16.0)	(18.1)
Maintenance	-14.7	-19.9	-10.8	-11.8	-3.5	-2.7	-29.0	-34.4
Operation and administration	-80.9	-79.8	-127.7	-126.3	-53.6	-50.4	-262.2	-256.5
Ground rent	-0.2	-0.2	-21.6	-21.3	-	-	-21.8	-21.5
Property tax	-78.8	-76.6	-57.4	-50.6	-28.3	-26.9	-164.5	-154.1
Gross profit, property management	577.3	527.3	448.5	426.8	199.8	190.1	1,225.6	1,144.2
Parking operations			36.8	27.9			36.8	27.9
Central administration							-42.9	-38.8
<i>Changes in value</i>								
Investment properties							4,160.1	3,426.5
Interest derivatives							45.4	11.8
Operating profit							5,425.0	4,571.6
Financial income and expense							-141.1	-123.0
Profit before tax							5,283.9	4,448.6
<b>Assets</b>								
Investment properties	18,085.0	15,102.8	12,718.4	11,571.8	5,713.9	5,065.9	36,517.3	31,740.5
Rent receivables	-0.2	0.8	4.8	0.8	0.9	0.9	5.5	2.5
<b>Investments</b>								
Investment properties and equipment	131.1	125.9	103.7	146.1	383.9	228.3	618.7	500.3

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

Note 3 continued on page 77.

Continuation, Note 3.

<b>Parking Operations</b>		
The Parking Operations segment includes parking operations at Parkaden AB.		
SEK m	2016	2015
<b>GROUP</b>		
Net revenue	86.8	78.3
Rental costs	-40.9	-40.6
Operation and administration	-8.6	-8.7
Depreciation	-0.5	-1.1
Gross profit	36.8	27.9
Total assets amounted to SEK 13.9 million (13.7).		

<b>Note 4. Profit trend – summary</b>										
SEK m	Jan – Mar		Apr – Jun		Jul – Sept		Oct – Dec		Jan – Dec	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>GROUP</b>										
<i>Property management</i>										
Net revenue	410.2	395.2	416.8	390.6	431.7	397.5	444.4	427.4	1,703.1	1,610.7
Maintenance	-5.3	-8.8	-9.9	-7.9	-6.1	-7.3	-7.7	-10.4	-29.0	-34.4
Operation and administration	-65.6	-64.5	-61.1	-63.5	-58.8	-58.1	-76.7	-70.4	-262.2	-256.5
Other costs	-43.2	-43.6	-43.9	-44.2	-53.6	-43.9	-45.6	-43.9	-186.3	-175.6
Property management costs	-114.1	-116.9	-114.9	-115.6	-118.5	-109.3	-130.0	-124.7	-477.5	-466.5
Other operations, net	8.6	5.9	9.6	5.7	7.2	5.8	11.4	10.5	36.8	27.9
Gross profit	304.7	284.2	311.5	280.7	320.4	294.0	325.8	313.2	1,262.4	1,172.1
Central administration	-9.2	-9.0	-9.2	-9.4	-9.3	-9.3	-15.2	-11.1	-42.9	-38.8
<i>Changes in value</i>										
Investment properties	689.3	365.9	893.1	731.5	868.2	574.4	1,709.5	1,754.7	4,160.1	3,426.5
Interest derivatives	-5.2	-22.6	11.3	20.8	18.4	-4.8	20.9	18.4	45.4	11.8
Financial income and expense	-32.9	-29.6	-39.3	-30.6	-35.0	-31.2	-33.9	-31.6	-141.1	-123.0
Tax	-208.4	-142.1	-257.2	-219.0	-256.1	-182.1	-442.0	-435.3	-1,163.7	-978.5
Profit for the period after tax	738.3	446.8	910.2	774.0	906.6	641.0	1,565.1	1,608.3	4,120.2	3,470.1

**Note 5. Operational lease agreements – Group as lessor**

The Group has commercial lease agreements for the property holdings, which comprise offices, stores, warehouses and other non-residential premises. The remaining term is between 1 and 15 years.

*Renewal structure*<sup>1)2)3)</sup>

	2017	2018	2019	2020	2021	2022–	Total
<i>Number of agreements</i>							
Offices	67	83	60	43	31	46	330
Stores	110	84	66	46	24	23	353
Other	417	267	132	113	30	49	1,008
Total, Group	594	434	258	202	85	118	1,691
Proportion, %	35.1	25.7	15.3	11.9	5.0	7.0	100.0
Total, Parent Company	423	315	189	176	80	99	1,282
<i>Annual rent, SEK m</i>							
Offices	124.7	163.9	85.6	90.7	109.4	274.2	848.5
Stores	254.0	124.8	111.8	93.8	47.5	120.9	752.8
Other	39.3	21.1	15.6	22.2	12.2	9.3	119.7
Total, Group	418.0	309.8	213.0	206.7	169.1	404.4	1,721.0
Proportion, %	24.3	18.0	12.4	12.0	9.8	23.5	100.0
Total, Parent Company	176.1	224.0	157.4	169.1	164.6	267.5	1,158.7

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, tangible fixed assets and investment properties**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
<i>Depreciation per type of asset</i>				
Investment properties	- <sup>1)</sup>	- <sup>1)</sup>	144.1	138.8
Tangible fixed assets	2.7	3.3	2.1	2.1
Total	2.7	3.3	146.2	140.9
<i>Depreciation per function</i>				
Property management	2.2	2.2	146.2	140.9
Parking operations	0.5	1.1	-	-
Total	2.7	3.3	146.2	140.9

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	2016		2015	
		Of which men, %		Of which men, %
Parent Company	110	60	102	60
(of which executives)	(7)	(71)	(7)	(71)
<i>Wholly owned subsidiaries</i>				
Parkaden AB	3	67	3	67
Total, Group	113	60	105	60
(of which executives)	(7)	(71)	(7)	(71)

Of the Group's 28 managers (28) 7 are women (9) or 25 per cent (32). The Board of the Parent Company comprised 6 men (7) and 3 women (2). 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			
	2016	Of which bonus	2015	Of which bonus	2016	Of which bonus	2015	Of which bonus
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	438		400		438		400	
Fee to other Board members	1,556		1,425		1,531		1,400	
Remuneration and benefits, President	4,922	545	4,909	545	4,922	545	4,909	545
Remuneration and benefits, other executives	10,105	1,165	10,310	1,025	10,105	1,165	10,310	1,025
Remuneration and benefits, other employees <sup>2)</sup>	62,112	4,188	55,240	3,775	60,870	4,144	53,844	3,719
Total	79,133	5,898	72,284	5,345	77,866 <sup>1)</sup>	5,854	70,863 <sup>1)</sup>	5,289
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	137		126		137		126	
Other Board members	446		310		442		302	
President	2,168		2,161		2,168		2,161	
Other executives	3,755		3,660		3,755		3,660	
Other employees <sup>2)</sup>	22,100		21,431		21,698		21,005	
Total	28,606		27,688		28,200		27,254	
<i>Pension expenses</i>								
President	2,571		2,556		2,571		2,556	
Other executives	2,666		2,119		2,666		2,119	
Other employees <sup>2)</sup>	10,395		7,687		10,309		7,604	
Total	15,632		12,362		15,546		12,279	

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

2) The amounts include remuneration according to a contract of employment to a former CFO from May 2016 and for the whole of the period of notice.

Note 8 continued on page 79.

## Continuation, Note 8.

An expensed director's fee of SEK 438,000 was paid to the Chairman of the Board Fredrik Lundberg for 2016, and Board members Claes Boustedt, Peter Egardt, Louise Lindh, Sten Peterson and Anna-Greta Sjöberg were each paid SEK 219,000. Retiring Board members, Bengt Braun and Hans Mertzig received SEK 50,000 each, and newly elected Board members Liv Forhaug and Fredrik Persson each received SEK 169,000. 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 25,000.

Guidelines for salary, bonus and other remuneration to executives are decided at the Annual Meeting. For 2016, 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 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 for 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 2.9 million.

The retirement age for the President is 65 years although with the right for the President or the Company to decide on retirement with a full pension from the age of 60. Pensions for members of the Group management, including the President, are covered by the ITP plan and are defined benefit plans. 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 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 guidelines have been followed since the 2016 Annual Meeting and a proposal that the guidelines remain unchanged for 2017 will be presented at the Annual Meeting.

Pensions for Group employees, including the President, are covered by the ITP plan and are defined benefit pensions. 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 December 31, 2016, amounted to 148 per cent (153). 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 2016 was charged with a cost for 2015 of SEK 150,689.

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

SEK m	Group		Parent Company	
	2016	2015	2016	2015
KPMG AB				
Audit work	1.0	1.0	1.0	1.0
Other assignments	0.1	0.2	0.1	0.2
Total	1.1	1.2	1.1	1.2

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

Lease payments, SEK m	Group		Parent Company	
	2016	2015	2016	2015
– 1 year	26.0	25.9	13.3	13.3
1 year – 5 years	89.0	75.0	51.4	51.6
5 years –	49.1	53.4	36.3	49.1

Agreements entered into refer to ground rents, tenant charges and lease agreements with an external property owner.

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

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Maintenance	28.6	33.8	299.1	301.5
Operation and administration	224.6	230.1	74.5	80.2
Ground rent	21.8	21.5	13.0	13.1
Property tax	164.5	154.1	113.5	107.6
Depreciation and impairment	2.7	3.3	146.2	141.0
Personnel costs	128.2	112.9	126.4	111.0
Total	570.4	555.7	772.7	754.4

**Note 12. Changes in value**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Unrealized changes in value, investment properties	4,160.1	3,426.5		
Unrealized changes in value, interest derivatives	45.4	11.8	45.4	11.8
Total	4,205.5	3,438.3	45.4	11.8

**Note 13. Financial income**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Interest income from bank holdings	–	0.2	–	0.2
Interest income, other	0.3	1.0	0.3	1.0
Total	0.3	1.2	0.3	1.2

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

**Note 14. Financial expense**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Interest expense to credit institutions	52.3	52.7	52.3	52.7
Interest expense, swaps	78.5	65.1	78.5	65.1
Interest expense, other	10.6	6.4	10.5	6.4
Total	141.4	124.2	141.3	124.2

Of the financial expense, SEK 62.9 million (59.1) refers to financial instruments not valued at fair value.

**Note 15. Appropriations**

SEK m	Parent Company	
	2016	2015
Change in accumulated additional depreciation	6.5	1.7
Change in tax allocation reserve	150.0	-
Total	156.5	1.7

**Note 16. Income taxes**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
<i>Current tax expense</i>				
Tax expense for the year	-152.5	-106.0	-152.5	-106.0
Tax attributable to previous years	-0.2	0.5	-0.1	0.6
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation of properties	-121.6	-120.4	-3.7	-3.7
Unrealized change in value, properties	-915.2	-753.8		
Unrealized change in value, interest derivatives	-10.0	-2.6	-10.0	-2.6
Effect, pension provision	0.4	0.5	0.4	0.4
Effect, allocation to untaxed reserves	35.4	3.3		
Total tax	-1,163.7	-978.5	-165.9	-111.3
<i>Profit before tax</i>	5,283.9	4,448.6	749.5	506.5
Tax according to the current tax rate of 22 %	-1,162.5	-978.7	-164.9	-111.4
Tax attributable to previous years	-0.2	0.5	-0.1	0.6
Non-taxable income	0.2	0.3	0.1	0.3
Non-deductible expenses	-0.6	-0.6	-0.6	-0.6
Standard income, tax allocation reserve	-0.7	-1.0	-0.7	-1.0
Other	0.1	1.0	0.3	0.8
Total tax	-1,163.7	-978.5	-165.9	-111.3

As at the year-end, there were deficit deductions totalling SEK 1.1 million.

**Note 17. Investment properties**

**GROUP**  
Investment properties were reported according to the fair value method.

SEK m	2016	2015
Investment properties, Group	36,517.3	31,740.5

*Information about changes in the carrying amounts of investment properties.*

SEK m	Investment properties	
	Purchased during the year	Owned for the full year
2016		
Opening fair value		31,740.5
Cost value	78.4	
Investment in properties	2.0	536.3
Unrealized change in value	1.6	4,158.5
Closing fair value	82.0	36,435.3

2015	Investment properties owned for the full year	
Opening fair value		27,817.4
Investment in properties		496.6
Unrealized change in value		3,426.5
Closing fair value		31,740.5

All properties generated rental revenue during the year. 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. The property holdings only include commercial properties comprising 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.

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. Deals 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 valuation and consulting companies. Hufvudstaden's average yield requirement since December 31, 2011 has varied between 3.9 per cent and 4.8 per cent, and as at December 31, 2016 the figure was 3.9 per cent. For leasehold properties, the calculation is based on a yield requirement that is 0.25 percentage points higher.

The net operating income is based on market-adapted rental revenue. Rental 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 is adjusted 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 2007–2016 varied between 3 and 6 per cent and as at December 31, 2016, the figure was 3.9 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, 2016 was on the same level.

*Note 17 continued on page 81.*

Continuation, Note 17.

The following information has been used in the valuation made on 31-12-2016:

Office and retail	Range (weighted average)	
Net operating income (SEK/sq m)	1,470 – 6,390	(3,830)
Vacancy level (%)	2 – 5	(4)
Yield requirement, Stockholm (%)	3.5 – 4.0	(3.7)
Yield requirement, Gothenburg (%)	4.1 – 4.8	(4.4)
Yield requirement, total (%)	3.9	

#### External valuation

To assure the valuation, external valuations were obtained from three independent valuation companies: Forum Fastighetsekonomi, JLL and Newsec Advice. The external valuations cover 11 properties and are equivalent to 34 per cent of the internally assessed fair value and the corresponding figure at the mid-year point was 36 per cent. The basis for the selection of the properties was that they should represent different property categories, towns, locations, technical standard and construction standard. The properties that underwent an external valuation were Achilles 1, Järnplåten 28, Kvasten 2, Kåkenhusen 40 (part of), Orgelpipan 7, Oxhuvudet 18, Packarhuset 4, Rännilen 11, Rännilen 19 (part of) and Svärdfisken 2 in Stockholm, and Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies set a fair value of SEK 12.6 billion. Hufvudstaden's internal valuation of the same properties was SEK 12.3 billion. The internal valuations thus concur well with the external valuations.

#### Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of valuation. The price, however, can only be set when a transaction has been completed. In conjunction with a 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 36.5 billion with a degree of uncertainty of +/- 5 per cent, which means that the assessed fair value varies by +/- 1.8 billion. Below are the key factors that influence the valuation and the consequent impact on profit.

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

	Change, +/-	Impact on value, +/-
Rent revenue	SEK 100 per sq m	SEK 1,000 m
Property costs	SEK 50 per sq m	SEK 500 m
Rental vacancy level	1.0 percentage points	SEK 480 m
Yield requirement	0.25 percentage points	SEK 2,350 m

1) Valuation date 31-12-2016.

#### Tax values, investment properties, Group

SEK m	2016	2015
Tax values, buildings	9,252.2	8,885.6
Tax values, land	7,541.1	6,584.2
	16,793.3	15,469.8

#### 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	2016	2015
Investment properties, Parent Company	8,086.3	8,073.6

#### Investment properties, excluding land

SEK m	2016	2015
Opening acquisition values	3,887.5	3,771.8
Investments for the year	156.8	115.7
Closing acquisition values	4,044.3	3,887.5
Opening depreciation	-1,126.2	-1,001.2
Depreciation for the year	-130.3	-125.0
Closing depreciation	-1,256.5	-1,126.2
Opening revaluation according to the adopted Balance Sheet for the previous year	1,063.5	1,077.3
Depreciation for the year	-13.8	-13.8
Closing revaluation	1,049.7	1,063.5
Closing residual value according to plan	3,837.5	3,824.8

#### Land

SEK m	2016	2015
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: 5–10 per cent
- Land improvements: 3.75–5 per cent

#### Information about the fair value of investment properties

SEK m	2016	2015
Investment properties, Parent Company	24,502.1	20,727.7

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	2016	2015
Tax values, buildings	6,195.8	5,906.4
Tax values, land	5,472.7	4,907.4
	11,668.5	10,813.8

**Note 18. Tangible fixed assets**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Opening acquisition value	34.3	32.0	16.9	16.2
Investments for the year	2.2	3.7	1.6	2.1
Sales and disposals	-1.6	-1.4	-1.6	-1.4
Closing acquisition value	34.9	34.3	16.9	16.9
Opening depreciation	-26.9	-25.0	-12.1	-11.4
Depreciation for the year	-2.7	-3.3	-2.1	-2.1
Sales and disposals	1.4	1.4	1.4	1.4
Closing accumulated depreciation	-28.3	-26.9	-13.0	-12.1
Closing residual value according to plan	6.6	7.4	3.9	4.8

**Note 19. Participation in Group Companies**

	Company reg. no.	Reg. office	Capital (votes) %	Number	Nominal value, SEK 1,000	Carrying amount 2016, 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 Hamngatgaraget	556068-6601	Stockholm	100	3,000	300	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5,000	500	0.6
Gbg Inom Vallgraven 3-2 AB <sup>1)</sup>	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	0.0
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	0.0
Förvaltnings AB Normalmstorg nr. 1	556019-5405	Stockholm	100	150	150	0.0
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			
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>						
Hotel Stockholm Aktiebolag	556031-4303	Stockholm	100			
<i>Owned by AB Nordiska Kompaniet</i>						
NK Cityfastigheter AB	556023-1267	Stockholm	100			
NK Concession Aktiebolag	556313-8733	Stockholm	100			

1) Acquired in 2016. In other respects, ownership remains unchanged compared with the previous year.

There are no foreign subsidiaries in the Group.  
Intra-group revenue refers to rents, which amounted to SEK 56.9 million during the year.

**Change in the Parent Company's holdings in Group companies**

SEK m	Parent Company	
	2016	2015
Opening carrying amount	2,824.8	2,824.8
Acquired subsidiaries	62.1	-
Closing carrying amount	2,886.9	2,824.8

**Note 20. Other non-current receivables**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Opening carrying amount	10.3	8.4	10.2	8.4
Change in value, interest derivatives	–	–	–	–
Change for the year	1.6	1.9	1.6	1.8
Closing carrying amount	11.9	10.3	11.8	10.2

**Note 21. Accounts receivable**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Accounts receivable	9.7	18.1	1.6	1.3
Rent receivables	5.5	2.5	0.9	1.8
Total	15.2	20.6	2.5	3.1

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 0.3 million (4.9). Accounts receivable and rent receivables that have fallen due, but which have not been impaired, amounted to SEK 7.1 million (4.5).

**Note 22. Prepaid expenses and accrued income**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Accrued rent revenue	23.9	27.6	23.7	20.7
Prepaid expenses	17.6	17.6	2.7	3.5
Total	41.5	45.2	26.4	24.2

**Note 23. Cash and bank holdings**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Cash and cash equivalents	1,113.8	443.3	1,083.4	442.6
Total	1,113.8	443.3	1,083.4	442.6

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 24. Equity**

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

**Retained earnings, including profit for the year**

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

**Dividend**

In 2016, a dividend was paid of SEK 3.10 per share or a total of SEK 639,423,840. For 2016, the Board of Directors proposes a dividend of SEK 3.30, or a total of SEK 680,677,579. The remaining part of non-restricted equity, SEK 1,084,009,388, will be carried forward.

**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.

**Share capital**

SEK m	2016	2015
<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.

**Profit per share**

When calculating the profit per share, the total 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.

	2016	2015
Total profit for the year, SEK m	4,120.2	3,470.1
Outstanding shares	206,265,933	206,265,933
Profit per share, SEK	19.98	16.82

**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 the revaluation reserve.

**Non-restricted equity**

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

**Note 25. Interest-bearing liabilities**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
<i>Non-current liabilities</i>				
Bank loans	1,200.0	2,850.0	1,200.0	2,850.0
Bond loans	2,800.0	1,800.0	2,800.0	1,800.0
Total	4,000.0	4,650.0	4,000.0	4,650.0
<i>Current liabilities</i>				
Bank loans	1,750.0	-	1,750.0	-
Bond loans	-	300.0	-	300.0
Commercial paper loans	900.0	800.0	900.0	800.0
Total	2,650.0	1,100.0	2,650.0	1,100.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	4,000.0	4,000.0	4,000.0	4,000.0

As at December 31, 2016, Hufvudstaden had non-current loan assurances totalling SEK 3 billion as well as current loan assurances totalling SEK 1 billion. The loan assurances are subject to undertakings regarding the equity ratio and interest coverage ratio. At the year-end, SEK 2.9 billion was utilized, of which SEK 900 million has been reserved to cover outstanding commercial paper.

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.

**Net debt**

SEK m	Group	
	2016	2015
Non-current interest-bearing liabilities	4,000.0	4,650.0
Current interest-bearing liabilities	2,650.0	1,100.0
Cash and bank balances	-1,113.8	-443.3
Total	5,536.2	5,306.7

Information regarding maturity, loan terms and annual equivalent rate of interest.

**Borrowing 31-12-2016**

Year due	AER, % <sup>1)</sup>	Nominal amount, SEK m		
		Bank loans <sup>2)</sup>	Bonds <sup>3)</sup>	Commercial paper <sup>4)</sup>
2017	0.0	1,750.0	-	-
2018	1.7	200.0	1,000.0	-
2019	3.4	-	500.0	-
2020	0.3	-	-	900.0
2021	0.8	1,000.0	1,000.0	-
2022	2.1	-	300.0	-
Total		2,950.0	2,800.0	900.0

1) All loans are denominated in SEK.

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

3) As 2) or a 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 31-12-2016**

Year due	AER		Nominal amount, SEK m	Fair value, SEK m
	Fixed interest, %	Variable interest % <sup>1)</sup>		
2017	1.6	-0.6	1,500.0	24.8
2018	1.7	-0.6	1,300.0	44.0
2019	1.9	-0.6	450.0	23.1
Total			3,250.0	91.9

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

For a presentation of the Finance Policy, risks and interest exposure, see Note 2.

**Note 26. Deferred tax liability**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Investment properties	7,102.4	6,065.6	924.8	921.1
Interest derivatives	-20.2	-30.2	-20.2	-30.2
Untaxed reserves	161.2	196.6	-	-
Pension provision	-3.2	-2.8	-3.2	-2.8
Total	7,240.2	6,229.2	901.4	888.1

As at the year-end, there was a deficit deduction in the Group of SEK 1.1 million (0). A deferred tax liability has not been reported on this amount as there is uncertainty regarding when the deduction can be utilised.

**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>2016</b>			
Investment properties	6,065.6	1,036.8	7,102.4
Interest derivatives	-30.2	10.0	-20.2
Untaxed reserves	196.6	-35.4	161.2
Pension provision	-2.8	-0.4	-3.2
	6,229.2	1,011.0	7,240.2
<b>2015</b>			
Investment properties	5,191.5	874.1	6,065.6
Interest derivatives	-32.8	2.6	-30.2
Untaxed reserves	199.8	-3.2	196.6
Pension provision	-2.3	-0.5	-2.8
	5,356.2	873.0	6,229.2

Note 26 continued on page 85.

Continuation, Note 26.

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
<b>PARENT COMPANY</b>			
2016			
Investment properties	921.1	3.7	924.8
Interest derivatives	-30.2	10.0	-20.2
Pension provision	-2.8	-0.4	-3.2
	888.1	13.3	901.4
2015			
Investment properties	917.4	3.7	921.1
Interest derivatives	-32.8	2.6	-30.2
Pension provision	-2.3	-0.5	-2.8
	882.3	5.8	888.1

**Note 27. Other provisions**

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

**Note 28. Other liabilities**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
VAT settlement	42.7	41.6	63.4	22.9
Current derivatives	24.8	7.8	24.8	7.8
Other	90.2	59.4	5.5	6.2
Total	157.7	108.8	93.7	36.9

**Note 29. Untaxed reserves**

SEK m	Parent Company	
	2016	2015
<i>Accumulated depreciation in excess of plan</i>		
Opening balance	105.6	107.3
Depreciation for the year	-6.6	-1.7
Closing balance	99.0	105.6
Tax allocation reserves	566.0	716.0
Total	566.0	716.0
Total untaxed reserves	665.0	821.6

**Note 30. Accrued expenses and prepaid income**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Accrued interest expense	42.0	35.6	42.0	35.6
Advance rent payments	286.3	287.2	169.1	172.7
Other accrued expenses	61.3	72.1	49.3	58.0
Total	389.6	394.9	260.4	266.3

**Note 31. Pledged assets and contingent liabilities**

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Property mortgages for liabilities at credit institutions	1,500.4	1,451.3	1,500.4	1,451.3
<i>(of which mortgages on subsidiaries' properties)</i>			(704.5)	(704.5)
Other non-current receivables	11.8	10.2	11.8	10.2
Total	1,512.2	1,461.5	1,512.2	1,461.5

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

**Note 32. Affiliations**

Hufvudstaden AB is under the controlling influence of L E Lundbergföretagen AB and Fredrik Lundberg. No material transactions have taken place with L E Lundbergföretagen AB. Fredrik Lundberg's director's fee for 2016 was SEK 438,000. 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 19.

**Note 33. Events after the year-end**

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



# BIBLIOTEKSTAN

*Mäster Samuelsgatan, Stockholm*

# CHANEL



## BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*

## Proposed distribution 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	1,181,079,277
Profit for the year	SEK	583,607,690
	SEK	1,764,686,967
Dividend to the shareholders, SEK 3.30 per share	SEK	680,677,579 <sup>1)</sup>
To be carried forward	SEK	1,084,009,388
	SEK	1,764,686,967

1) See Definitions, page 103, 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 16, 2017



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 20, 2017

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 2016. The annual accounts and consolidated accounts of the company are included on pages 52–88 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

2016 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 2016 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.

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.

### 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

### 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. Unless otherwise stated the matters relate to the consolidated accounts.

### Valuation of investment properties

See administration report on pages 58–60, note 12, note 17 and accounting principles on pages 72–74 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 36,517 million as of 31 December 2016, which represents 97 % 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 judgment and the used key assumptions.

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.

#### *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. Unless otherwise stated the matters relate to the consolidated accounts.

#### *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 1–51 and 92–106. 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 presenta-

tion 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 skepticism 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **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 2016 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 profes-

sional 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 skepticism 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.

Stockholm February 20, 2017

KPMG AB

Joakim Thilstedt  
*Authorized Public Accountant*

## 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 2016, the Board of Directors held eight meetings, of which one was a stat-

utory 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, AB Industrivärden and Indutrade AB. Deputy Chairman of Svenska Handelsbanken AB. Member of the board of LE Lundbergföretagen AB and Skanska AB. Holding in Hufvudstaden: 1,950,412 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. Chair of the Swedish National Space Board and the Swedish National College of Defence. Member of the Board of Governors of the Bank of Sweden. Previous positions include President of the Stockholm Chamber of Commerce and the Association of Swedish Chambers of Commerce and County Governor, County of Uppsala. 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, ICA Gruppen AB.  
 Member of the board of Thule Group AB.  
 Previous positions include partner in  
 McKinsey & Company.  
 Holding in Hufvudstaden: –.



**Louise Lindh**  
 Born 1979. MBA.  
 Board member since 2007.  
 President, 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 the Swedish Trade Federation.  
 Deputy Chairman of ICC Sweden and  
 the Confederation of Swedish Enterprise.  
 Member of the board of AB Electrolux, Ahlström  
 Capital Oy and Beijerinvest AB.  
 Member of the Nasdaq Stockholm AB  
 Company Committee.  
 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 Byggnads AB Karlsson & Wingsjö.  
 Member of the board of  
 Byggnads AB Karlsson & Wingsjö,  
 Fastighets AB LE Lundberg, 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 Crispa 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 27,890 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 27,890 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.*

### Ki Hummelgren

*Born 1968. Head of Human Resources. Employed 2008.*

*Holding in Hufvudstaden: 20,000 call options.*

*On January 24, 2017, the Company announced that Ki Hummelgren has resigned from her position and will leave the Company following a period of notice of six months.*

### Anders Nygren

*Born 1970. MSc. Head of Property Development. Employed 2006.*

*Holding in Hufvudstaden: 10,000 call options.*

### Mattias Nygårds

*Born 1972. MSc. Head of the Stockholm City West Business Area.*

*Employed 2011.*

*Holding in Hufvudstaden: 40,000 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.*

*Member of the Executive Management since 2015.*

*Holding in Hufvudstaden: –.*

### Bo Wikare

*Born 1963. MSc. Vice President.*

*Head of the Stockholm City East Business Area,*

*Head of Business Development. Employed 1994.*

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





# APELBERGSGATAN

*Stockholm*

# Multi-year review – Group

	2016	2015	2014	2013	2012
<b>Income Statements, SEK m</b>					
Net revenue					
Property management	1,703	1,611	1,596	1,573	1,472
Parking operations	87	78	69	68	70
	1,790	1,689	1,665	1,640	1,542
<i>Operating expenses</i>					
Maintenance, operation and administration	-291	-291	-280	-270	-263
Ground rents	-22	-22	-17	-16	-16
Property tax	-165	-154	-154	-152	-128
Property management	-478	-467	-451	-438	-407
Parking operations	-50	-50	-50	-50	-49
	-528	-517	-502	-488	-457
Gross profit	1,262	1,172	1,164	1,153	1,085
– of which Property management	1,226	1,144	1,145	1,135	1,065
– of which Parking operations	37	28	19	18	20
Central administration	-43	-39	-36	-36	-34
Operating profit before changes in value	1,220	1,133	1,128	1,117	1,051
<i>Changes in value</i>					
Investment properties	4,160	3,427	1,709	1,358	621
Interest derivatives	45	12	-186	60	-25
Operating profit	5,425	4,572	2,650	2,534	1,646
Financial income and expense	-141	-123	-130	-128	-161
Profit before tax	5,284	4,449	2,520	2,407	1,486
Tax	-1,164	-979	-519	-531	454
Profit for the year	4,120	3,470	2,001	1,876	1,939
<b>Balance Sheets, SEK m</b>					
<i>Assets</i>					
Properties	36,517	31,741	27,817	25,869	23,058
Other non-current assets	19	18	15	49	11
Current assets	1,173	564	583	558	585
Total assets	37,709	32,323	28,415	26,476	23,653
<i>Equity and liabilities</i>					
Equity	23,047	19,567	16,695	15,261	13,921
Interest-bearing liabilities	6,650	5,750	5,650	5,750	4,700
Other liabilities and allocations	8,011	7,006	6,070	5,465	5,032
Total equity and liabilities	37,709	32,323	28,415	26,476	23,653
<b>Property holdings</b>					
Fair value, SEK bn	36.5	31.7	27.8	25.9	23.1
Tax assessment value, SEK bn	16.8	15.5	15.5	15.8	12.9
Rentable floor space, 1,000 sq m	389	387	387	387	367
Rental vacancy level (EPRA Vacancy Rate), %	3.9	4.5	5.6	4.0	3.7
Floor space vacancy level, %	5.3	6.1	7.2	5.7	5.4
Investments in properties, SEK m	617	497	240	1,454	186
Net operating income, SEK per sq m <sup>1)</sup>	3,151	2,955	2,958	2,956	2,900
<b>Financial key ratios<sup>3)</sup></b>					
Gross margin, %	71	69	70	70	70
Return on equity, %	19.3	19.1	12.5	12.9	14.7
Return on capital employed, %	19.7	19.2	12.2	12.8	9.3
Equity ratio, %	61	61	59	58	59
Interest coverage ratio, multiple	8.6	9.1	8.5	8.3	6.4
Debt/equity ratio, multiple	0.2	0.3	0.3	0.3	0.3
Net loan-to-value ratio, properties, %	15.2	16.7	18.6	20.3	18.2
Cash flow from current operations, SEK m	1,029	968	881	951	518
Cash flow for the year, SEK m	671	-31	-30	7	151
Average number of employees in the Group	113	105	100	96	94
<b>Share data (no dilution effect)<sup>3)</sup></b>					
Profit for the year, SEK	19.98	16.82	9.70	9.10	9.40
Dividend, SEK	3.30 <sup>2)</sup>	3.10	2.90	2.75	2.60
Dividend proportion, %	81	81	77	74	82
Equity, SEK	111.74	94.86	80.94	73.99	67.49
Fair value of properties, SEK	177.04	153.92	134.86	125.42	111.79
Cash flow from current operations, SEK	4.99	4.69	4.27	4.61	2.51
Cash flow for the year, SEK	3.25	-0.15	-0.15	0.03	0.73
Non-current net asset value (EPRA NAV), SEK	146.00	125.00	107.00	97.00	89.00
Net asset value (EPRA NNAV), SEK	138.00	118.00	100.00	92.00	84.00
Share price, series A, at the year-end, SEK	143.90	119.90	101.60	86.15	81.95
P/E ratio, multiple	7.2	7.1	10.5	9.5	8.7
Share price series A/equity, %	128.8	126.4	125.5	116.4	121.4
Yield, %	2.3	2.6	2.9	3.2	3.2
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

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.

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 103.

For Definitions, see page 103.

## Business areas in figures

Property holdings (comparable holdings)	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2016		2015		2016		2015		2016		2015		2016		2015	
	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	777.7	5,151	752.0	4,981	683.4	4,578	661.8	4,441	314.8	3,549	301.1	3,391	1,775.9	4,566	1,714.9	4,411
(of which property tax supplement)	(76.6)	(507)	(71.0)	(470)	(50.5)	(338)	(43.7)	(293)	(25.3)	(285)	(22.1)	(249)	(152.2)	(392)	(136.8)	(352)
Rent losses on vacant space	-26.2	-174	-47.2	-313	-17.5	-117	-23.0	-154	-28.8	-325	-27.3	-308	-72.5	-186	-97.5	-251
Bad debt losses	0.4	3	-1.0	-7	0.1	1	-2.0	-13	-0.8	-9	-1.9	-21	-0.3	-1	-4.9	-12
<b>Net sales</b>	<b>751.9</b>	<b>4,980</b>	<b>703.8</b>	<b>4,661</b>	<b>666.0</b>	<b>4,462</b>	<b>636.8</b>	<b>4,274</b>	<b>285.2</b>	<b>3,215</b>	<b>271.9</b>	<b>3,062</b>	<b>1,703.1</b>	<b>4,379</b>	<b>1,612.5</b>	<b>4,148</b>
Maintenance	-14.7	-97	-19.9	-132	-10.8	-72	-11.8	-79	-3.5	-40	-2.7	-31	-29.0	-75	-34.4	-89
Operations	-47.9	-317	-49.5	-328	-98.1	-657	-99.0	-664	-37.0	-417	-37.5	-422	-183.0	-470	-186.0	-478
Administration	-33.0	-219	-30.3	-201	-29.6	-198	-27.3	-183	-16.6	-187	-13.3	-150	-79.2	-204	-70.9	-182
Ground rent	-0.2	-1	-0.2	-1	-21.6	-145	-21.3	-143	-	-	-	-	-21.8	-56	-21.5	-55
Property tax	-78.8	-522	-76.6	-507	-57.4	-385	-50.6	-340	-28.3	-319	-27.1	-305	-164.5	-423	-154.3	-397
<b>Total property expenses</b>	<b>-174.6</b>	<b>-1,156</b>	<b>-176.5</b>	<b>-1,169</b>	<b>-217.5</b>	<b>-1,457</b>	<b>-210.0</b>	<b>-1,409</b>	<b>-85.4</b>	<b>-963</b>	<b>-80.6</b>	<b>-908</b>	<b>-477.5</b>	<b>-1,228</b>	<b>-467.1</b>	<b>-1,201</b>
<b>Gross operating profit</b>	<b>577.3</b>	<b>3,824</b>	<b>527.3</b>	<b>3,492</b>	<b>448.5</b>	<b>3,005</b>	<b>426.8</b>	<b>2,865</b>	<b>199.8</b>	<b>2,252</b>	<b>191.3</b>	<b>2,154</b>	<b>1,225.6</b>	<b>3,151</b>	<b>1,145.4</b>	<b>2,947</b>

Property data	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	2016	2015	2016	2015	2016	2015	2016	2015
December 31								
Number of properties	16	16	9	9	4	3	29	28
Floor space, sq m	150,976	150,978	149,274	149,009	88,707	87,236	388,957	387,223
Rental vacancy level, %	3.3	4.2	2.9	1.9	7.6	11.4	3.9	4.5
Floor space vacancy level, %	4.6	6.2	3.9	3.1	8.6	11.2	5.3	6.1
Total rentable parking spaces	165	165	1,296	1,296	51	51	1,512	1,512

Rentable space and annual rent	Stockholm City East Business Area		Stockholm City West 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, 2016								
Offices	102,246	513.5	46,082	193.4	50,787	123.3	199,115	830.2
Stores and restaurants	36,623	257.0	44,937	390.2	31,242	164.9	112,802	812.1
Storage and miscellaneous	6,432	12.8	18,913	34.9	4,649	9.6	29,994	57.3
Parking	4,576	6.5	39,039	41.6	1,250	1.8	44,865	49.9
Residential	1,099	2.0	303	0.3	779	0.8	2,181	3.1
<b>Total</b>	<b>150,976</b>	<b>791.8</b>	<b>149,274</b>	<b>660.4</b>	<b>88,707</b>	<b>300.4</b>	<b>388,957</b>	<b>1,752.6</b>

Floor space vacancy level and rental vacancy level	Stockholm City East Business Area		Stockholm City West 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, 2016								
Offices	3,225	15.2	2,443	11.5	2,723	5.8	8,391	32.5
Stores and restaurants	1,132	7.4	830	4.6	3,327	14.1	5,289	26.1
Storage and miscellaneous	1,587	2.1	2,135	3.0	1,501	2.7	5,223	7.8
Parking	688	0.9	486	0.4	50	0.3	1,224	1.6
Residential	309	0.6	-	-	-	-	309	0.6
<b>Total</b>	<b>6,941</b>	<b>26.2</b>	<b>5,894</b>	<b>19.5</b>	<b>7,601</b>	<b>22.9</b>	<b>20,436</b>	<b>68.6</b>

Lease term structure <sup>1) 2) 3)</sup>							
December 31, 2016							
Number of leases	2017	2018	2019	2020	2021	2022-	Total
<b>Stockholm City East Business Area</b>							
Offices	25	58	37	26	19	27	192
Stores	10	13	20	22	5	16	86
Other	258	160	50	65	16	28	577
<b>Total</b>	<b>293</b>	<b>231</b>	<b>107</b>	<b>113</b>	<b>40</b>	<b>71</b>	<b>855</b>
Proportion, %	34.3	27.0	12.5	13.2	4.7	8.3	100.0
<b>Stockholm City West Business Area</b>							
Offices	26	14	11	11	8	13	83
Stores	84	57	30	13	2	1	187
Other	124	80	54	32	6	11	307
<b>Total</b>	<b>234</b>	<b>151</b>	<b>95</b>	<b>56</b>	<b>16</b>	<b>25</b>	<b>577</b>
Proportion, %	40.5	26.2	16.5	9.7	2.8	4.3	100.0
<b>Gothenburg Business Area</b>							
Offices	16	11	12	6	4	6	55
Stores	16	14	16	11	17	6	80
Other	35	27	28	16	8	10	124
<b>Total</b>	<b>67</b>	<b>52</b>	<b>56</b>	<b>33</b>	<b>29</b>	<b>22</b>	<b>259</b>
Proportion, %	25.9	20.1	21.6	12.7	11.2	8.5	100.0
<b>Hufvudstaden, total</b>							
Offices	67	83	60	43	31	46	330
Stores	110	84	66	46	24	23	353
Other	417	267	132	113	30	49	1,008
<b>Total</b>	<b>594</b>	<b>434</b>	<b>258</b>	<b>202</b>	<b>85</b>	<b>118</b>	<b>1,691</b>
Proportion, %	35.1	25.7	15.3	11.9	5.0	7.0	100.0
<b>Annual rent, SEK M</b>							
<b>Stockholm City East Business Area</b>							
Offices	66.1	119.5	55.6	59.4	60.3	158.1	519.0
Stores	17.8	32.6	33.1	46.0	16.2	90.2	235.9
Other	5.0	10.4	1.7	16.4	6.1	1.3	40.9
<b>Total</b>	<b>88.9</b>	<b>162.5</b>	<b>90.4</b>	<b>121.8</b>	<b>82.6</b>	<b>249.6</b>	<b>795.8</b>
Proportion, %	11.2	20.4	11.3	15.3	10.4	31.4	100.0
<b>Stockholm City West Business Area</b>							
Offices	32.4	18.3	17.7	24.0	31.2	80.3	203.9
Stores	213.4	73.7	47.8	24.3	2.8	5.6	367.6
Other	30.0	6.3	12.5	2.4	1.3	3.1	55.6
<b>Total</b>	<b>275.8</b>	<b>98.3</b>	<b>78.0</b>	<b>50.7</b>	<b>35.3</b>	<b>89.0</b>	<b>627.1</b>
Proportion, %	44.0	15.7	12.4	8.1	5.6	14.2	100.0
<b>Gothenburg Business Area</b>							
Offices	26.2	26.1	12.3	7.3	17.9	35.8	125.6
Stores	22.8	18.5	30.9	23.5	28.5	25.1	149.3
Other	4.3	4.4	1.4	3.4	4.8	4.9	23.2
<b>Total</b>	<b>53.3</b>	<b>49.0</b>	<b>44.6</b>	<b>34.2</b>	<b>51.2</b>	<b>65.8</b>	<b>298.1</b>
Proportion, %	17.9	16.4	14.9	11.5	17.2	22.1	100.0
<b>Hufvudstaden, total</b>							
Offices	124.7	163.9	85.6	90.7	109.4	274.2	848.5
Stores	254.0	124.8	111.8	93.8	47.5	120.9	752.8
Other	39.3	21.1	15.6	22.2	12.2	9.3	119.7
<b>Total</b>	<b>418.0</b>	<b>309.8</b>	<b>213.0</b>	<b>206.7</b>	<b>169.1</b>	<b>404.4</b>	<b>1,721.0</b>
Proportion, %	24.3	18.0	12.4	12.0	9.8	23.5	100.0

1) Including leases signed for future occupation/implementation, whereupon the corresponding current rent has been excluded.

2) Excluding vacant floor space and floor space (storage and offices) occupied by Hufvudstaden for its own use.

3) Excluding residential leases.

# Properties

Property designation	Address	Site area, sq m	Year of purchase	Year of construction/ redevelopment	Tax assessment 2016, SEK m
<b>Stockholm City East 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, Malmkillnadsgatan 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)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	208.6
<i>Total</i>		17,663			4,854.9
<b>Total, Stockholm City East Business Area</b>		<b>29,493</b>			<b>7,962.9</b>
<b>Stockholm City West Business Area</b>					
<i>NK Management Area, Stockholm</i>					
Hästen 19 <sup>1) 5)</sup> och 20 <sup>4) 5)</sup> , Spektern 14 <sup>4) 5)</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>5)</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>6)</sup>	Regeringsgatan 47–55, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	550.5
<i>Management Area, West</i>					
Achilles 1 <sup>7)</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) 8)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	75.4
Orgelpipan 7 <sup>9)</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) 10)</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 City West Business Area</b>		<b>30,391</b>			<b>5,759.9</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	2,127	1967/ 2010/11	1875/1929/30	170.0
Nordstaden 8:24	Postgatan 26–32 och 39–43, Nordstadstorget 2–8, Spannmålgatan 19, Nils Ericssonsgatan 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>19,746</b>			<b>3,070.5</b>
<b>TOTAL</b>		<b>79,630</b>			<b>16,793.3</b>

Rentable space, sq m								
Offices	Stores	Restaurants	Cinemas	Storage	Parking	Residential	Other	Total
4,986	1,874			239				7,099
6,430	1,809			1,028				9,267
17,101	3,338	1,673		612				22,724
20,787	5,078			2,027	1,612		5	29,509
49,304	12,099	1,673		3,906	1,612		5	68,599
2,840	800			281	792			4,713
2,808	3,427	243		203	206			6,887
2,458	593	144		257				3,452
		194						194
10,864	3,304	704		438				15,310
7,795	3,836	495		75		192	1	12,394
1,709	1,037			28				2,774
1,630	840	546		2				3,018
5,199	1,328	84		289				6,900
7,843	2,105			507	861			11,316
7,861	1,645			399	1,105			11,010
1,935	1,526			40		907	1	4,409
52,942	20,441	2,410		2,519	2,964	1,099	2	82,377
<b>102,246</b>	<b>32,540</b>	<b>4,083</b>		<b>6,425</b>	<b>4,576</b>	<b>1,099</b>	<b>7</b>	<b>150,976</b>
11,569	21,953	2,259		3,540			17	39,338
5,160	10,180			1,280			4	16,624
	2,696	515		8,680	24,482		1	36,374
4,014	351			604				4,969
7,596	379	263		871				9,109
2,775				8				2,783
1,283	242	271		103		303		2,202
9,956	3,684	1,969		1,350	13,450		1	30,410
3,729	175		1,893	561	1,107			7,465
29,353	4,831	2,503	1,893	3,497	14,557	303	1	56,938
<b>46,082</b>	<b>39,660</b>	<b>5,277</b>	<b>1,893</b>	<b>16,997</b>	<b>39,039</b>	<b>303</b>	<b>23</b>	<b>149,274</b>
1,230	262			72				1,564
10,438	3,115	404		1,107	1,250			16,314
1,823	1,704			343		779		4,649
37,296	24,116	1,641		3,075			52	66,180
<b>50,787</b>	<b>29,197</b>	<b>2,045</b>		<b>4,597</b>	<b>1,250</b>	<b>779</b>	<b>52</b>	<b>88,707</b>
<b>199,115</b>	<b>101,397</b>	<b>11,405</b>	<b>1,893</b>	<b>28,019</b>	<b>44,865</b>	<b>2,181</b>	<b>82</b>	<b>388,957</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) Hästen 20 and Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 3.3 million and is fixed until April 30, 2022. The ground rent for Spektern 14 will be subject to negotiation after September 30, 2015. The ground rents are adjusted every 10 years. The tax assessment value of the land is included to the amount of SEK 57 million.

5) Owned by the subsidiary AB Nordiska Kompaniet.

6) Owned by the subsidiary AB Hamnsgatgaraget. Hästskön 10 is on leasehold 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 assessment for 2013 and 2016 has been requested.

7) The property is classified as a listed building.

8) Owned by the subsidiary Fastighetsaktiebolaget Medusa.

9) Orgelpipan 7 is on leasehold. The ground rent is SEK 12.8 million and is fixed until October 31, 2024. The tax assessment value of the land is included to the amount of SEK 396.0 million.

10) A review of the tax assessment for 2016 has been requested.

11) The property was acquired through a company acquisition, with completion on March 1, 2016. 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 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 16–17 and 20.*



# SÖDRA HAMNGATAN

*Gothenburg*

# 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.

## 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 NAV.* Non-current net asset value. Shareholders' equity plus reversal of interest derivatives and deferred tax. For derivation see page 59.

*EPRA NNNNAV.* Current net asset value. Shareholders' equity following adjustment for actual deferred tax instead of nominal deferred tax. For derivation see page 59.

*Equity ratio.* Equity at the year-end in relation to total assets.

*Interest coverage ratio.* Profit after financial items, excluding unrealized 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. For a derivation see page 84.

*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 (26.3 and 28 respectively) 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.

*Free Float.* Shares available for trading, excluding shares held by a shareholder with a controlling interest.

*Outstanding shares.* The total number of shares reduced by the shares bought back by the Company.

*P/E ratio.* The share price at the year-end in relation to profit per share for the year.

*Profit per share.* Profit for the year after tax in relation to the average number of outstanding shares during the year.

*Yield.* Dividend per share in relation to the share price at the year-end.

## Properties

*Annual rent.* Gross rent, including supplements, at the end of the year, calculated on an annual basis. Vacant premises are reported at the market rent.

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

*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.

*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 premises in square metres in relation to the total rentable floor space.

*Fredstan.* The area around Fredstan, 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.



FEMMAN  
*Nordstan, Gothenburg*

# Annual Meeting

The Annual Meeting will take place at 3.30pm on Thursday, March 23, 2017 at the Grand Hôtel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual Meeting will be published on the *Post- och Inrikes Tidningar* website [www.bolagsverket.se/poit](http://www.bolagsverket.se/poit) 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 17, 2017, 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 17, 2017.

- notify Hufvudstaden by Friday March 17, 2017, preferably before 4pm. Notification must be sent using the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se), e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se), telephone on +46 8 762 90 00, or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

Notification must include the name, civic registration number or company registration number, daytime telephone number, the number of shares and the names of any assistants who will be attending. Shareholders attending through a representative must issue a proxy to the representative. If the proxy is issued by a legal entity, a copy of the registration certificate for the legal entity (or, if such a document does not exist, an equivalent authorization document) must be enclosed. To facilitate admission to the meeting, the proxy and authorization documents should be received by the

Company at the above address by March 17, 2017 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 3.30 per share, totaling SEK 680.7 million, be paid for 2016, with the record date set as March 27, 2017. Payment is expected to be made on March 30, 2017.

## 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 2017 ..... May 5, 2017  
 Interim Report, Jan – Jun 2017 ..... August 23, 2017  
 Interim Report Jan – Sept 2017 ..... November 9, 2017  
 Year-End Report 2017 ..... February 15, 2018  
 Annual Report 2017 ..... March 2018

## Contact persons

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*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

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 Company reg. no.....556012-8240  
 Registered office.....Stockholm

## Gothenburg

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Telephone ..... +46 31 710 21 00  
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 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  
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 Website..... www.nk.se

*NK Gothenburg*

NK 331

Drottninggatan 39

SE-411 07 GOTHENBURG

Visiting address: Östra Hamngatan 42  
 Telephone ..... +46 31 710 10 00  
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 Website..... www.nk.se

## Group brands

norrholmstorg 1



  
**BIBLIOTEKSTÄN**  
 EVOLVED SINCE 1885

**BJP**  
 BIRGER JARLSPASSAGEN

**PARKADEN**

  
**Nordstan**

**Y**  
 THE QUARTER  
**FEMMAN**  
 GOTHENBURG



FREDSTAN  
*Fredsgatan, Gothenburg*



HUFVUDSTADEN