

Front and inside cover: NK, Stockholm.

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The formal financial reports can be found on pages 50–82.

The year in brief

- The gross profit from property management for comparable holdings increased by 14 per cent to SEK 839.1 million (734.1). The increase can be attributed to higher gross rents and lower levels of vacant space.
- Profit for the year amounted to SEK 2,400.9 million (3,423.2). The decrease in profit can be attributed mainly to the disposal of the World Trade Center during the previous year.
- The Board proposes an increase in the ordinary dividend to SEK 1.75 per share.
- The fair value of the property holdings was set at SEK 20.5 (17.4) billion at the turn of the year, equivalent to a net asset value of SEK 73 per share (71).
- Group net sales for comparable holdings amounted to SEK 1,266.3 million (1,152.5), an increase of 10 per cent.
- The rental vacancy level at the year-end was 3.3 per cent (6.5).
- Profit per share was SEK 11.64 (16.60).

Annual General Meeting

The Annual General Meeting will take place at 4pm on Thursday, March 27, 2008 at the Grand Hotel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual General Meeting is published in Dagens Nyheter and Svenska Dagbladet and on the Post- och Inrikes Tidningar website www.bolagsverket.se/poit.

Notification

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by VPC AB (Swedish Securities Register Centre) by Wednesday, March 19, 2008, whereupon shareholders who have their shares under management must have the shares re-registered temporarily in their own name at VPC to be entitled to attend the meeting. Registration must be completed by March 19, 2008.
- notify Hufvudstaden by 4pm on Wednesday March 19, 2008 at the latest. Notification should be sent using the Company's website www.hufvudstaden.se, by e-mail at anm@hufvudstaden.se, by telephone on +46-8-762 90 00, by fax on +46-8-762 90 01, or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

Notification must include name, civic registration number or company registration number, daytime telephone number,

number of shares and the names of any assistants who will be attending. Shareholders attending through a representative must issue a proxy for the representative. If the proxy is issued by a legal entity, a copy of a registration certificate (or, if such a document does not exist, an equivalent authorization document) for the legal entity must be enclosed. The documents must not be more than one year old. To facilitate admission to the meeting the proxy and authorization documents should be received by Hufvudstaden at the above address by March 19, 2008 at the latest. The proxy form can be provided on request and is also available on the Company's website.

Dividend

The Board of Directors proposes that a dividend of SEK 1.75 per share, totalling SEK 361.0 million, be paid for 2007 with the record date April 1, 2008. Payment is expected to be made on April 4, 2008.

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 VPC AB of the change as soon as possible through the institution at which their account is registered.

Financial information

Interim Report, Jan–Mar 2008 May 8, 2008
Interim Report, Jan–June 2008 August 21, 2008
Interim Report, Jan–Sept 2008 October 30, 2008
Year-end Report 2008 February 12, 2009
Annual Report 2008 March 2009
This information is also published on www.hufvudstaden.se

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Business concept, objectives and strategies

Hufvudstaden, which was founded in 1915, rapidly became one of the leading property companies in Sweden and is today 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 the most attractive business locations in Stockholm and Gothenburg.

Vision

Hufvudstaden shall be consistently perceived as, and be, the most attractive property company in Sweden.

Business concept

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

Financial objectives

- Hufvudstaden shares will have good dividend growth over time and the dividend will account for more than half the net profit from current operations.
- The equity ratio will be at least 40 per cent over time.

Operating objectives

Hufvudstaden will:

- gradually increase its profit from current operations.
- have the most satisfied customers in the industry.
- have the most developed property portfolio in the industry.
- have the most professional personnel in the industry, with firm commitment to the customer, good business acumen and professional know-how.

Strategies to achieve the objectives

Customer focus. Hufvudstaden will work in close co-operation with its customers and will contribute continuously to improving their business potential and competitiveness.

Quality. Quality and environmental systems will ensure the highest possible level of quality in all the Company's products and services.

Skills development. Systematic development of the know-how and skills of the personnel will be ensured with a focus on professional know-how and attitudes.

Business development. Active business development will create added value in the property holdings.

Fulfilment of objectives

Financial objectives

- According to a proposal by the Board, the total share dividend will be SEK 361.0 million, equivalent to 71 per cent of the net profit from current operations.
- The equity ratio exceeded 40 per cent at the end of 2007 and amounted to 56.4 per cent.

Operating objectives

- Profit on current operations increased by 16 per cent during the year.
- Hufvudstaden came second in the Fastighetsbarometern Customer Satisfaction Survey.
- Hufvudstaden is working steadfastly to develop its property holdings. Several projects were completed during the year, including adaptation of approximately 20,000 square metres of office space for new and old tenants. During the year the final remaining property in the Rännilen block was acquired, giving Hufvudstaden the opportunity to develop the properties in the block and in doing so ensure more efficient use of the floor space and a higher technical standard.
- An extensive leadership programme was run for all the Company's managers during the year and will continue during 2008. All employees are encouraged, and are given the opportunity, to acquire greater know-how by setting personal objectives, which are then followed up each year.

Statement by the President

Looking back on 2007 I can note yet another very good year for Hufvudstaden. Despite increasing uncertainty in the economy during the autumn we can once again derive satisfaction from strong financial results and a positive trend on our markets, marked by rising rents and falling levels of vacant space. The rental vacancy level in our property holdings is now at an historic low of 3.3 per cent. I am particularly pleased with the fact that during the year we succeeded in acquiring the property Rännilen 15 at Norrmalmstorg. The acquisition means that Hufvudstaden now owns the whole block, opening up considerable synergy and development potential in what is without doubt the best commercial location in Sweden. In this year's customer satisfaction survey, Fastighetsbarometern, Hufvudstaden came second, repeating last year's success.

Investment in Stockholm

It is with considerable satisfaction that we can see Stockholm mustering strength to renew and develop the central areas of the city. There is a like-minded approach among politicians to the idea, in collaboration with the property owners and other interested parties, of the city being developed and in doing so creating a living urban centre by improving access to the streets and squares. At Hufvudstaden we are firmly convinced that we have an important part to play in this process. Our properties are to be found in the heart of Stockholm and this is where we want to be involved and exert an influence. Our aim is to offer our tenants and the citizens of Stockholm the best possible conditions in which to work, enjoy and develop and to be part of events as they unfold.

Rental market gathers momentum

During the year office rents increased markedly in the centre of Stockholm with market rents of between SEK 4,500 and SEK 5,000 per square metre per year. During the autumn Hufvudstaden signed a couple of agreements in the Golden Triangle which were in excess of this level. Even in Gothenburg there has been an increase in rents with figures of over SEK 2,000 per square metre per year. In line with the increase in demand, the level of vacant space has fallen substantially and at the present time commercial premises in prime locations and of the highest standard are in short supply. This will hopefully offer Hufvudstaden good potential over the next few years to further increase earning capacity in conjunction with renegotiations and the development of properties through new projects.

Strong retail sector

After a succession of good years the retail sector continued to develop strongly during 2007 with sales exceeding the record-breaking figures for 2006 even allowing for a certain fall-off towards the end of the year. Sales in December failed to match the high expectations but still rose by 3.8 per cent compared to 2006. Sales at the NK department stores rose by approximately 9 per cent to almost SEK 2.7 billion, the highest figure ever.

The strong retail trade also benefits Hufvudstaden's other property holdings in Stockholm and Gothenburg and bodes well for positive growth in rents for our well-located retail premises. Shopping in combination with a visit to a cafe or restaurant has become a firmly established leisure pursuit, which will ultimately mean that our store tenants will have the courage to invest even more and that in close collaboration we can develop Hufvudstaden's and Stockholm's marketplace even further.

Property market slowing down

The major interest shown in Swedish properties by foreign and domestic investors continued during 2007. Property turnover was almost SEK 140 billion, which is almost on a par with the record-breaking figure for 2006. During the first half of the year the direct yield requirement for commercial properties in prime locations fell by around half a percentage point in both Stockholm and Gothenburg although the direct yield requirements levelled out during the autumn and during the second half of the year they remained virtually unchanged. The property turnover also fell compared with the first half of the year.

Market values, however, continued to rise during the autumn despite growing uncertainty in the economy, the main driving force being the strong rise in office rents.

The market value of Hufvudstaden's holdings increased during the year and at the year-end was SEK 20.5 billion (17.4).

A genuine Hufvudstaden project

In the very best location, on the corner of Birger Jarlsgatan/Smålandsgatan, is one of the very first office buildings in Stockholm, Rännilen 18. The building was erected in 1888 and the stockbroking firm ABN AMRO (formerly Alfred Berg) has been a dominant tenant for many years. ABN AMRO will be vacating these premises in autumn 2008 thus giving Hufvudstaden an excellent opportunity to totally refurbish the building. The building is listed and we will focus very strongly on preserving the atmosphere and the architectural features. In the light of the cultural and historical

values that it embodies, the building will as far as possible be adapted to present-day demands for efficiency and to bring it very much into the 2010s in terms of modern technology.

The project is expected to continue throughout 2009 and is a typical Hufvudstaden project – a challenge which we relish: enhancing and developing a building of cultural and historic importance into a modern, first-class office building with a combination of a unique feeling and the very latest in functionality.

Loyal tenants growing

Restaurang Prinsen, one of the oldest and most well-known restaurants in Stockholm, is also one of Hufvudstaden's oldest tenants. It was therefore extremely gratifying to note that when the management of Prinsen were looking for premises for a new restaurant they opted to continue with Hufvudstaden. Restaurang Zink will be opening its doors on Biblioteksgatan in spring 2008.

One of the most successful advertising agencies in Sweden, Forsman & Bodenfors, is an old-established office tenant at NK Gothenburg and during the year they refurbished their premises extensively. During the autumn, Forsman & Bodenfors also moved their Stockholm office to newly refurbished premises at NK Stockholm.

Corporate Social Responsibility

CSR is a prerequisite for long-term success. Hufvudstaden is working to achieve sustainable development in financial, environmental and social terms. The climate issue is something that affects everyone wherever we happen to be geographically or socially. At Hufvudstaden we work continuously to reduce our impact on climate. One of the ways of achieving this is to be careful to choose the right products and to make demands on our suppliers. It is our constant endeavour to reduce energy consumption and this is something that we have succeeded in achieving over a number of years.

Profit and focus for 2008

The Group's profit after tax on continuing operations was SEK 2,394 million, an increase of 3.3 per cent. The increase can be attributed mainly to a rise in rents in conjunction with new leases and renegotiation and a fall in the level of vacant space.

During 2008, we will develop the organization even further in terms of leadership and expertise. We will endeavour to reinforce co-operation with our customers and



politicians in order to create new business opportunities, which will increase both the short-term and long-term profitability of the Company.

We will work actively to reinforce the Hufvudstaden brand name in order to ensure that we are perceived as the obvious first choice in conjunction with retailing and commercial establishments in Stockholm and Gothenburg.

An important task, particularly now that the rental market is strong, is to be so successful in our renegotiations that future rental income and an increase in net operating income will be assured in the face of more uncertain times that may possibly lie ahead.

We will also actively work to develop the property holdings through carefully selected projects in existing holdings and the acquisition of complementary properties so that the greatest possible value to the shareholders is generated.

The future

The Swedish economy has been very strong for several years although with concern on the stock markets throughout the world there is greater uncertainty regarding the future. Regardless of how the economy develops Hufvudstaden will still be very well equipped.

With our well-located buildings and marketplaces and our strong balance sheet we can see opportunities where others perhaps see difficulties and risks.

We are also well-placed with regard to our other major asset – our employees. We are working continuously to increase both expertise and satisfaction within the Company. Our employees have demonstrated that they are happy in their work by giving us a good rating in the annual employee satisfaction survey.

We have also recruited a number of key employees – in HR and Property Development for example – which will reinforce Hufvudstaden even further in order to meet the challenges in the years to come.

We have had good co-operation with our tenants and I view the future with considerable optimism. I would like to thank all the highly skilled employees at Hufvudstaden for their excellent work during the past year.

Stockholm, February 2008

A handwritten signature in blue ink, which appears to be 'Ivo Stopner'. The signature is written in a cursive style and is positioned above the printed name and title.

Ivo Stopner
President



The Golden Triangle – the area in Stockholm where exclusive stores and offices, banks and restaurants exist side by side. A natural setting for good business; from the latest in fashion in the newly refurbished jeans store on the ground floor to the latest in trading figures at the stockbrokers above. Photo: Biblioteksgatan, Stockholm.





Urban Outfitters, Biblioteksgatan, Stockholm.

Five-year summary – Group

Income statements					
SEK m	2007	2006	2005	2004	2003⁴⁾
Net sales					
Property management	1,213	1,097	1,096	1,273	1,286
Other operations	63	56	57	85	83
	1,276	1,153	1,152	1,358	1,369
Operating expenses					
Maintenance, operation and administration	-235	-254	-281	-289	-384
Ground rents	-16	-16	-10	-36	-34
Property tax	-115	-93	-93	-106	-129
Depreciation	-	-	-	-1	-101
Property management	-366	-363	-385	-431	-648
Other operations	-45	-45	-44	-74	-74
	-411	-408	-428	-506	-722
Gross profit	865	745	724	853	647
– of which Property management	847	734	711	842	638
– of which Other operations	18	11	13	11	9
Central administration	-31	-32	-31	-29	-29
Changes in value					
Investment properties	2,598	2,648	996	298	-
Interest derivatives	16	-	-	-	-
Operating profit	3,449	3,361	1,689	1,121	618
Financial income and expense	-127	-140	-140	-225	-187
Profit before tax	3,322	3,221	1,550	896	431
Tax	-928	-904	-435	-125	-61
Profit from discontinued operations, net after tax ²⁾	7	1,106	220	-	-
Profit for the year	2,401	3,423	1,334	771	370
Balance sheets					
Assets					
Investment properties	20,531	17,409	16,276	15,000	10,612
Other fixed assets	69	31	69	84	97
Current assets	349	3,080	144	59	223
Total assets	20,949	20,520	16,489	15,142	10,932
Equity and liabilities					
Equity	11,809	11,785	8,615	8,140	4,792
Interest-bearing liabilities	3,400	3,365	3,525	3,135	3,751
Other liabilities and allocations	5,740	5,370	4,349	3,867	2,389
Total equity and liabilities	20,949	20,520	16,489	15,142	10,932
Property holdings					
Fair value, SEK billion	20.5	17.4	16.3	15.0	15.1
Tax assessment value, SEK billion	11.9	9.0	10.6	10.9	13.5
Rentable floor space, 1,000 sq. m	354	351	408	407	438
Rental vacancy level, %	3.3	6.5	7.1	8.2	8.1
Floor space vacancy level, %	4.6	8.1	8.7	9.5	8.7
Investments in properties, SEK m	524	181	76	69	135
Property sales, SEK m	6.6	1,106	-	18	-
Net operating income, SEK per sq. m ³⁾	2,411	2,091	1,964	2,071	1,687
Financial key ratios					
Gross margin, %	67.8	64.7	60.6	62.8	47.3
Return on equity, %	20.4	33.6	15.9	9.8	7.7
Return on capital employed, %	22.3	23.9	16.5	9.7	7.4
Equity ratio, %	56.4	57.4	52.2	53.8	43.8
Interest coverage, multiple	6.2	5.1	5.7	3.5	3.2
Debt/equity, multiple	0.3	0.3	0.4	0.4	0.7
Loan to value ratio, properties, %	16.6	19.3	21.7	20.9	35.3
Cash flow from current operations, SEK m	119	608	579	313	537
Cash flow for the year, SEK m	245	-52	79	-148	26
Average number of employees in the Group	88	119	122	122	123
Share data					
Profit for the year, SEK	11.64	16.60	6.47	3.74	1.78
Ordinary dividend, SEK	1.75 ⁴⁾	1.60	1.45	1.30	1.20
Extra dividend, SEK	-	10.00	-	2.70	-
Dividend proportion (ordinary), %	15.0	9.6	22.4	34.8	67.4
Equity, SEK	57.25	57.14	41.77	39.46	23.23
Fair value of properties, SEK	99.53	84.40	78.91	72.72	73.21
Cash flow from current operations, SEK	0.58	2.95	2.81	1.52	2.58
Cash flow for the year, SEK	1.19	-0.25	0.38	-0.72	0.12
Net asset value, SEK	73.00	71.00	53.00	50.00	-
Share price, Series A, at the year-end, SEK	62.00	77.50	52.00	47.60	34.70
P/E ratio, multiple	5.3	4.7	8.0	12.7	19.5
Share price/equity, %	108.3	135.6	124.5	123.5	153.0
Direct yield (ordinary), %	2.8	2.1	2.8	2.7	3.5
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	208,268,933
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) No recalculation according to IFRS has taken place for 2003, which would mainly affect the items Depreciation and Changes in value in the Income Statement as well as Investment properties and Deferred taxes in the Balance Sheet.

2) A subsidiary sold in 2006 is reported in the Income Statement under the item Profit from discontinued operations.

3) 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.

4) In accordance with a proposal by the Board.

For Definitions, see page 93.

Share capital and ownership structure

Share capital

Hufvudstaden was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. To date, three new share issues, four non-share issues, nine bonus issues and four share splits have been implemented. Three convertible subordinated loans have also been issued. All these loans have been converted or redeemed. At the end of 2007, the share capital amounted to SEK 1,056.4 million with a quotient value of SEK 5 per share.

Share series

Hufvudstaden has two share series, Series A and Series C. Both series are listed on the large cap list on the OMX Nordic Stock Exchange in Stockholm. Series A shares carry one vote per share and the trading lot is 200 shares. Series C shares carry 100 votes per share and the trading lot is 200 shares. 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.

According to a decision taken at the Annual General Meeting in 2001, a conversion provision has been included in the Articles of Association. 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.

Outstanding shares

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.

Buy-back

Since the Annual General Meeting in 2003 the Board has had the mandate of the General Meeting to buy back a maximum of 10 per cent of all shares. The mandate was renewed at the 2007 Annual General Meeting. At the end of the year Hufvudstaden held 5,006,000 Series A shares, equivalent to 2.4 per cent of the total number of issued shares. No shares were bought back during 2007.

Ownership structure

The number of shareholders at the year-end was 19,533. The largest shareholder was Lundbergs with 45.2 per cent of the total number of outstanding shares and 88.0 per cent of the votes. The second largest was SEB Trygg Liv with 11.4 per cent of the total number of outstanding shares and 2.3 per cent of the votes.

As of December 31, 2007, institutions and companies with holdings of over 100,000 shares held a total of 185,113,723 shares, equivalent to 89.7 per cent of the total number of outstanding shares and 97.0 per cent of the votes. Of these, 46 were Swedish institutions and companies, which together held a total of 146,749,655 shares, equivalent to 71.1 per cent of the total number of outstanding shares and 93.3 per cent of the votes. There were 62 foreign institutions and companies with holdings over 100,000 shares. Their holdings amounted to 38,364,068 shares, equivalent to 18.6 per cent of the outstanding shares and 3.7 per cent of the votes. In addition, three Swedish private individuals each held more than 100,000 shares. The number of shareholders fell during the year by 144. The proportion of foreign ownership rose during the year from 20.1 to 20.3 per cent of the total number of outstanding shares. As of the year-end, 16,818 shareholders, i.e. 86.1 per cent of the total number of shareholders, held 1,000 shares or less. 112 shareholders, each of whom held more than 100,000 shares, held 90.9 per cent of the outstanding shares.

Market capitalization

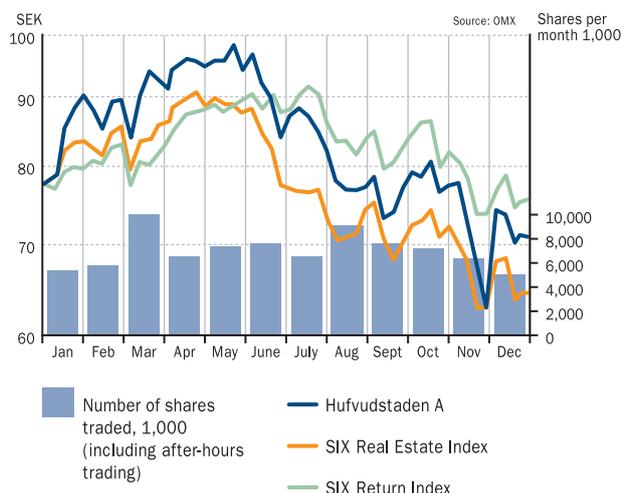
At the end of 2007, Hufvudstaden's total market value was SEK 13,099 million. The graph on the opposite page shows the price trend and trading in Hufvudstaden's Series A shares during the year.

Dividend policy

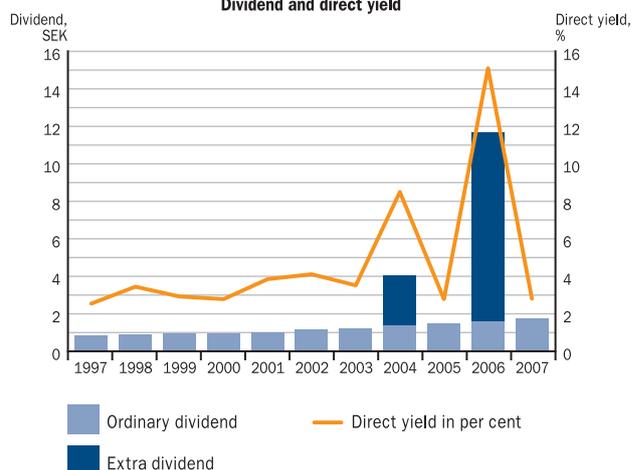
Hufvudstaden shares shall have good growth over time and the dividend shall be more than half the net profit from current operations unless investments or the Company's financial position generally justify a deviation. A dividend of SEK 1.75 per share is proposed for 2007, equivalent to 15 per cent of the profit for the year or 71 per cent of the net profit on current operations.¹⁾

1) See Definitions, page 93, Dividend amount.

The share price trend, reversed dividend and trading from January 1, 2007 in relation to the SIX Real Estate Index and SIX Return Index



Dividend and direct yield



The ten largest focused property companies as of December 31, 2007

	Market value, SEK m
Hufvudstaden	13,099
Fabege	11,823
Castellum	11,567
Kungsliden	9,828
Atrium Ljungberg	8,493
Wallenstam	7,471
Wihlborgs	4,448
Klöver	4,247
Brinova	2,429
Heba	2,415

Source: OMX.

Ownership structure as at December 31, 2007

	Number of shareholders	Proportion of shareholders, %	Number of shares	Proportion of shares, %
1 – 500	14,442	73.9	2,050,354	1.0
501 – 1,000	2,376	12.2	1,822,240	0.9
1,001 – 2,000	1,299	6.7	1,929,989	0.9
2,001 – 5,000	785	4.0	2,594,078	1.2
5,001 – 10,000	243	1.2	1,832,705	0.9
10,001 – 20,000	128	0.7	1,896,277	0.9
20,001 – 50,000	103	0.5	3,368,899	1.6
50,001 – 100,000	45	0.2	3,367,400	1.6
100,001 –	112	0.6	187,403,991	88.6
	19,533	100.0	206,265,933	97.6
Hufvudstaden			5,006,000	2.4
Total			211,271,933	100.0

Source: VPC.

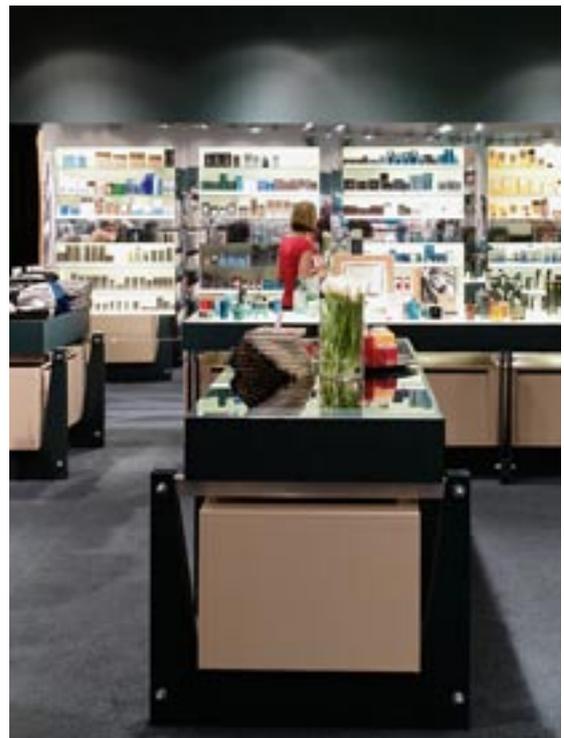
The largest shareholder groups as of December 31, 2007

	Series A, shares	Series C, shares	Total number of shares	Outstanding shares, %		Issued shares, %	
				Capital	Votes	Capital	Votes
Lundbergs	85,141,229	8,177,680	93,318,909	45.2	88.0	44.2	87.6
SEB Trygg Liv	23,503,007		23,503,007	11.4	2.3	11.1	2.3
Mellon funds	6,132,120		6,132,120	3.0	0.6	2.9	0.6
JP Morgan funds	4,567,613		4,567,613	2.2	0.4	2.1	0.5
Citibank funds	4,351,436		4,351,436	2.1	0.4	2.0	0.4
State Street Bank & Trust funds	4,004,961		4,004,961	1.9	0.4	1.9	0.4
Swedbank Robur funds	3,982,001		3,982,001	1.9	0.4	1.9	0.4
Skandia Liv	3,945,576		3,945,576	1.9	0.4	1.9	0.4
KAS Depository Trust funds	2,521,367		2,521,367	1.3	0.3	1.2	0.2
FGCS funds	2,515,592		2,515,592	1.3	0.3	1.2	0.2
SEB funds	2,354,308		2,354,308	1.1	0.2	1.1	0.2
Northern Trust funds	2,345,470		2,345,470	1.1	0.2	1.1	0.2
Other shareholders	52,626,189	97,384	52,723,573	25.6	6.1	25.0	6.1
Outstanding shares	197,990,869	8,275,064	206,265,933	100.0	100.0	97.6	99.5
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
Total number of issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0

Source: VPC.



Nordstan is one of the largest covered shopping centres in Europe with 320,000 square metres on three floors. The large mall is in a constant state of renewal and change. The Centre has over 180 stores. The shopping opportunities are considerable to say the least. Over 34 million visitors each year make Nordstan one of the most obvious meeting points in the city. Photo: Nordstan, Gothenburg.



Corporate Social Responsibility

CSR is a prerequisite for long-term profitability by engendering trust among tenants and reinforcing the brand name, thus promoting increased growth in the Company. Hufvudstaden is striving to achieve sustainable development with consideration given to financial, environmental and social factors.

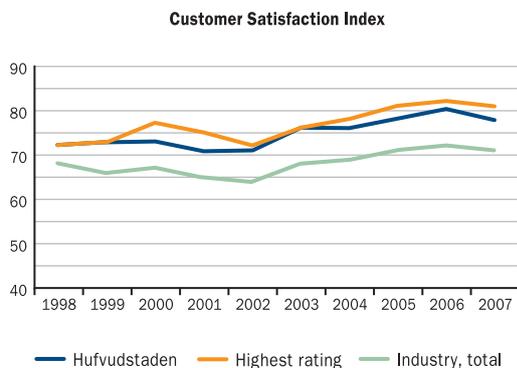
Long-term responsibility

Hufvudstaden is one of the leading property companies in central Stockholm and central Gothenburg and thus has a vested interest in co-operating with the city of Stockholm and the city of Gothenburg and other bodies to make our two largest cities more attractive and safer for people and companies. The Company is contributing to community development by assuming responsibility for architecture, the function of the buildings and the surrounding environment.

Hufvudstaden operates exclusively in Sweden and thus considers that the risk of any of its operations conflicting with the UN Universal Declaration of Human Rights to be small. When procuring contractors a written assurance is required from the contractor that prevailing laws are complied with and that the employees have terms and conditions of employment that are in line with national agreements. Normally, Hufvudstaden retains overall control by actively supervising the projects.

The work at Hufvudstaden is governed by four basic values – attentiveness, honesty, commitment and quality – which should permeate all our operations, both internally and externally. The human resources policy contains a presentation of the Company's position with regard to equality, discrimination, leadership etc.

Hufvudstaden is seeking to contribute to a better social situation for less fortunate fellow human beings in our immediate environment by supporting organizations that are working actively to improve their living conditions.



Customer Satisfaction Index

Like several other leading property companies Hufvudstaden participates in the Fastighetsbarometern Customer Satisfaction Survey. This is an annual survey of the level of satisfaction among office tenants. In this year's survey Hufvudstaden once again came second.

Quality and the environment

Hufvudstaden's vision is to lead the way in the development of the property industry, focusing on an environmentally sustainable society. The environmental programme is an integral part of day-to-day work and has the firm acceptance of the executive management. It is governed by the environmental policy and an operational system that will ensure the highest possible quality among all the Company's products and services. Prioritized areas are energy use, water consumption, waste management, choice of materials and hazardous substances. Hufvudstaden does not carry on any operations for which permits or notification are required under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899) and has no current environmental disputes.

Hufvudstaden's environmental work was analyzed and approved for investment in the Swedbank Robur Environmental Fund. The Company has taken part in environmental surveys conducted by, among others, the Carbon Disclosure Project and the business journal Veckans Affärer.

Environmental Policy

Vision

To lead the Company's development towards an environmentally sustainable society

Long-term objectives

- Reduce impact on the climate
- Minimize the use of harmful substances
- Contribute to recycling materials and used products
- Support our tenants, partners and employees in their environmental work

Support for overall objectives

- Apply the prudence concept and good management principle
- Select the best possible technology and environmentally labelled products
- Prevent environmental problems and pre-empt environmental legislation
- Make demands on suppliers and contractors

- Make it easier for tenants to reduce their environmental impact
- Keep tenants, suppliers, personnel, shareholders and other stakeholders informed
- Have an environmental management system that ensures optimal quality

Quality and environmental objectives 2008

- Continued development of quality and environmental work
- Continued expansion of environmentally adapted redevelopment
- Continued improvement in the efficiency of waste management
- Improve efficiency in the use of energy by three per cent
- Prepare energy declarations for all properties
- Improve information about energy and environmental issues to our tenants

Improved efficiency in energy use

During 2007, total energy use decreased by two per cent, among other things as a result of redevelopment and further improvement in the efficiency of the properties' installations. There is continuous monitoring and follow-up of the properties' control systems to facilitate needs adaptation of heating and ventilation. Movement detector lighting and low-energy bulbs also contribute to reducing total energy use.

Hufvudstaden's emission of carbon dioxide during the year from energy use totalled 8,591 tonnes. The geographical concentration of operations means that the number of business trips is very limited.

Energy declarations

The preparation of energy declarations according to the EU energy efficiency directives is in progress and will be completed during 2008. All properties have for a number

of years undergone environmental inventories. PCB was removed from all properties several years ago.

Energy and water consumption

	2007	2006	2005
District heating, adjusted for a normal year, MWh	19,740	21,594	23,498
Electricity, MWh	44,548	44,956	43,322
District cooling, MWh	4,507	4,480	4,061
Total, MWh	68,795	71,030	70,881
Water, m ³	238,447	237,735	227,795
CO ₂ , tonnes	8,591	8,703	

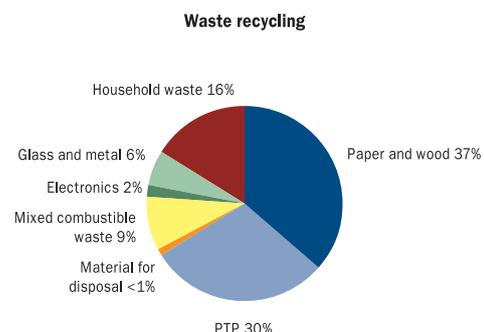
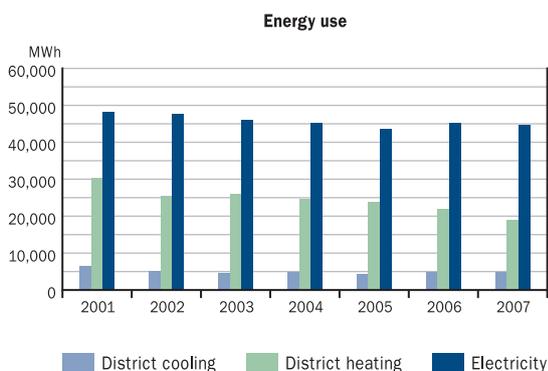
More efficient waste management

The sorting of waste takes place in all Hufvudstaden's properties and the total volume of sorted waste during 2007 was just over 1,500 tonnes. Through the auspices of Hufvudstaden almost every tenant in Stockholm has an individual agreement with a contractor and thus has more efficient and environmentally adapted waste management.

Construction waste from the Company's redevelopment projects and adaptation of premises is sorted and handled according to Hufvudstaden's routines for environmentally adapted redevelopment.

Environmental assessment of construction materials

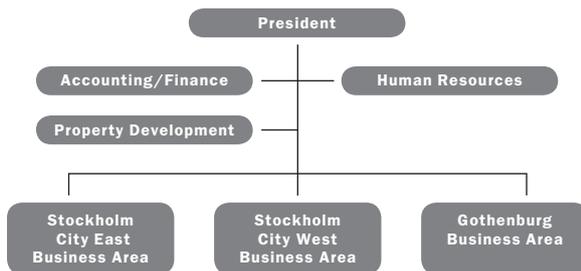
The property owners behind the two environmental assessment systems, MilaB and Byggd Miljö, joined forces in 2007 to create one common system for the environmental assessment of construction materials – BVB (Byggvarubedömningen). The database is the result of active collaboration between a number of major building developers, who account for a large proportion of construction in Sweden. The system will be a complete and professional environmental assessment system for materials used in construction and management.



Organization and employees

Organization

The Company'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. Following the sale of the World Trade Center a reorganization took place whereupon the number of business areas in Stockholm was reduced to two following the transfer of the former NK business area to Stockholm City West. At the same time there was a reallocation within the property holdings. The Property Development, Accounting/Finance and Human Resources staff functions support the work taking place in the operative organization. In addition, parking operations are run through the subsidiary Parkaden AB.



Value-controlled corporate culture

A clear, common, broadly accepted set of values is a vital prerequisite in maintaining the high level of quality in the day-to-day work as well as leading and controlling operations towards achieving the Company's vision and objectives. They are also a prerequisite for being able to conduct

operations in such a way that they promote social responsibility. Hufvudstaden's values reflect the way in which the employees act, both internally and externally, and are an active tool in pursuing the day-to-day work. The core values are attentiveness, honesty, commitment and quality.

Leadership development

Good leadership is an important factor for success. Hufvudstaden is endeavouring to ensure that as many vacant managerial positions as possible are filled through recruitment in-house. Identifying and developing employees, both women and men, with leadership qualities is a priority issue. Hufvudstaden's leadership should be marked by boldness and exemplary actions and should be forward-thinking and inspirational. An extensive leadership programme for all managers in the Company was run in 2007. The programme will continue during 2008.

Employees

Committed, expert, service-oriented, satisfied employees throughout the Company are a prerequisite for achieving the Company's vision and objectives. Each employee has an appraisal discussion with his/her immediate superior at least once a year. During the discussion objectives and fulfilment of objectives are discussed as well as competence development and similar issues. An individual activity plan for the coming year is then drawn up. It is taken for granted that men and women are given the same opportunity to develop and that unfounded salary differences are counteracted.

Hufvudstaden is working actively against all forms of discrimination or harassment as a result of gender, ethnic affiliation or sexual disposition. We are also endeavouring to reduce absenteeism due to sickness by implementing preventive measures such as regular health checks, health-promoting activities, a long-term focus on the working environment and leadership issues as well as health insurance.

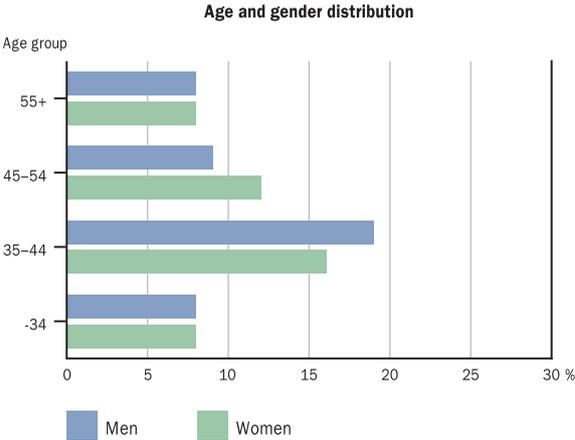
A bonus scheme based on results and customer satisfaction was in place during the year and each employee can receive part of the Company's improvement in profit.

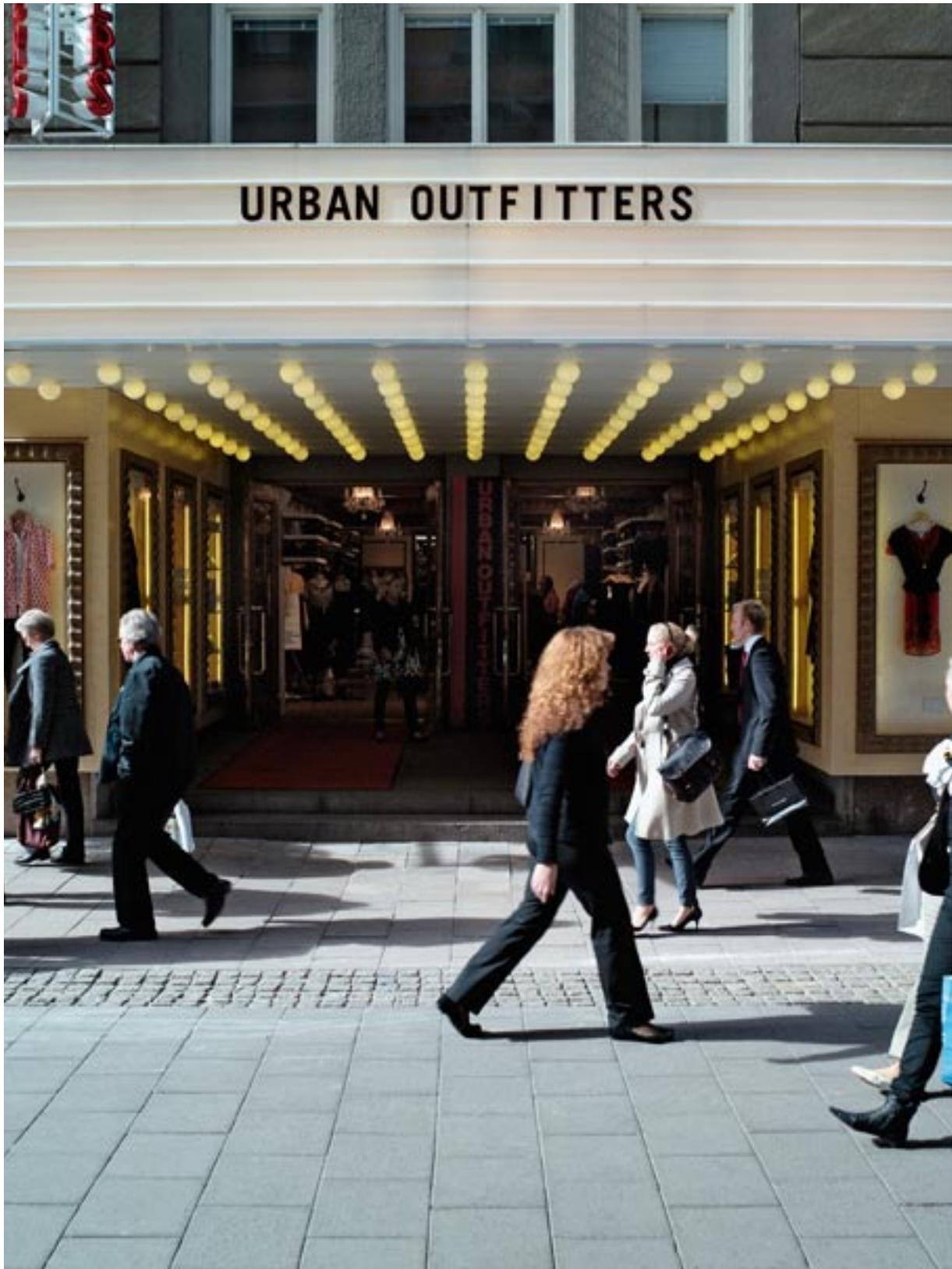
At the end of 2007, 88 (118) persons worked in the Group, of whom 83 (91) were in the Parent Company and 5 (5) in the subsidiary Parkaden AB. The reduction can be explained by the fact that the 2006 figures included employees in the divested conference operations at the World Trade Center. At the year-end, the division was 50 (55) per

cent women and 50 (45) per cent men. Of the Group's 22 (28) managers, 6 (9) are women, or 27 (32) per cent. The average age was 45 (41) years for women and 43 (43) years for men. The average period of employment was 9 (8) years. Absenteeism due to sickness in the Group during the year was 2 (3) per cent.

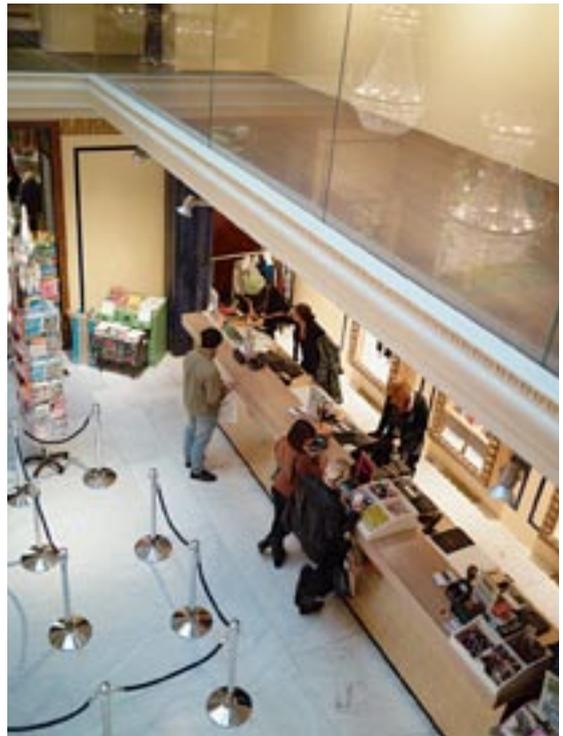
Employee survey

The employees' view of Hufvudstaden is measured each year through an employee survey where questions are asked regarding satisfaction, leadership and attitudes. The 2007 survey had a very high response rate and gave Hufvudstaden and its leadership a high rating. The results during the year have been an active component in the continuing process of developing operations towards realizing the established objectives.





Many designers derive their inspiration from Stockholm, which represents a very unique style. More and more foreign fashion houses are moving to the city. Urban Outfitters has 1,400 square metres in the historic Röda Kvarn building, where the old ceiling paintings and other details, hidden for so many years, have once again come into view. Photo: Biblioteksgatan, Stockholm.



Property market

Hufvudstaden's markets are central Stockholm and central Gothenburg, where the Company owns office and retail properties in the central business districts of the city centres. This makes Hufvudstaden one of the most specialized and geographically concentrated property companies in Sweden.

Economic growth in Sweden has for a long time been concentrated in the city regions, where Stockholm occupies a unique position. During 2007, Stockholm had a strong rate of economic growth. Gothenburg and Western Sweden have also developed extremely well.

Expanding regions

One of the most striking features of the property market in Sweden and throughout the rest of Europe is the concentration of population growth and commercial expansion in the city regions.

The Stockholm area has for long time been the driving force in the country's economy and is one of the regions in the EU that has reported the strongest rate of growth. Growth in the economy during the year has resulted in positive development in the Stockholm area, due mainly to the region's industrial structure and a high proportion of IT, telecom, biotechnology, finance and service companies. In Stockholm there is one of the world's largest information and communication company clusters and one of Europe's largest biotechnology clusters. Stockholm has developed into the leading financial centre in Northern Europe and has the largest stock exchange in Scandinavia. The banking and finance sector employs more than 35,000 persons at 1,400 companies. The gross regional product (GRP) for Stockholm revealed good growth in 2007.

The size of a region is of major significance to its economic growth and Stockholm must be regarded as the only European city in Sweden. Stockholm normally accounts for a large proportion of the growth in Sweden and it has 20 per cent of the country's population. The region also accounts for almost 30 per cent of Sweden's gross national product. The number of foreign-owned companies is increasing and in the county there are now over 160,000 persons working at 4,000 foreign-owned companies. The Gothenburg region is of increasing importance in the development of Western Sweden. Some 50 per cent of the industrial capacity of Scandinavia is to be found within a radius of 300 km. There is a tangible international presence. The number of foreign-owned companies has increased to approximately 2,000 in just a few years. The Gothenburg region has a well-developed infrastructure and a stable increase in population and employment. The increase in the

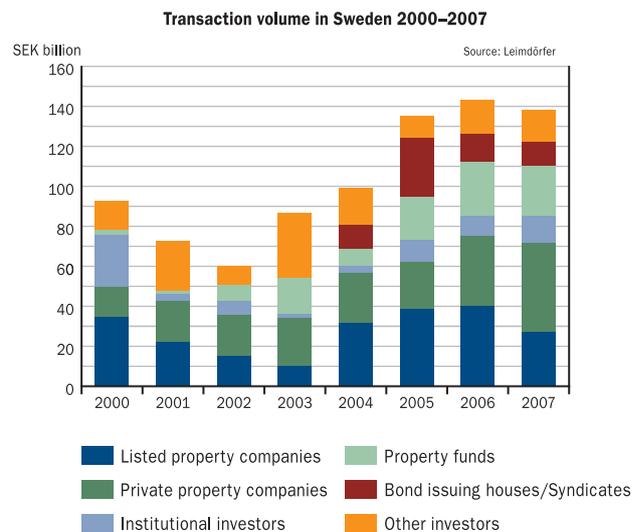
GRP of the Gothenburg region has been the highest in the country over the past 16 years. Growth is driven to a large extent by expanding private service production. Service-based companies at present employ around 100,000 people in the Gothenburg region.

The investor market

In recent years we have had an historically strong demand for investment properties in Sweden. Transaction activity on the Swedish property market during 2007 continued to be high and was almost in line with the record year of 2006. During the year Swedish and foreign investors invested almost SEK 140 billion in Swedish properties. High liquidity, lower transaction costs and a transparent market make the Swedish property market attractive, quite apart from the expected positive economic development in Sweden. Several active investors have been working on the Swedish property market and new investors, both Swedish and foreign, have been added during the year.

The considerable demand for properties has, together with expectations of a rise in rents and falling levels of vacant space, contributed to a positive growth in market values.

The direct yield requirements for office premises in Stockholm and Gothenburg increased between 1998 and 2003. Since 2003, the direct yield requirements fell as a result of a strong demand, falling interest rate levels and expectations of a stronger rental market. The positive yield gap has, however, been replaced by rental market expectations as the primary driving force behind property prices in the city regions since interest rates began to rise during 2007.





The largest property owners in the Stockholm CBD.

Source: Leimdörfer.

Property acquisitions completed during the year in the more central locations of Stockholm and Gothenburg revealed that the direct yield requirements have been adjusted downwards. The direct yield requirements for modern office and retailing space in these locations was 4.0–5.25 per cent in Stockholm and in Gothenburg 4.5–5.75 per cent.

Swedish investors have during the year been the most active purchasers in the Stockholm CBD. The transaction volume has, however, been held back during the year by the extremely limited range of available properties in the central parts of Stockholm and Gothenburg. Certain international investors have made significant sales. It is mainly the opportunistic funds with a high loan-to-value ratio, which as a result of falling direct yield requirements and rising interest rates have divested their property holdings.

The largest commercial property owners in the Stockholm CBD

	sq. m
Hufvudstaden	280,000
Vasakronan	205,000
AMF Pension	180,000
SEB Trygg Liv	128,000
Alecta	123,000
AP Fastigheter	118,000
Fabege	117,000

Source: Leimdörfer.

Rental market in Stockholm

The level of vacant office space in Stockholm fell during the year, mainly due to the fact that increased employment

created an increase in demand for office space in both peripheral and central areas. The demand for prime location retailing premises continued to be stable. The transfer sums for store premises have levelled out. The result has been a stronger rental market with rising store and office rents.

Offices

Within the ‘Tull’ areas in Stockholm there are commercial property holdings comprising approximately 5 million square metres of office space, of which 1.7 million square metres is within the CBD. Investment in new office projects was low during the year and amounted to approximately 50,000 square metres. There has, however, been a high level of activity with regard to upgrading of older premises. The availability of premises during 2007 balanced the demand for modern, well-situated offices.

Major projects in the city include Centralen and Västra City, the Ramsbury building on Drottninggatan, redevelopment of one of the high-rise buildings at Sergels Torg, a new office building at Kungsbron and the Putten block on Sveavägen. Several major projects in central Stockholm and directly outside the Tull areas are still awaiting tenants.

The demand for office space was primarily for central locations in the Tull areas and the immediately surrounding suburbs, close to the Tull areas and public transport. The demand is switching more and more from traditional cell offices to efficient combi-offices or open landscapes, where the cost per employee can be reduced and in-house contact

improved. Market rents for modern offices increased significantly during the year. Rents of between SEK 4,500 and 5,000 per square metre per year, excluding the property tax supplement, were noted within the Golden Triangle. In bordering areas – at Stureplan, Hötorget, Drottninggatan, Hamngatan, Regeringsgatan and Vasagatan – offices were let for between SEK 3,500 and 4,500 per square metre per year, excluding the property tax supplement.

The level of vacant space during the year was between 6 and 9 per cent (11–12 per cent the previous year) in the inner city and between 8 and 20 per cent (11–20 per cent the previous year) in the ‘Malm’ areas and in neighbouring suburbs such as Kista, Liljeholmen, Alvik, Värtahamnen and Nacka Strand.

Stores

The demand for store premises in prime locations was high during the year although such premises were generally not available. The good level of demand can be attributed to the increased purchasing power of households. The most sought-after retailing areas are around Biblioteksgatan and at Norrmalmstorg, Hamngatan, Stureplan, Kungsgatan, Drottninggatan and parts of Grev Turegatan. Biblioteksgatan in the Golden Triangle, the NK department store and Hamngatan have a special position as the most exclusive store locations. The rent for prime retailing space in this

area is between SEK 12,000 and 16,000 per square metre per year, excluding the property tax supplement.

A large number of retailing projects are either in progress or are planned for the Stockholm area. These are in time expected to increase the total retailing floor space by approximately 500,000 square metres, or almost 40 per cent, including approximately 50,000 square metres within the Tull areas.

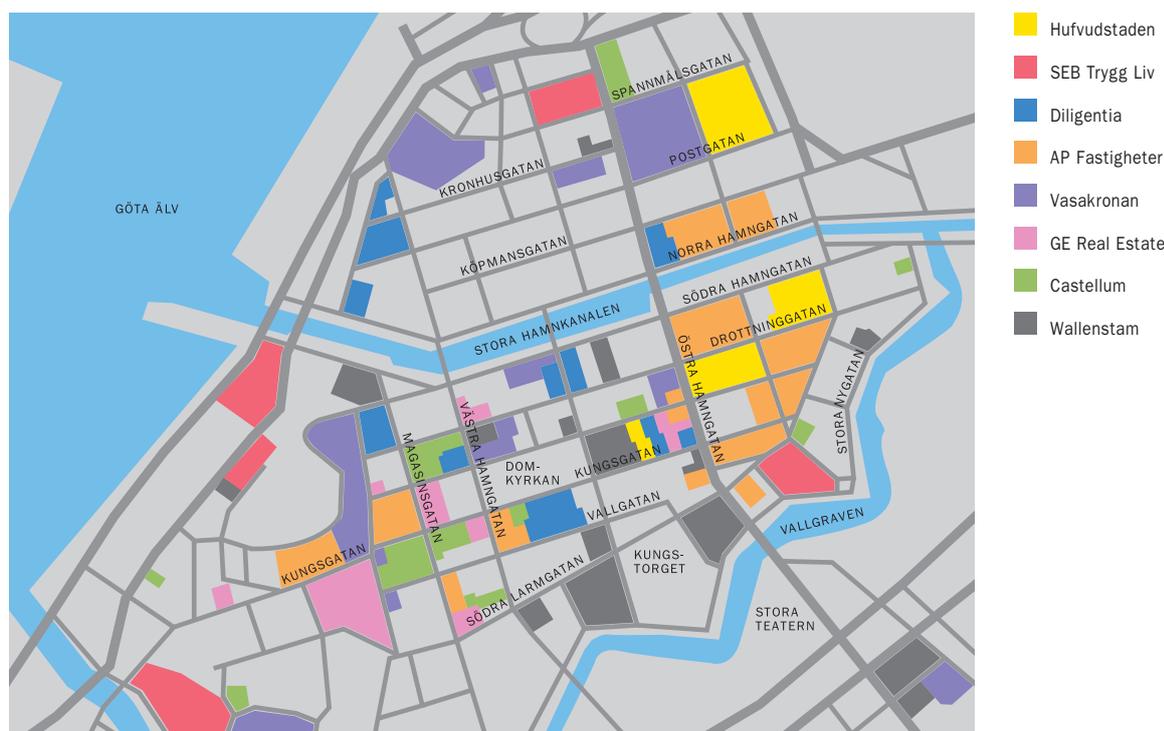
Rental market in Gothenburg

The rental market for office space in central Gothenburg was marked by a fall in vacant space. Rental levels have increased slightly during the year. Gothenburg has further reinforced its position as the most interesting market in Sweden after Stockholm. In the office segment there is considerable interest in modern, efficient, centrally located premises, despite the fact that growth in demand for office premises in the region as a whole has been weak during the year.

Offices

In Gothenburg, there are 1.5 million square metres of office premises, of which 0.9 million square metres are within the CBD. New office construction continued to be low during 2007 and there are few new projects in central Gothenburg.

The District Court as well as the Regional Rent and



Larger property owners in Gothenburg.

Source: Forum Fastighetsekonomi.

Tenancy Tribunals will move into a newly constructed building beside Ullevi at the end of 2009. The area between the two Ullevi arenas is also being developed with properties intended for the police and the Swedish Prison and Probation Service. One project which could commence is a building right in Gårda which it is estimated will result in 15,000–20,000 square metres of office space. At Norra Älvstranden, substantial expansion is planned in the next few years.

The rent levels in the central parts of Gothenburg revealed a stable rate of growth during 2007. The trend, however, is slightly uncertain, due largely to the fact that vacant space is in excess of 10 per cent and major new construction projects could be implemented in the central areas of the city. Further major office projects could become a reality if the level of vacant space were to fall and the rent levels were to rise or remain at their present level. New construction of office premises is planned for the next few years at a cost of SEK 5 billion. It is uncertain, however, whether this will materialize. In the most attractive locations, market rents are between SEK 1,600 and 2,200 per square metre per year, excluding the property tax supplement. The best locations for offices in central Gothenburg are considered to be the Inom Vallgraven areas, particularly areas near the Hamngatans, Nordstaden, Kungsportsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass.

Vacant space in the central areas of Gothenburg during the year were between 10 and 11 per cent (11–12 per cent in 2006).

Stores

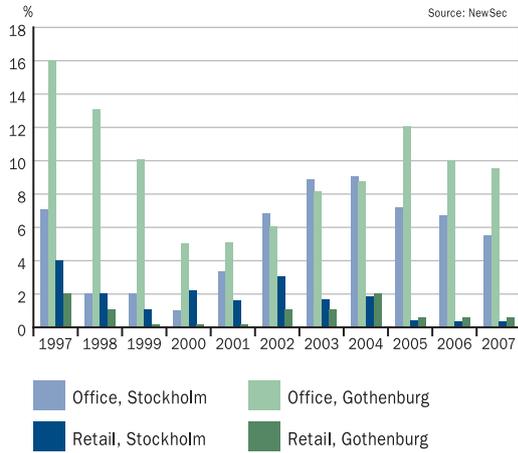
Rents for stores in prime locations remained relatively stable during the year. In A-locations rents were noted between SEK 5,000 and 9,000 per square metre per year, excluding the property tax supplement. Growth in retailing was good during the year. The availability of vacant retailing space was very limited – the estimate is less than one per cent – and demand was high. The transformation of Gothenburg from a traditional industrial centre into a city with a more differentiated, service-oriented business sector has had a positive impact on the retailing trade. The prime locations for stores in central Gothenburg are considered to be Östra Nordstaden, Fredsgatan, Arkaden, Kungsgatan between Korsgatan and Fredsgatan and part of Korsgatan.

Even in the Gothenburg region there is strong development of new and existing retailing facilities. One example is Frölunda Torg, which will add approximately 22,000 square metres of new retailing space.

**Market rents in December 2007, Stockholm and Gothenburg
(excluding the property tax supplement)**

Sub-market	Offices, SEK/sq. m/year	Stores, SEK/sq. m/year
<i>Stockholm</i>		
Golden Triangle	4,500–5,000	12,000–16,000
City, other	3,500–4,500	3,500–10,000
Östermalm	2,100–3,400	3,000–8,500
Gamla Stan	1,800–3,000	2,500–5,000
Slussen/Södermalm	2,000–3,000	2,500–5,000
Kungsholmen	1,600–2,800	2,000–6,000
Liljeholmen	1,400–2,200	1,200–3,500
Globen	1,400–2,000	3,500–5,000
Kista	1,100–2,500	3,500–7,000
<i>Gothenburg</i>		
Inom Vallgraven	1,600–2,200	5,000–9,000

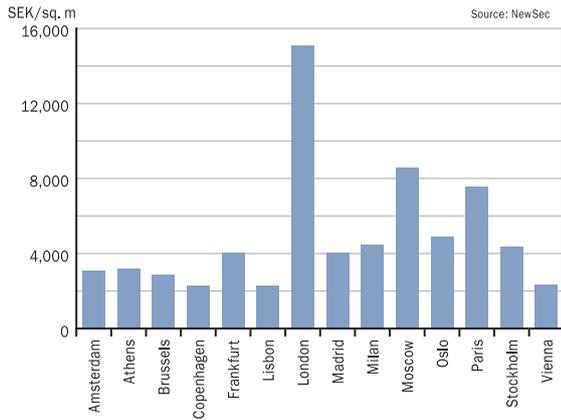
**Vacant office and retail space
Prime location premises**



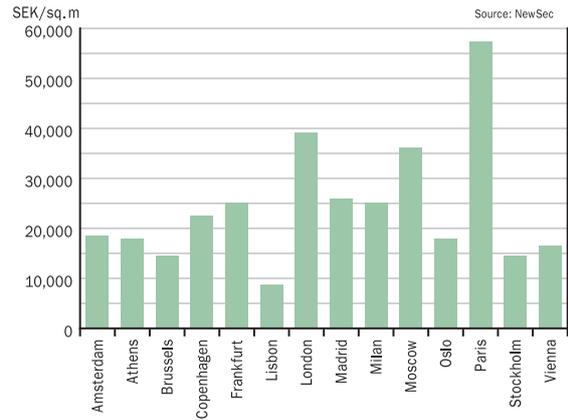
**New construction, demand and vacant space,
office premises in Central Stockholm**



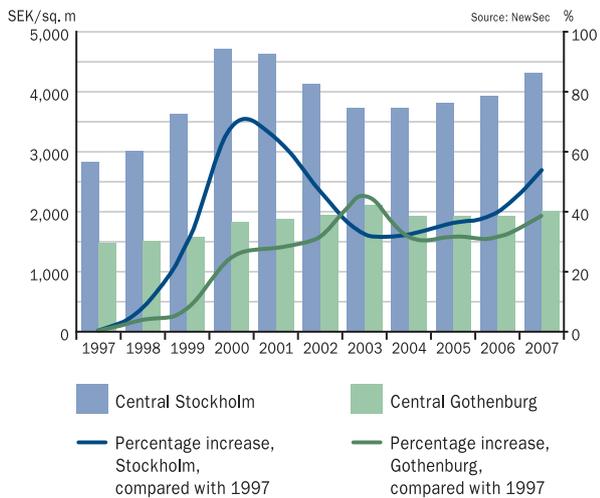
**Office rents in European cities, December 2007
Premises in prime locations**



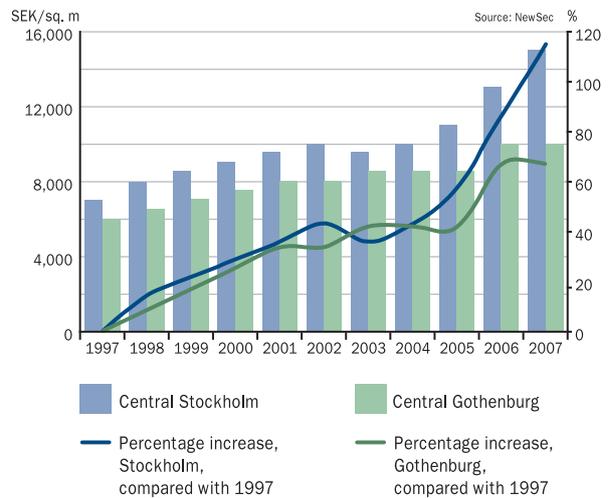
**Store rents in European cities, December 2007
Premises in prime locations**



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



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



Property development

Hufvudstaden is working actively to develop the high quality and efficiency of its property portfolio. The aim is to create good growth in value and, in co-operation with the tenants, adapt offices and stores to new conditions. The process of developing the properties is being constantly reviewed. Changes and improvements, both large and small, are made regularly.

Development projects can be divided principally into redevelopment and investment in existing properties as well as the development of existing and new building rights. The investments made give the buildings a higher technical standard and more efficient planning of the available floor space. The tenants have a better product and Hufvudstaden has a better net operating profit in the long-term and a higher yield.

Adaptation of premises

Most redevelopment that is taking place in the Hufvudstaden property holdings comprises adaptation of premises to new or existing tenants. When premises become vacant they are inspected and then undergo complete refurbishment. Open-plan arrangements with more efficient use of floor space are being demanded more and more by the tenants. This has increased the need for ventilation and cooling and older installations are being replaced by the latest technology to ensure an optimal indoor climate. If possible, the premises are integrated with adjoining areas to create maximum flexibility. Once the basic upgrading of the premises has been completed they are then adapted to the needs of the new tenant. In all redevelopment there is an emphasis on preserving the special character of the building and the architectural values.

During the year renovation and adaptation of approximately 20,000 square metres of office space were completed. New tenants during the year include the Icelandic bank Straumur Burdaras in the Kvasten 6 property in the Golden Triangle and two IT companies, Orc Software and Cinnober on Kungsgatan. The advertising agency Forsman & Bodenfors has moved into bright new premises at NK Stockholm and refurbished its existing premises at NK Gothenburg.

Future projects

In spring 2007, Hufvudstaden acquired the property Rännilen 15 at Norrmalmstorg in Stockholm. Other properties in the block have been owned by Hufvudstaden for many years and Hufvudstaden now owns the whole block, opening up considerable synergy potential. A property adjustment has taken place whereby the property is now part of the neighbouring property, Rännilen 19.

ABN AMRO will be vacating 5,400 square metres at Rännilen 18 during 2008, presenting the opportunity to totally renovate this 19th-century building. The building will be combined with an adjoining building and adapted to the demands of the 2010s in terms of efficiency and modern technology, coupled with a firm emphasis on preserving the original character of the building.



Norrmalmstorg. A rare mix of stores, fashion houses, automobile showrooms, banks, offices, restaurants, bars and cafes, all in close proximity to the park at Kungsträdgården and a communications network that will take you in all directions. In 2007, the final property was acquired on the block made up of Smålandsgatan/Biblioteksgatan/Birger Jarlsgatan/Mäster Samuelsgatan, opening up the opportunity to integrate the newly acquired property with the neighbouring property, which will undergo total renovation over the next few years. Photo: Smålandsgatan/Norrmalmstorg, Stockholm.



Stockholm City East Business Area

Property holdings

The Stockholm City East Business Area covers 16 (16) properties and is made up of two management areas. The Norrmalmstorg Management Area comprises 12 properties in the area around Biblioteksgatan, Norrmalmstorg and adjacent streets, the so-called Golden Triangle, which has been the core of Hufvudstaden's property holdings since the Company was founded in 1915. The Kungsgatan Management Area comprises four buildings on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The properties are entirely commercial and comprise office and retailing properties. In conjunction with a reorganization in 2007 there has been a redistribution of the property holdings, see page 88.

Acquisitions

With completion on June 1, 2007, the property Rännilen 15 at Norrmalmstorg was acquired. The vendor was Handelsbanken Liv and the purchase sum was SEK 312.5 million. The acquisition, which is in line with Hufvudstaden's strategy to concentrate its holdings on the most attractive parts of central Stockholm and central Gothenburg, is a natural complement to Hufvudstaden's holdings in the so-called Golden Triangle. The acquisition has facilitated major synergies with other properties on the block. The rentable floor space is approximately 3,350 square metres and houses both office and store premises with the breakdown as follows:

Rännilen 15, rentable space

Type of premises	Floor space, sq. m	Proportion, %
Offices	2,150	64
Stores	650	20
Other	550	16
Total	3,350	100

Through a property adjustment the property has been combined with the neighbouring property, Rännilen 19.

Development of holdings

The stockbroking company ABN AMRO, which had been a main tenant at Rännilen 18 for many years, is moving into new premises in 2008, which means that Hufvudstaden has a unique opportunity to totally renovate the property and in doing so create modern, efficient premises with the very latest in modern technology. ABN AMRO will also be vacating the whole office part of the newly acquired neighbouring property, thus opening up the opportunity for Hufvudstaden to integrate the two properties.

The task of creating a more attractive retailing area in the eastern part of the city has continued. Our idea behind the area around Biblioteksgatan is to create an exciting blend of small, unique shops in combination with high-class international brands with a high degree of fashion. Both the stores and the street environment will be based on an atmosphere that is beyond the norm. New stores that have opened during the year include Rodebjer, Agent Provocateur, Quicksilver and Restaurang Zink on Biblioteksgatan.

The focus of the stores along Kungsgatan has for several years been on home, sport and leisure.

Rental market

The rental market for office space within the Business Area showed positive growth during the year.

The market rents during the year for office premises in prime locations were between SEK 4,500 and 5,000 per square metre per year, excluding the property tax supplement.

The rental market for retailing premises showed positive growth and the market rents for prime locations were approximately SEK 16,000 per square metre per year, excluding the property tax supplement.

Tenants

The tenant structure for office space within the Stockholm City East Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are banks, finance companies, law firms and consultants within recruitment, management and the media. In total, there are 309 tenants in the Business Area. The ten largest tenants lease 41,400 square metres (37,900), representing annual rent revenue of SEK 189 million (171).

The majority of store tenants around Biblioteksgatan are smaller operators although tenants also include a number of larger retailing groups such as Urban Outfitters, RnB, GANT, Orrefors/Kosta Boda and Inditex with its brand names Massimo Dutti and Zara. The store tenants along Kungsgatan are largely Swedish chain stores such as Stadium, Naturkompaniet, Alewalds and Duka.

Strong brand names within the Business Area

Norrmalmstorg 1. Norrmalmstorg 1 is a unique profile building which, following total refurbishment between 2002 and 2004, has recaptured its splendour and significance as a commercial landmark in central Stockholm.

Birger Jarlspassagen. Birger Jarlspassagen, located between Birger Jarlsgatan and Smålandsgatan in the Golden Triangle, has a particular cultural, historical and architectural value. Following careful renovation in 2004, Birger Jarlspassagen is now a unique shopping precinct, specializing in the latest in Swedish fashion.

Property holdings

	December 31, 2007	December 31, 2006
Number of properties	16	16
Rentable space, sq. m	145,102	142,148
– of which office space	99,000	96,966
– of which stores and restaurants	32,994	32,471
Annual rent, SEK m	597	552
Rental vacancy level, %	3.8	7.7
Floor space vacancy level, %	5.4	10.2

Renegotiations and new leases

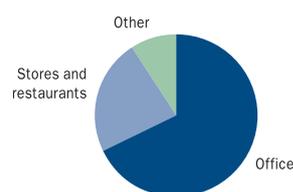
	2007	2006
New leases, sq. m	12,200	11,100
New leases, annual rent, SEK m	48	39
Renegotiated leases, sq. m	20,800	11,900
Renegotiated annual rent, SEK m	84	44

Financial results, property management – comparable holdings

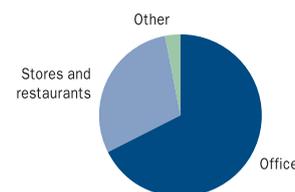
SEK m	2007	2006
Net revenue	538.5	509.8
Maintenance	-10.9	-27.9
Operation and administration	-65.3	-58.8
Other costs	-56.0	-50.8
Total costs	-132.2	-137.5
Gross profit	406.3	372.3

The comparison figures for 2006 have been recalculated according to the new organization.

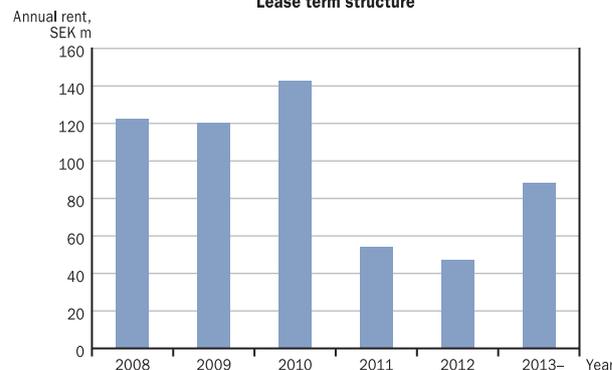
Rentable floor space per type of premises

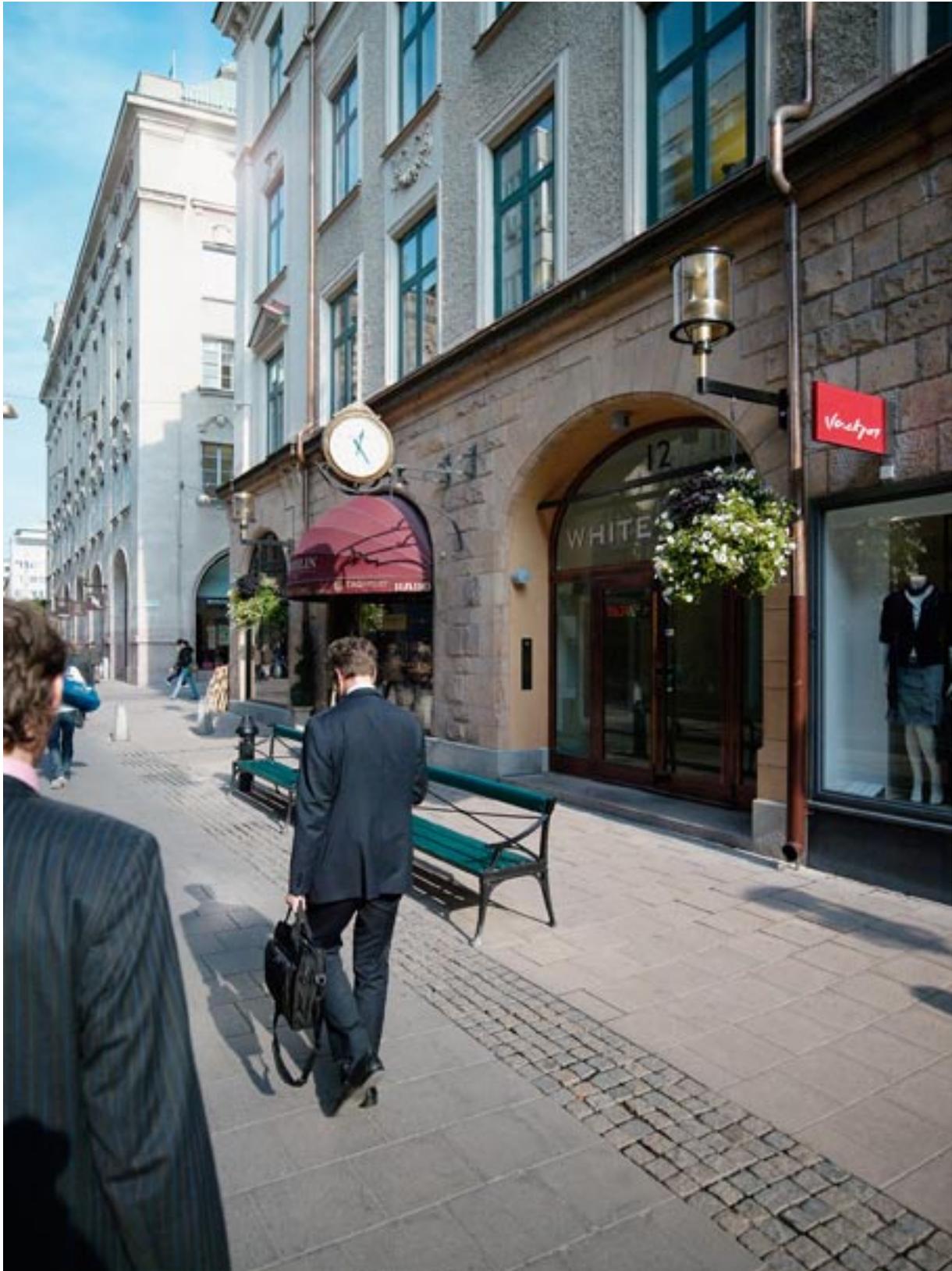


Annual rent per type of premises



Lease term structure





The street acquired its name from the Royal Library which is located at the far end. A meeting point for pinstriped suits and fashion-seekers. Biblioteksgatan 12 has been completely refurbished, creating a completely new, modern office environment on the ground floor that is totally in keeping with the times. Photo: Biblioteksgatan, Stockholm.



Stockholm City West Business Area

Property holdings

The Stockholm City West Business Area covers properties in the areas to the south and west of Hötorget, on Regeringsgatan and the NK properties in Stockholm and Gothenburg. At the year-end the Business Area comprised eight properties in Stockholm and one in Gothenburg. The holdings are entirely commercial and comprise office and retailing properties as well as the Parkaden multi-storey car park. The properties are located on Drottninggatan, Klarabergsgatan, Hamngatan, Regeringsgatan and in Gamla Stan in Stockholm and on Östra Hamngatan in Gothenburg. In conjunction with a reorganization in 2007 there has been a redistribution of the property holdings, see page 88.

Development of holdings

Refurbishment and adaptation of premises totalling just over 8,000 square metres of office space was completed during the year on behalf of new and existing tenants, of which 2,200 square metres were at NK Gothenburg. New office tenants include Ework Scandinavia, which moved in on Klarabergsgatan, Forsman & Bodenfors, which moved its Stockholm office to the NK building, and the advertising agency IK Stockholm which moved into premises on Drottninggatan.

The stores are an important feature in the urban environment and the Company is working continuously to develop the store mix within the Business Area. New stores have been opened on Mäster Samuelsgatan in the Orgelpipan property.

The NK department stores in both Stockholm and Gothenburg have in recent years undergone extensive restructuring with the aim of creating even more attractive department stores which can more than hold their own internationally. A whole range of new brand names have been added to the department stores, customers have a better overview of the range on offer and turnover in both the stores has increased. Work on improving the department stores even more is ongoing. In Stockholm the Regeringsgatan entrance has acquired two new cafes directly inside the glass doors. New departments at NK Stockholm are Tommy Hilfiger Herr, NK Fashion & Denim and NK Aware. In Gothenburg, new departments include Eton and Fred Perry.

Rental market

The rental market for office space within the Business Area showed positive growth during the year.

The market rents for office premises in prime locations during the year were between SEK 4,000 and 4,500 per square metre per year, excluding the property tax supplement.

The rental market during the year for retailing premises continued to be good. The market rents for prime retailing space in prime locations, excluding the NK department stores, were between SEK 6,000 and 10,000 per square metre per year, excluding the property tax supplement. In the NK department store, which occupies the very best locations in Stockholm, agreements signed in conjunction with renegotiation and new leases resulted in rent levels for prime retailing space of between SEK 12,000 and 16,000 per square metre per year excluding the turnover-based rent supplement and property tax supplement.

Tenants

The tenant structure within the Stockholm City West Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are organizations, law firms, advertising agencies, computer and media companies and banks. In total, there are 221 tenants in the Business Area. The ten largest tenants lease 31,700 square metres (30,200), representing annual rent revenue of SEK 183 million (159).

The store tenants largely represent strong, well-known brands with very strict demands on establishing operations in attractive marketplaces. In the NK department stores a large number of the very strongest international and Swedish brand names are represented.

AB Nordiska Kompaniet

The NK properties in Stockholm and Gothenburg and the NK brand name are owned by the wholly owned subsidiary AB Nordiska Kompaniet. Since 2007, NK has been a management area within the Stockholm City West Business Area.

The NK brand name

NK is one of Sweden's strongest and most well-known brands. It has reinforced and developed its value since 1902. The principal task of preserving and implementing the long-term build-up of the brand name is the basis of NK's ability to support retailing in the department stores, generating increased rental income and raising the value of the properties.

The NK brand name now enjoys a very strong position among Swedish and international consumers. This success is founded on close co-operation between the property owner and the proprietors, where co-operation is developed through the right mix of proprietors, a lively and attractive marketplace and continuous marketing directed at the right target groups.

Within NK there is very close co-operation with the business proprietors through the proprietors' co-operative association. Marketing plans are formulated jointly each year to reinforce NK as a brand name and retail outlet.

The rental and retailing market

The retailing trade in Sweden had a good year. According to the Retail Survey Index, DHI, sales based on current prices within the non-food sector increased by 7 per cent. Clothing sales rose by 5 per cent. For NK Stockholm, sales increased by 11 per cent and for NK Gothenburg by 5 per cent.

Property holdings

	December 31, 2007	December 31, 2006
Number of properties	9	9
Rentable space, sq. m	149,602	149,726
– of which office space	46,029	46,028
– of which stores and restaurants	44,136	44,049
Annual rent, SEK m	499	464
Rental vacancy level, %	3.3	6.0
Floor space vacancy level, %	4.7	7.4

Renegotiations and new leases

	2007	2006
New leases, sq. m	7,900	10,800
New leases, annual rent, SEK m	25	40
Renegotiated leases, sq. m	10,600	13,900
Renegotiated annual rent, SEK m	47	50

Financial results, property management – comparable holdings

SEK m	2007	2006
Net revenue	507.1	442.2
– of which turnover-based rent supplement	16.8	10.3
Maintenance	-12.5	-30.4
Operation and administration	-111.6	-105.2
Other costs	-56.4	-47.2
Total costs	-180.5	-182.8
Gross profit	326.6	259.4
<i>Other operations</i>		
Revenue	63.0	56.0
Costs	-45.4	-45.0
Operating profit	17.6	11.0

NK department stores

	2007	2006
<i>NK Stockholm</i>		
Rentable retailing space, sq. m	26,941	26,936
Number of departments	103	106
Number of restaurants	8	6
Sales, including VAT, SEK m	2,124	1,916
<i>NK Gothenburg</i>		
Rentable retailing space, sq. m	11,308	11,276
Number of departments	45	48
Number of restaurants	4	4
Sales, including VAT, SEK m	542	518

The comparison figures for 2006 have been recalculated according to the new organization.

Other operations

Parkaden. The wholly owned subsidiary Parkaden AB runs parking operations in two properties owned by Hufvudstaden in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget on the Orgelpipan 7 property near the World Trade Center and the Central Station with 435 parking spaces. The car park on Regeringsgatan was refurbished during the year with the addition of new signs, brighter and more inviting entrances and new lane arrangements. Parking operations are an important service function for customers in the Hufvudstaden market areas.

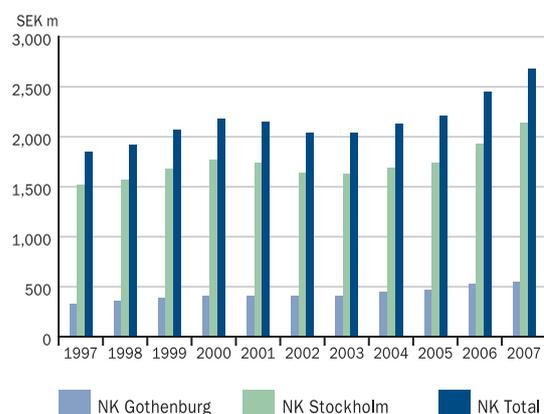
Rentable floor space per type of premises



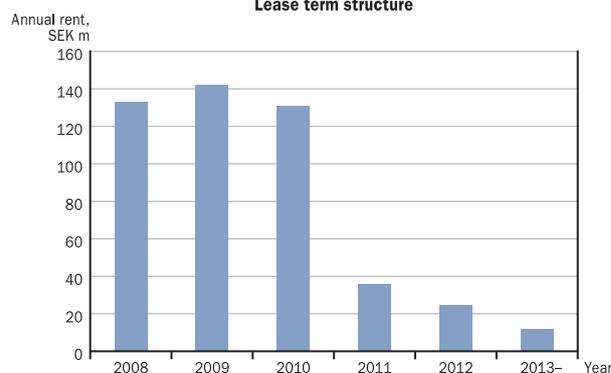
Annual rent per type of premises



Sales, NK Department Stores

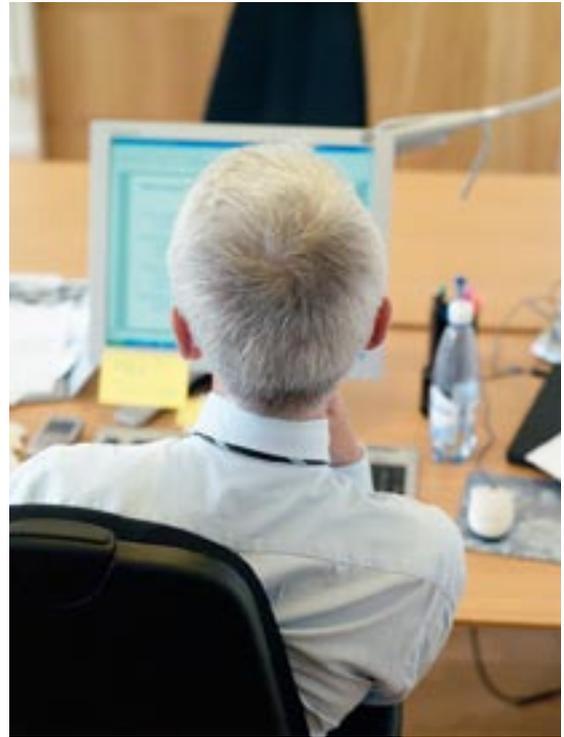


Lease term structure





Josef Sachs founded NK in 1902 and his ambition was to create a department store that would become a commercial and cultural theatre. He succeeded. The experience of wandering around and constantly discovering new stages is an uplifting experience. Stages on which exclusive brand names from all over the world perform. The most recent is a large Hermès store, the only one in Sweden. This beautiful building also houses modern, spacious offices. Photo: NK Stockholm, Hamngatan.





In 1971 the people of Gothenburg received NK with open arms. By 2007, a great deal of the department store had been completely rebuilt. With a new entrance with large open spaces and daylight in abundance. A totally new feeling and atmosphere in which to shop, relax and meet. The 2,200 square metres of office space in the building have also been totally refurbished, embodying a whole range of exciting solutions. Photo: NK Gothenburg, Östra Hamngatan.



Gothenburg Business Area

Property holdings

At the year-end, the Gothenburg Business Area covered four properties, located in the very heart of the Gothenburg central business district. The holdings are entirely commercial and comprise office and retailing properties. The largest building houses the Femman shopping precinct, which is in turn part of the Nordstan shopping centre. Nordstan receives more than 34 million visitors each year, more than 12.5 million of whom visit Femman. Annual revenue is approximately SEK 3.1 billion, of which Femman accounts for around SEK 840 million. Hufvudstaden is the largest individual partner in the Östra Nordstaden Co-operative Association, which owns and manages the Nordstan Car Park as well as the square and pedestrianized streets.

The Femman shopping precinct has 64 stores, cafes and restaurants on three floors. The largest retailing tenants are H&M, Kapp-Ahl, JC, Din Sko, Indiska and Dressman.

Development of the holdings

Refurbishment of office premises was carried out for a number of tenants during the year. Adaptation of premises was made for a number of new office tenants including Cityakuten i Praktikertjänst AB, Aftonbladet Kvällstidningen AB and Medartuum AB.

In the Femman building a number of stores have refurbished their premises, including Dressman, KappAhl, Expert and EB Games. Stores that have expanded their floor space include Femman Sport and Brio Leksaker. On the upper floor three new stores were opened during the year: dna Skor, Mancare and She Shop.

Rental market

The rental market for office premises during the year was marked by a slight fall in vacant space and stable rent levels. The market rent for office space in prime locations was between SEK 1,600 and SEK 2,200 per square metre per year, excluding the property tax supplement. In exceptional cases, rents in excess of SEK 2,200 per square metre per year were obtained for newly produced properties. In the case of stores, the market rent trend continued to be good. Prime location premises attracted rents of between SEK 5,000 and SEK 9,000 per square metre per year, excluding the property tax supplement, depending on the size and location.

Tenants

The tenant structure within the Business Area consists principally of companies that require centrally located, high-quality premises. The dominant sectors are law firms, accountants, the media, telecommunications companies, public authorities and organizations. There are 135 tenants within the Business Area. The 10 largest tenants lease 27,700 square metres (27,400), representing annual rent revenue of SEK 56 million (52).

Brand names within the Business Area

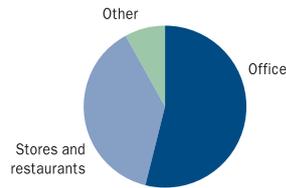
Femman Shopping Precinct. The Femman shopping precinct is one of the strongest brand names in retailing in Western Sweden and offers a wide range within the clothing and non-food sectors.

Nordstan. The Nordstan Shopping Centre is one of Europe's largest indoor centres and each year has around 34 million visitors. Hufvudstaden is the largest individual partner in the Östra Nordstaden Co-operative Association with a share of approximately 30 per cent.

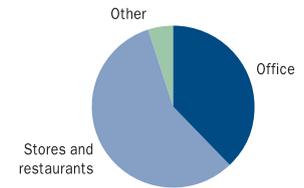
Property holdings

	December 31, 2007	December 31, 2006
Number of properties	4	4
Rentable space, sq. m	58,981	59,021
– of which office space	31,960	32,016
– of which stores and restaurants	22,189	22,244
Annual rent, SEK m	149	137
Rental vacancy level, %	1.7	3.3
Floor space vacancy level, %	2.4	4.8

Rentable floor space per type of premises



Annual rent per type of premises



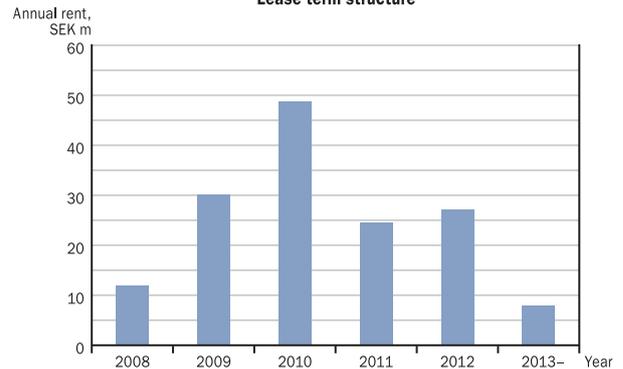
Renegotiations and new leases

	2007	2006
New leases, sq. m	1,700	2,200
New leases, annual rent, SEK m	5	4
Renegotiated leases, sq. m	6,700	9,100
Renegotiated annual rent, SEK m	22	20

Financial results, property management – comparable holdings

SEK m	2007	2006
Net revenue	157.7	144.5
Maintenance	-3.0	-3.2
Operation and administration	-30.5	-28.3
Other costs	-18.0	-10.6
Total costs	-51.5	-42.1
Gross profit	106.2	102.4

Lease term structure



norrmalmstorg 1

BJP
BIRGER JARLSPASSAGEN

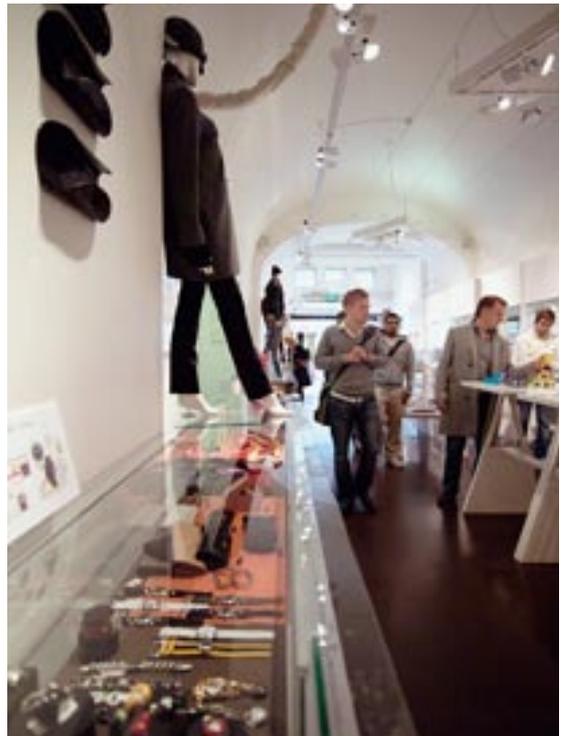
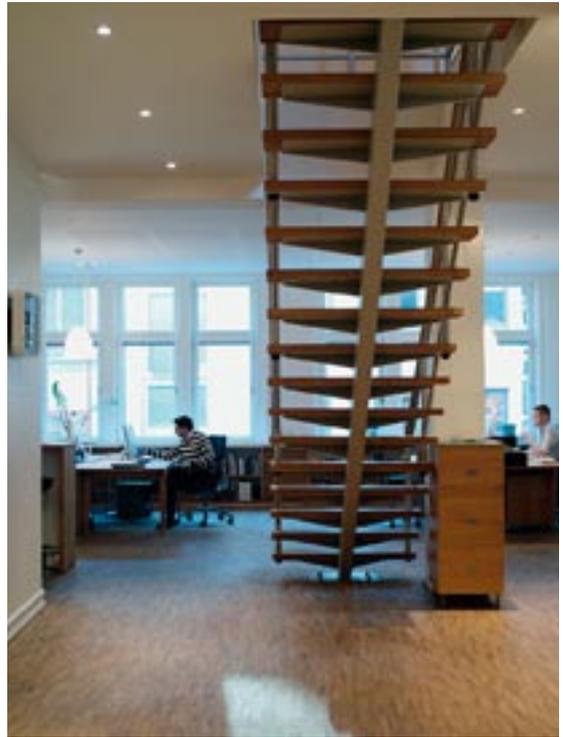


Femman

Group Brand Names.



In 1914, in the very heart of Gothenburg, the city's very first cinema was opened: Viktoriateatern. The dream world had come to Gothenburg. Ninety years later the old cinema changed name to Victoria Arena, and opened its glass doors to another type of dream world: over 1,000 square metres of fashion, style and design. The property also houses many other young companies in refurbished, specially adapted office premises. Photo: Kungsgatan, Gothenburg.



Corporate governance

Hufvudstaden is a Swedish listed company with its registered office in Stockholm. The Group is governed by the Articles of Association, the Swedish Companies Act, and the rules of OMX Nordic Stock Exchange, including the Swedish Corporate Governance Code, as well as other applicable laws and rules. The Swedish Corporate Governance Code aims to create good prerequisites for active, responsible ownership and is intended to act as guidance in self-governance within Swedish industry. It is based on the principle of comply or explain, which means that it is not a breach of the Code to deviate from one or more rules if such a deviation is justifiable and can be explained.

Hufvudstaden complies with the Swedish Corporate Governance Code with the following deviations:

- Election Committee

The deviation from the Code is explained in more detail below.

Shareholders

At the end of the year, Hufvudstaden had 19,533 shareholders. The largest shareholder was L E Lundberg Holding AB with 45.2 per cent of the outstanding shares and 88.0 per cent of the votes. The second largest was SEB Trygg Liv with 11.4 per cent of the outstanding shares and 2.3 per cent of the votes. The proportion held by non-Swedish shareholders was 20.3 per cent of the outstanding shares and 4.1 per cent of the votes.

Share capital and voting rights

Hufvudstaden's share capital at the year-end was SEK 1,056.4 million, divided into 202,996,869 A-shares and 8,275,064 C-shares, with a quotient value of SEK 5 per share. Of these, Hufvudstaden held 5,006,000 A-shares. Each Series A share carries entitlement to one vote and each Series C share carries entitlement to 100 votes. All shares carry equal entitlement to a share in the Company's assets and profits.

Annual General Meeting

A shareholder's right to decide in matters related to Hufvudstaden is exercised at the Annual General Meeting. Shareholders who are registered in the shareholders' register on the record date and who have notified their intention to attend the meeting within the specified time, are entitled to attend and vote at the Annual General Meeting, either in person or by proxy. 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 reported at the meeting.

Individual shareholders who wish to have a matter taken up at the meeting can make a request to the Hufvudstaden Board of Directors at a separate address, published on the Company's website, well in advance of the issuing of a summons to the meeting.

The Annual General Meeting must be held in Stockholm within six months of the end of the financial year. The Annual General Meeting makes decisions in a range of matters, including the dividend, adoption of the Income Statements and Balance Sheets, 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, where applicable, auditors, as well as remuneration to the Board of Director and auditors, principles for remuneration to senior executives and other important matters.

The 2007 Annual General Meeting was held on March 22. A total of 176 shareholders, representing 140,136,034 A-shares and 8,252,359 C-shares, were present and they represented a total of 965,371,934 votes, equivalent to 94.1 per cent of the total number of votes. The 2008 Annual General Meeting will be held in Stockholm on March 27.

Nomination and election of the Board of Directors and auditors

In the light of the concentrated ownership structure there is no formally appointed Election Committee. The main shareholders are contacted by the Chairman of the Board well in advance of the Annual General Meeting, thus forming an informal election group, and these together produce proposals for a Board of Directors, Chairman of the Board, Board fees and, where applicable, auditors and auditors' fees. Other shareholders have the opportunity to submit nominations to the Chairman of the Board at the address stated on the Company's website. Proposals are made public no later than in conjunction with the summons to the Annual General Meeting.

As a basis for its suggestions, the Committee has made an assessment of whether the composition of the present Board of Directors is appropriate, among other things using an annual evaluation of the work of the Board of Directors as a guide.

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

Board of Directors

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

- continuously following up and assessing the Company's financial situation and business development
- continuously evaluating the Company's operative management and the work of the President
- ensuring that there is satisfactory control of the Company's compliance with laws and other rules and evaluate continuously the Company's systems for internal control and risk management
- ensuring that the requisite ethical guidelines have been adopted for the Company

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

The Chairman of the Board leads the work of the Board of Directors and has ongoing contact with the President to continuously follow the Group's operations and development. The Chairman of the Board consults with the President on strategic matters and represents the Company in ownership matters.

The Chairman of the Board ensures that the work of the Board is evaluated once a year and that new Board members receive appropriate training. The Board also evaluates the work of the President although without the person in question being present.

The work of the Board of Directors during 2007

During the 2007 financial year, the Board of Directors held seven 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 issues of principle or major economic

significance are taken up at each ordinary meeting. Officials in the Company attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2006 was approved and at the Board Meeting in August in conjunction with the examination of the Company's six-monthly report.

Composition of the Board of Directors

Hufvudstaden's Board of Directors comprises nine members who are elected at the Annual General Meeting for a period of one year. With the exception of the President none of the members of the Board of Directors are members of the executive management. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder Lundbergs (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson) and one of the members is in a position of dependence on the second-largest shareholder SEB Trygg Liv (Hans Mertzig). For further information about individual Board members, see page 84. An external lawyer is engaged to act as secretary to the Board.

Name	Function	Attendance 2007 ¹⁾	Independent in relation to the Company ²⁾	Independent in relation to the owners ²⁾
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		7	Yes	Yes
Peter Egardt		6	Yes	Yes
Louise Lindh ³⁾		5	Yes	No
Hans Mertzig		6	Yes	No
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg		6	Yes	Yes
Ivo Stopner	President	7	No (employee)	Yes

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

2) Defined as persons in a position of dependence according to the current listing requirements of the OMX Nordic Stock Exchange and according to the Swedish Corporate Governance Code. For Hufvudstaden the outcome according to both criteria is the same.

3) Elected to the Board at the Annual General Meeting in March 2007.

Audit

Bo Ribers, authorized public accountant at KPMG, has been the Company's auditor since 1999. His other major assignments include HL Display.

The Board meets the auditor twice a year, once in the absence of the President. On these occasions the auditor presents a report and there is a discussion about the audit orientation and observations made. Internal routines and control systems are examined continuously during the year. A final examination and audit of the annual accounts and the Annual Report take place in January–February.

The six-monthly report is examined on a general basis. The reporting of the fee to the auditors, including the fee for consultancy services, is given in Note 10.

At the Annual General Meeting in 2004, authorized public accountants Bo Ribers (auditor since 1999) and Stefan Älgne (deputy auditor since 2000), both of KPMG, were re-elected as auditor and deputy auditor for a period of four years.

A proposal regarding auditors for the forthcoming four-year period will be presented at the 2008 Annual General Meeting.

Audit Committee

The Board has examined the matter of establishment of an Audit Committee but has chosen not to appoint such a committee and will instead handle the matter within the framework of the ordinary work of the Board of Directors. This means that the whole Board of Directors, apart from the President, make up the Audit Committee.

President and executive management

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

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

Remuneration to the Board of Directors

Remuneration to the Board of Directors is decided at the Annual General Meeting. At the Annual General Meeting in 2007 it was decided that remuneration for Board work for 2007, totalling SEK 1,575,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work on the Board. The Chairman received SEK 350,000 and the other six non-employed members received SEK 175,000 each.

Remuneration Committee

The Board of Directors has examined the question of setting up a Remuneration Committee but has opted not to appoint such a committee and will instead handle the matter within the framework of the normal work of the Board of Directors. The reason given by the Board of Directors is that it is of the opinion that remuneration matters should be handled by the whole Board of Directors. This means that the whole Board of Directors, apart from the President, make up the Remuneration Committee.

Remuneration to the President and the executive management

Guidelines for salaries, bonuses and other remuneration to the Company's leading executives is decided at the Annual General Meeting. For 2007, it was decided at the meeting that the same guidelines should be applied as previously, i.e. that the Company's remuneration shall comprise salaries in line with the market as well as a limited profit-related bonus scheme as described below. The Company has no incentive schemes related to share price.

There is a bonus scheme in place for the President and the executive management, which is reviewed annually. The outcome depends on profit, customer satisfaction and personal objectives. The bonus for the President is subject to a maximum of SEK 500,000 and for the other leading executives SEK 250,000 per person.

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 is assigned the task by the Board of Directors of negotiating with other leading executives regarding their remuneration whereupon a report is presented to the Chairman of the Board.

For further information regarding salaries and remuneration, see Note 9.

Internal control

The Board of Directors has overall responsibility for ensuring that Hufvudstaden has a satisfactory internal control system. The President is responsible for ensuring that a satisfactory internal control system is in place and which covers all material risks of errors 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 regarding financial reporting. Hufvudstaden's internal control structure is based on, among other things, a clear allocation of responsibility and duties between the Board of Directors and the President and also within the Company's operations. The executive management and the Board of Directors continuously document and evaluate policies and guidelines, such as the information policy and accounting handbook. These controlling documents and carefully prepared process descriptions are communicated via established information and communication channels and are also made available and known to the personnel concerned.

Risk assessment

Based on ongoing discussions and meetings, the Hufvudstaden executive management identifies, analyses and decides on the handling of risks regarding faults in the financial reports. The Board of Directors examines the outcome of the Company's risk assessment and risk management process to ensure that it covers all material areas and identifies necessary measures as required. Hufvudstaden's greatest risks are linked to property valuation, financial transactions and project accounting.

Control measures

Based on risk assessments, Hufvudstaden has adopted a number of control measures. These are both of a preventive nature, i.e. measures aimed at avoiding losses or errors in the reporting, and also of an identification nature. The controls should also ensure that errors are rectified. Examples of year-end processes with carefully formulated control measures include refurbishment, redevelopment and maintenance and letting, all of which have a material impact on the Company's result.

Information and communication

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

policies, guidelines, instructions and equivalent documents which control and support operations are published on the intranet. Feedback on internal control work follows the customary reporting channels.

Follow-up

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

The Board of Directors receives quarterly reports with financial outcomes, including comments from the executive management on operations and internal control. The financial situation is dealt with at each Board meeting. The Company's auditor attends Board meetings on two occasions each year and informs about 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 the Board adopts a position on material risk areas and evaluates the internal controls.

Internal audit statement

The Hufvudstaden executive management has examined and structured systematically internal documentation of the internal control system. Nothing has emerged to indicate that the control system is not functioning in the intended manner. The Board of Directors has therefore decided not to establish an internal audit function. This decision will be reviewed annually.

Stockholm, February 14, 2008

Board of Directors

This Corporate Governance Report has not been the subject of an examination by the Company's auditors.



Leaving the Concert Hall, with the afternoon concert firmly embedded in your mind along with the thought of meeting friends at one of the restaurants, bars or cafes at Stureplan. Or perhaps a spot of shopping. Or maybe you are in a desperate hurry to meet a customer at one of the offices along the street. Photo: Kungsgatan, Stockholm.



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 quoted in the large cap list on the OMX Nordic Stock Exchange in Stockholm. L E Lundberg Holding AB, company registration number 556563-2477, SE-601 85 Norrköping, 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 General Meeting to be held on March 27, 2008.

Operations

Hufvudstaden's business concept is, through its properties in central Stockholm and central Gothenburg, to offer successful companies high-quality office and retailing premises in attractive marketplaces. Hufvudstaden's markets comprise the most central areas of Stockholm and Gothenburg, where the Company owns commercial office and retailing properties in the CBDs. Economic growth in Sweden has for a long time been concentrated in the city regions, where Stockholm has adopted a special position. During 2007, Stockholm underwent strong economic development. Gothenburg and West Sweden have also reported very positive development.

Property holdings

At the end of the year Hufvudstaden owned 29 properties (29). The rentable floor space was 278,223 square metres in Stockholm and 75,462 square metres in Gothenburg, totalling 353,685 square metres. The World Trade Center property (WTC), which was divested in December 2006, with completion on February 1, 2007, has been classified in the Income Statement as Discontinued operations.

The total rental vacancy level in the Group as of December 31, 2007 was 3.3 per cent (6.5) and the floor space vacancy level was 4.6 per cent (8.1). In Stockholm, the rental vacancy level was 3.7 per cent and in Gothenburg 1.6 per cent.

During the year a total of 21,800 square metres (24,100) were let on new leases and 38,100 square metres (34,900) were renegotiated at a total value of SEK 231 million per year.

Property acquisition

With completion on June 1, 2007, the property Rännilen 15 at Norrmalmstorg in Stockholm was acquired. The rentable floor space is approximately 3,350 square metres and the purchase sum was SEK 312.5 million. Hufvudstaden thus owns all the properties on the Rännilen block. Following property adjustment the property is included in Rännilen 19.

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 of December 31, 2007. The valuation is made using the properties' earning capacity and the yield requirements of the market as a starting point.

The fair value of the property holdings as of December 31, 2007 was set at SEK 20.5 billion.

Valuation method

A valuation of the property holdings was made by assessing each individual property's fair value. The assessment took place on the basis of a valuation according to the direct yield method. To assure the valuation, external valuations were commissioned from two valuation companies. A description of the valuation method and assumptions can be found in Note 18 Investment properties.

Sensitivity analysis, property valuation

	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq.m	SEK 740 million
Property costs	SEK 50/sq.m	SEK 390 million
Rental vacancy level	1.0 percentage points	SEK 290 million
Yield requirement	0.5 percentage points	SEK 2,500 million

Net asset value

The assessed fair value of the property holdings as of December 31, 2007 was SEK 20.5 billion. Based on the valuation of the property holdings, the net asset value is SEK 15.1 billion or SEK 73 per share after tax. When calculating the net asset value, calculated deferred tax has been used. This is calculated at 10 per cent of the difference between the assessed fair value and the fiscal residual value of the properties. This has been assessed in the light of current tax legislation, which means the properties can be sold via a limited company without tax implications. The

purchaser, however, loses the basis for depreciation, which could justify some compensation, which has been set at 10 per cent. If the tax rate according to the Balance Sheet (28 per cent) is used in the calculation, the net asset value would have been SEK 11.8 billion or SEK 57 per share. If the tax rate is assumed to be 0 per cent, the net asset value would have been SEK 16.9 billion or SEK 82 per share.

Net asset value, December 31, 2007

SEK m	
Reported equity	11.8
Reversal of book deferred tax	5.1
Net asset value before tax	16.9
Calculated deferred tax of 10 per cent	-1.8
Net asset value after tax	15.1
Net asset value per share	SEK 73

Opportunities and risks

Hufvudstaden's potential to influence profits in current operations in the short term is limited. Revenue is governed by relatively long leases – normally three to five years – and operating costs are difficult to change in the short term without sacrificing service and quality. Hufvudstaden's profitability and operations are affected mainly by macro-economic factors, such as the business climate, interest rates, developments in Stockholm and Gothenburg as well as political decisions. Forward planning and clear strategies are vital if a property company is to handle opportunities and risks successfully. The Company has not identified any material risks or uncertainty factors other than those described below.

Changes in value in the property holdings

Changes in the fair value of the properties as a result of fluctuations in the economy etc. 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 focus 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. The rent level for occupied premises with lease terms of three years or longer is tied to the consumer price index. Rent changes take place when the leases are renewed.

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 premises

In the event of a downturn in the economy, the risk of an increase in vacant space is greater for Hufvudstaden's office premises than for the Group's 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 considerable adaptation costs for premises. These costs cannot always be compensated for by increased rents.

Turnover-based rent

Turnover-based rent is mainly applied at the NK department stores. Hufvudstaden is striving to increase the proportion of lease agreements with turnover-based rent as it offers upward 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

Operating costs are difficult to influence in the short term. Hufvudstaden is working actively to optimize the properties' consumption and in doing so reduce the operating costs. The procurement of energy takes place regularly through forward agreements to reduce the sensitivity to fluctuations in energy prices. There is an ongoing review if the conditions change.

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, 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 as a result of reduced diversification. In Hufvudstaden's case, however, the risk is limited as Stockholm and Gothenburg

are over time the country's strongest market areas and Sweden's most attractive growth markets.

Financial risks

Apart from its own funds, the Company's operations are also financed through loans from credit institutions. Consequently, the Group is exposed to financing, interest rate and credit risks. A presentation of the Company's finance policy and how these risks are handled, as well as the handling of credit risks attributable to accounts receivable and rent receivables, is to be found in Note 2.

Insurance

Hufvudstaden's properties are insured for their full value. Special terrorist insurance has been taken out, covering losses up to SEK 25 million.

Sensitivity analysis

The effects on pre-tax profit excluding changes in value on a full-year basis in conjunction with changes in a number of factors are reported below.

The reported effects on profit in conjunction with changes in the rent level, level of vacant space, operating and maintenance costs and property tax, refer to the effects that would have occurred during the 2007 financial year if the changes had occurred at the beginning of 2007.

The reported effects on profit should only be seen as an indication and do not include any effect resulting from compensatory measures the executive management could take and the changing conditions that could arise should certain events occur.

Change in pre-tax profit, excluding changes in value

	Change +/-	Impact on pre-tax profit, excluding changes in value, SEK m
Rent level	SEK 100 per sq. m	34
Vacancy level ¹⁾	1 percentage point	11
Operation and maintenance	10 per cent	13
Property tax ²⁾	1 percentage point	9
Interest level ³⁾	1 percentage point	34

1) Vacant floor space is estimated at SEK 3,000 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 consideration being given to the fixing of interest through derivatives.

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 prevailing laws and agreements by making demands on contractors and sub-suppliers. Hufvudstaden's values characterize the actions of its employees and are an active tool in the day-to-day work. All forms of discrimination and unfounded salary differences are counteracted. A comprehensive leadership programme was run for all managers at the Company during the year.

Environmental impact

Hufvudstaden is working actively to reduce negative environmental impact by, for example, reducing energy use and demanding the use of environmentally friendly products. No operations were carried on during 2007 that required a permit or were subject to a reporting obligation under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899).

Shares and shareholders

Hufvudstaden's share capital at the year-end amounted to SEK 1,056,359,665, divided into a total of 211,271,933 shares, giving a quotient value of SEK 5 per share. Of the shares, 202,996,869 are A-shares, carrying one vote per share, and 8,275,064 are 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 Lundberg Holding AB, with a total of 45.2 per cent of outstanding shares and 88.0 per cent of the votes. According to a conversion provision in the Articles of Association the holders of C-shares are entitled to request that their C-shares be converted into A-shares. There are no limits in the Articles of Association regarding the transferability of shares or voting rights at a general meeting of the shareholders. There are no known agreements that would be affected as a result of a public purchase offer. There is no pension fund or any other undertaking to the personnel with regard to shareholdings.

Buy-back of Company shares

Since the Annual General Meeting in 2003 the Board of Directors has had the mandate of the General Meeting to buy back a maximum of 10 per cent of all shares with the aim of giving the Board the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders. The mandate was renewed at the 2007 Annual General Meeting. As of December 31, 2007,

Hufvudstaden held 5,006,000 Series A shares, equivalent to 2.4 per cent of the total number of all shares. The whole block was acquired in 2003 at an average price of SEK 27.30 per share. No shares were bought back during the year or after the reporting period (up to and including February 13, 2008).

Board of Directors

A description of the work of the Board of Directors etc. can be found under Corporate Governance on page 44.

Remuneration to the President and the executive management

Guidelines for salaries, bonuses and other remuneration to the Company's leading executives is decided at the Annual General Meeting. For 2007 it was decided at the meeting that the same guidelines should be applied as previously, i.e. that the Company's remuneration shall comprise salaries in line with the market as well as a limited profit-related bonus scheme as described below. The Company has no share price-related incentive schemes. A proposal that the same guidelines be applied for 2008 will be presented at the Annual General Meeting.

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 is assigned the task by the Board of Directors of negotiating with other leading executives regarding their remuneration whereupon a report is presented to the Chairman of the Board.

Bonus

There is a bonus scheme in place for the President and the executive management, which is reviewed annually. The outcome depends on profit, customer satisfaction and personal objectives. The bonus for the President is subject to a maximum of SEK 500,000 and for the other leading executives SEK 250,000 per person.

Other permanent employees in the Group were included in a bonus system during the year. The bonus payment criteria are 'operating results' and 'tenant satisfaction'. In the case of managers with responsibility for personnel, there is also a personal assessment with individual objectives.

In the case of both the bonus schemes a decision is made one year at a time and is subject to a ceiling. A bonus is only payable if the Company reports a positive result with no consideration given to unrealized changes in value. In 2007, the bonus cost was SEK 2.9 million (3.0) or an

average of SEK 16,700 per employee. For the executive management, including the President, the average was SEK 254,000 per person. The bonus is not pensionable.

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 indicated an interest.

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

Key events after the year-end

No events of material significance took place after the end of the financial year.

Future prospects

Hufvudstaden will continue in 2008 to devote its efforts mainly to managing, refining and developing its property holdings to ensure the highest possible yield. Despite a weakening in the economy we believe in a stable level of demand on the rental market. Our assessment is that we will see an unchanged or slight increase in direct yield requirements on the property market. Strategic acquisitions and sales of individual properties cannot be excluded.

Proposed dividend and allocation of profits

The Board has proposed an ordinary dividend of SEK 1.75 per share, making a total of SEK 361.0 million. The Board of Directors' proposed profit allocation is presented in full on page 82.

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

Consolidated income statements with comments

SEK m	Note	2007	2006
<i>Net revenue</i>			
Property management		1,213.2	1,096.5
Other operations		63.0	56.0
	3	1,276.2	1,152.5
<i>Property management costs</i>			
– Maintenance		-26.4	-61.5
– Operations and administration	7	-208.3	-192.3
– Ground rents		-16.1	-16.1
– Property tax		-114.9	-92.5
Property management expenses		-365.7	-362.4
Other operations, costs	3, 7	-45.4	-45.0
Cost of operations		-411.1	-407.4
Gross profit		865.1	745.1
– of which Property management	3, 6	847.5	734.1
– of which Other operations	3	17.6	11.0
Central administration		-30.8	-31.5
Operating profit before changes in value		834.3	713.6
<i>Changes in value</i>			
– Investment properties	13	2,597.7	2,647.5
– Interest derivatives		16.5	–
Operating profit	8–13	3,448.5	3,361.1
<i>Financial income and expense</i>			
Financial income	14	12.3	0.7
Financial expense	15	-138.9	-141.0
		-126.6	-140.3
Profit before tax		3,321.9	3,220.8
Tax	17	-927.6	-903.9
Profit for the year from continuing operations		2,394.3	2,316.9
Profit from discontinued operations, net after tax	4	6.6	1,106.3
PROFIT FOR THE YEAR		2,400.9	3,423.2
Average number of outstanding shares following buy-backs during the period		206,265,933	206,265,933
Profit per share, continuing operations, before and after dilution, SEK		11.61	11.23
Profit per year per share before and after dilution, SEK		11.64	16.60
Ordinary dividend per share, SEK (proposed)		1.75	1.60
Extra dividend per share, SEK (proposed)		–	10.00

Property Management

Property Management net rents during the year totalled SEK 1,213.2 million (1,096.5). The rise can be attributed to an increase in gross rents, including a higher property tax supplement, and lower rent losses on vacant space. During the year, Hufvudstaden renegotiated leases equivalent to approximately SEK 153 million in annual rental revenue. The renegotiations for office premises resulted in a slight increase in rent levels whilst store rents increased by just over 9 per cent. In total, the renegotiations resulted in an average increase in the rent level of approximately 6 per cent.

Maintenance costs fell by SEK 35.1 million to SEK 26.4 million (61.5), the main reason being a higher cost in 2006 for evacuating tenants in conjunction with redevelopment of a number of properties. The operating costs amounted to SEK 153.1 million (145.2). The increase can be attributed to higher energy costs and to a lower cost during the preceding year following receipt of insurance compensation. Administration expenses increased to SEK 55.2 million (47.1), which can be explained by a lower cost in 2006 as a result of the fact that the World Trade Center's part of the central administration expenses was included in Profit from discontinued operations. Property tax increased to SEK 114.9 million (92.5) as a result of an increase in taxable values. The cost has mainly been passed on to the tenants. Overall, this means that the total cost for property management generally remained unchanged and amounted to SEK 365.7 million (362.4).

The gross profit during the year was SEK 847.5 million (734.1), which is equivalent to an increase of 15.4 per cent. The World Trade Center has been reported under the item Profit from discontinued operations.

Other operations

Other operations include parking operations at Parkaden.

Net revenue was SEK 63.0 million (56.0). Costs amounted to SEK 45.4 million (45.0) and the gross profit SEK 17.6 million (11.0).

Changes in value, investment properties

Changes in the value of investment properties amounted to SEK 2,597.7 million (2,647.5). The value has been assessed on the basis of an internal valuation of the property holdings. The unrealized change in value can be attributed to an estimated lower direct yield requirement as a result of the considerable interest in commercial properties and to strong growth in rents. The average direct yield requirement in conjunction with the above valuation was 4.6 per cent (4.8).

Financial items

The financial items result for the year was SEK -126.6 million (-140.3). Interest income was SEK 12.3 million (0.7) and interest expense SEK -138.9 million (-141.0). The increase in interest income can be explained by interest income on the payment from the sale of the World Trade Center.

Tax

The Group's tax expense was SEK 927.6 million (903.9), of which SEK 103.8 million (98.2) was actual tax and SEK 823.8 million deferred tax (805.7).

Profit on discontinued operations

The profit from discontinued operations for 2007 refer to an adjustment of the purchases sum and for 2006 the result from the divested World Trade Center. See also Note 4.

Profit for the year

The profit for the year was SEK 2,400.9 million (3,423.2). The decrease can be explained by the sale of the World Trade Center Stockholm during the previous year. The Group's profit from continuing operations after tax amounted to SEK 2,394.3 million (2,316.9), an increase of 3.3 per cent.

Consolidated balance sheets with comments

SEK m	Note	31-12-2007	31-12-2006
ASSETS			
Fixed assets			
Investment properties	18	20,530.5	17,408.8
Tangible fixed assets	19	8.5	8.5
Non-current receivables	21	60.6	22.5
Total fixed assets		20,599.6	17,439.8
Current assets			
Accounts receivable	22	16.4	12.6
Other receivables		2.1	3,006.5
Prepaid expenses and accrued income	23	45.2	20.8
Current investment		155.0	–
Liquid funds	24	130.8	40.4
Total current assets		349.5	3,080.3
TOTAL ASSETS		20,949.1	20,520.1
EQUITY AND LIABILITIES			
Equity			
<i>Capital and reserves attributable to the Parent Company's shareholders</i>			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Other reserves		27.7	12.6
Profit brought forward, including profit for the year		10,096.5	10,088.2
Total equity	25	11,808.7	11,785.3
<i>Non-current liabilities</i>			
Interest-bearing liabilities to credit institutions	27	2,800.0	2,400.0
Deferred tax liabilities	26	5,323.3	4,493.6
Other non-current liabilities		3.7	3.3
Other provisions	28	5.7	6.0
Total non-current liabilities		8,132.7	6,902.9
<i>Current liabilities</i>			
Interest-bearing liabilities to credit institutions	27	600.0	965.0
Accounts payable		73.0	79.0
Current tax liabilities		32.0	25.3
Other liabilities	29	65.8	501.2
Accrued expenses and prepaid income	31	236.9	261.4
Total current liabilities		1,007.7	1,831.9
Total liabilities		9,140.4	8,734.8
TOTAL EQUITY AND LIABILITIES		20,949.1	20,520.1
Pledged assets	32	1,710.5	1,625.2
Contingent liabilities	32	None	None

Investment properties

The properties' reported value in the Group was SEK 20,530.5 million (17,408.8). The increase in the properties' fair value can be explained by an unrealized change in value (see comments on the Income Statement on page 55), the acquisition of Rännilén 15 and other investments in the property holdings. Investment properties in the Group are reported at fair value according to IAS 40, which does not permit depreciation. The valuation method is described in Note 18 Investment properties. The properties' fiscal residual value was SEK 1,971.3 billion. Investments for the year totalled SEK 527.7 million (193.4), of which SEK 3.7 million referred to equipment and SEK 524.0 million to investment properties.

Liquid funds

Liquid funds amounted to SEK 130.8 million (40.4). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is normally used for the amortization of loans or is invested in short-term instruments with high liquidity and low risk. As of December 31, 2007, such current investments amounted to SEK 155.0 million (0). There are no limits on the right of use of liquid funds. In addition to liquid funds there are unutilized overdraft facilities of SEK 40 million (40).

Interest-bearing liabilities

The Group's liabilities to credit institutions amounted to SEK 3,400.0 million (3,365.0). The average fixed interest period was 40 months (23), the average capital tie-up period was 53 months (33) and the average interest cost at the year-end 4.6 per cent (4.0). Net debt totalled SEK 3,069.3 million (3,324.6).

Deferred tax liabilities

Deferred tax liabilities amounted to SEK 5,323.3 million (4,493.6). The increase can be explained mainly by deferred tax on changes in the value of properties.

Other liabilities

Other liabilities that are non-interest-bearing decreased during the year by SEK 480.7 million to SEK 395.5 million (876.2). The decrease can be attributed to a debt to a divested subsidiary in 2006.

Summary of changes in equity – Group

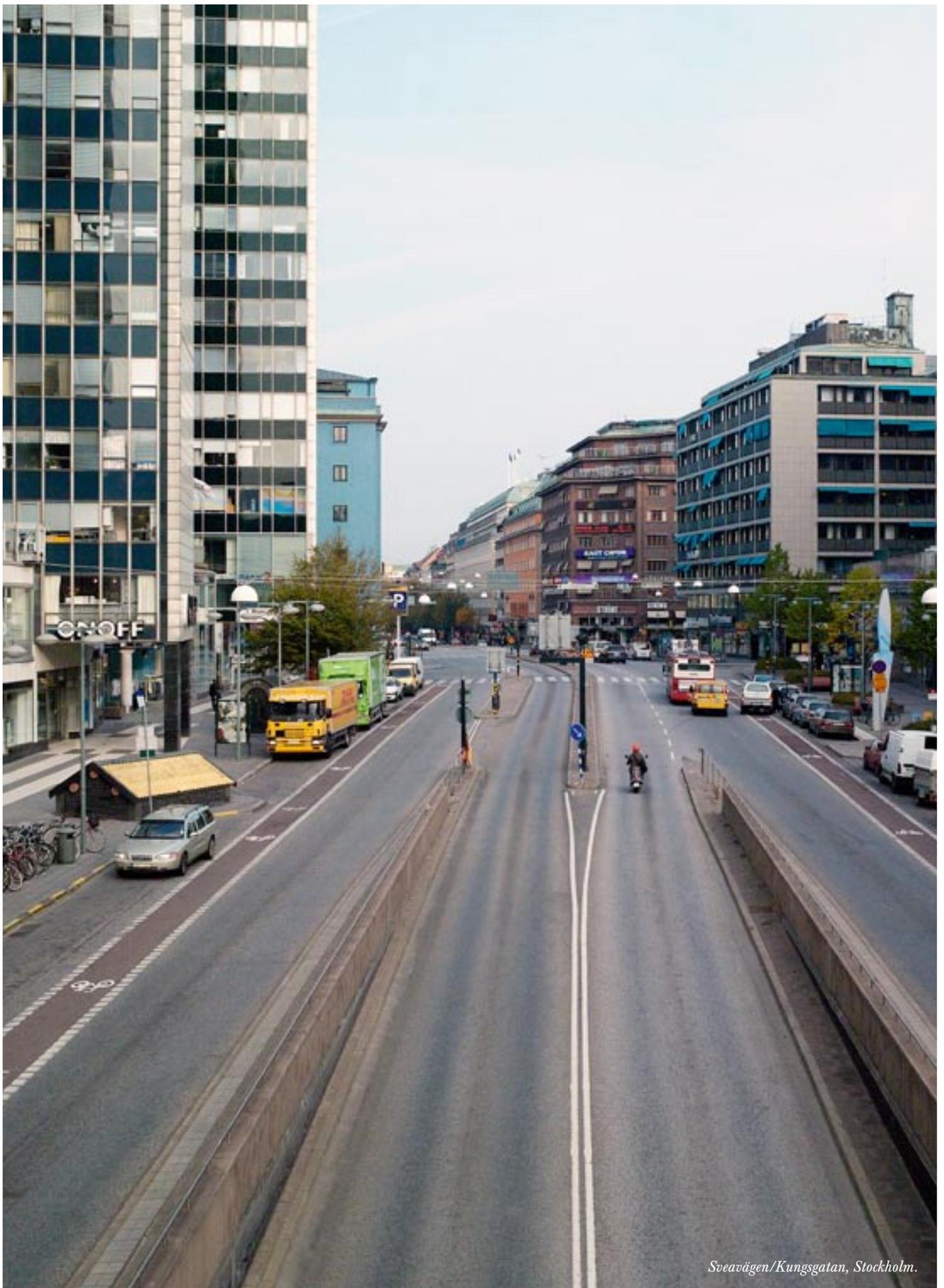
SEK m	Share capital	Other contributed capital	Reserves	Profit brought forward, including profit for the year	Total
Opening balance 1-1-2006	1,056.4	628.1	-34.0	6,964.2	8,614.7
Change for the year in the hedging reserve	–	–	64.7	–	64.7
Tax attributable to the hedging reserve	–	–	-18.1	–	-18.1
Total changes in wealth, reported directly against equity, excluding dividends	–	–	46.6	–	46.6
Profit for the year	–	–	–	3,423.2	3,423.2
Total changes in wealth	–	–	46.6	3,423.2	3,469.8
Dividends	–	–	–	-299.1	-299.1
Closing equity 31-12-2006	1,056.4	628.1	12.6	10,088.2	11,785.3
Opening equity 1-1-2007	1,056.4	628.1	12.6	10,088.2	11,785.3
Change for the year in the hedging reserve	–	–	21.0	–	21.0
Tax attributable to the hedging reserve	–	–	-5.9	–	-5.9
Total changes in wealth reported directly against equity, excluding dividends	–	–	15.1	–	15.1
Profit for the year	–	–	–	2,400.9	2,400.9
Total changes in wealth	–	–	15.1	2,400.9	2,416.0
Dividends	–	–	–	-2,392.7	-2,392.7
Closing equity 31-12-2007	1,056.4	628.1	27.7	10,096.5	11,808.7

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all shares. At the Annual General Meeting held on March 22, 2007, the Board of Directors was given a renewed mandate to buy back a maximum of 10 per cent of all 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. No buy-backs took place during 2007.

During 2007, a dividend of SEK 11.60 per share was paid to the Company's shareholders, totalling SEK 2,392,684,823.

The proposed dividend according to the allocation of unappropriated earnings is SEK 361.0 million.¹⁾

1) See Definitions, page 93, Dividend amount.



Sveavägen/Kungsgatan, Stockholm.

Cash flow statements with comments – Group

SEK m	2007	2006
Current operations		
Profit after financial items	3,328.5	4,371.0
Depreciation and impairment of assets	4.7	4.4
Capital gain on sales of fixed assets	-6.6	-986.2
Change in other provisions	–	-46.8
Change in value, investment properties	-2,597.7	-2,678.0
Change in value, derivatives	-16.5	–
Other changes	-0.2	0.3
Income tax paid	-97.1	-113.9
Cash flow from current operations before changes in working capital	615.1	550.8
Cash flow from changes in working capital		
Decrease (+) / Increase (–) in operating receivables	-30.3	-5.5
Increase (+) / Decrease (–) in operating liabilities	-465.5	62.7
Cash flow from current operations	119.3	608.0
Investments		
Sale of subsidiary	3,011.7	–
Additional purchase sum	–	-23.3
Investment in investment properties	-524.0	-185.4
Investment in equipment	-3.7	-8.0
Investment in financial assets	-0.2	–
Amortization, non-current receivable	–	15.4
Cash flow from investments	2,483.8	-201.3
Financing		
Loans raised	500.0	260.0
Amortization of loan liability	-465.0	-420.0
Dividend paid	-2,392.7	-299.1
Cash flow from financing	-2,357.7	-459.1
Cash flow for the year	245.4	-52.4
Liquid funds at the beginning of the year	40.4	92.8
Liquid funds at the year-end	285.8	40.4
Supplementary information, cash flow statements		
Interest received	12.5	18.7
Interest paid	131.3	141.0

Cash flow from current operations

Cash flow from current operations before changes in operating capital increased by SEK 64.3 million to SEK 615.1 million (550.8), which can be explained by a higher net flow from operations. Changes in working capital reduced the cash flow by SEK 495.8 million (57.2), the reason being repayment of a group loan to the divested World Trade Centre. Cash flow from current operations thus totalled SEK 119.3 million (608.0).

Cash flow from investments

Cash flow from investments rose by SEK 2,685.1 million and amounted to SEK 2,483.8 million (-201.3). The increase can be attributed to payment from the sale of WTC. Investments in property holdings increased by SEK 338.6 million compared with the preceding year, which can be mainly attributed to the acquisition of Rännilen 15.

Cash flow from financing

Cash flow from financing decreased by SEK 1,898.6 million and amounted to SEK -2,357.7 million (-459.1). The decrease can be explained by an extra dividend of SEK 10 per share in addition to the ordinary dividend of SEK 1.60. The total dividend was SEK 2,392.7 million. Net changes in interest-bearing liabilities amounted to SEK 35.0 million (-160.0). No buy-back of Company shares took place during the year (0).

The cash flow for the year was SEK 245.4 million (-52.4).

Liquid funds

The Group's liquid funds totalled SEK 285.8 million (40.4), of which cash and bank holdings amounted to SEK 130.8 million and current investment of surplus liquidity was SEK 155.0 million. Including unutilized overdraft facilities, liquidity amounted to SEK 325.8 million (80.4). As of December 31, 2007, Hufvudstaden had non-current loan assurances of SEK 2 billion. At the turn of the year SEK 0 million had been utilized.

There are no limits on the right of use of liquid funds.

Hufvudstaden AB – Parent Company

Income statements – Parent Company

SEK m	Note	2007	2006
Net revenue		740.1	666.0
Operating costs		-398.0	-354.8
Gross profit		342.1	311.2
Central administration		-30.8	-31.5
Changes in value, interest derivatives		16.5	-
Operating profit	8-13	327.8	279.7
Profit from financial items			
Interest income and similar profit/loss items	14	18.4	1,614.7
Interest expense and similar profit/loss items	15	-136.9	-141.0
		-118.5	1,473.7
Profit from financial items		209.3	1,753.4
Appropriations	16	-100.9	-124.0
Profit before tax		108.4	1,629.4
Tax	17	-22.7	-7.0
PROFIT FOR THE YEAR		85.7	1,622.4

Balance sheets – Parent Company

SEK m	Note	31-12-2007	31-12-2006
ASSETS			
Fixed assets			
Tangible fixed assets	19	6.1	6.2
Investment properties	18	5,972.9	5,649.5
		5,979.0	5,655.7
<i>Financial fixed assets</i>			
Participations in Group companies	20	2,824.8	2,824.8
Other non-current receivables	21	60.6	22.5
<i>Total financial fixed assets</i>		2,885.4	2,847.3
Total fixed assets		8,864.4	8,503.0
Current assets			
<i>Current receivables</i>			
Accounts receivable	22	2.0	2.5
Receivables from Group companies		9.4	28.3
Other receivables		11.2	3,006.3
Prepaid expenses and accrued income	23	20.3	11.2
<i>Total current assets</i>		42.9	3,048.3
Other current investments		155.0	-
Cash and bank holdings	24	130.5	39.7
Total current assets		328.4	3,088.0
TOTAL ASSETS		9,192.8	11,591.0
SEK m	Note	31-12-2007	31-12-2006
Pledged assets	32	1,710.5	1,625.2
Contingent liabilities	32	None	None

SEK m	Note	31-12-2007	31-12-2006
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		1,056.4	1,056.4
Share premium reserve		124.2	138.2
Statutory reserve		798.1	798.1
Total restricted equity		1,978.7	1,992.7
<i>Non-restricted equity</i>			
Profit brought forward		1,439.2	2,042.0
Profit for the year		85.7	1,622.4
Total non-restricted equity		1,524.9	3,664.4
Total equity	25	3,503.6	5,657.1
<i>Untaxed reserves</i>	30	661.5	560.6
<i>Non-current liabilities</i>			
Liabilities to credit institutions	27	2,800.0	2,400.0
Liabilities to Group companies		0.7	0.7
Other liabilities		3.5	2.9
Pension provisions	28	5.4	5.2
Deferred tax liabilities	26	1,226.2	1,224.8
Total non-current liabilities		4,035.8	3,633.6
<i>Current liabilities</i>			
Liabilities to credit institutions	27	600.0	965.0
Accounts payable		40.1	40.2
Liabilities to Group companies		160.2	505.6
Current tax liabilities		-	17.3
Other liabilities	29	18.0	28.9
Accrued expenses and prepaid income	31	173.6	182.7
Total current liabilities		991.9	1,739.7
Total liabilities		5,689.2	5,933.9
TOTAL EQUITY AND LIABILITIES		9,192.8	11,591.0

Changes in equity, summary – Parent Company

SEK m	Share capital	Revaluation	Statutory reserve	Profit brought forward, including profit for the year	Total
Opening equity 1-1-2006	1,056.4	152.2	798.1	2,078.9	4,085.6
Adjustment for change in accounting principle	-	-	-	-34.0	-34.0
Adjusted equity 1-1-2006	1,056.4	152.2	798.1	2,044.9	4,051.6
Change for the year in the hedging reserve	-	-	-	64.7	64.7
Tax attributable to hedging reserve	-	-	-	-18.1	-18.1
Parent Company dividend	-	-	-	-299.1	-299.1
Group contributions received	-	-	-	327.1	327.1
Tax effect, group contribution	-	-	-	-91.5	-91.5
Transfer between restricted and non-restricted reserves	-	-14.0	-	14.0	0.0
Profit for the year	-	-	-	1,622.4	1,622.4
Closing equity 31-12-2006	1,056.4	138.2	798.1	3,664.4	5,657.1
Opening equity 1-1-2007	1,056.4	138.2	798.1	3,664.4	5,657.1
Change for the year in the hedging reserve	-	-	-	21.0	21.0
Tax attributable to hedging reserve	-	-	-	-5.9	-5.9
Parent Company dividend	-	-	-	-2,392.7	-2,392.7
Group contributions received	-	-	-	192.2	192.2
Tax effect, group contribution	-	-	-	-53.8	-53.8
Transfer between restricted and non-restricted reserves	-	-14.0	-	14.0	0.0
Profit for the year	-	-	-	85.7	85.7
Closing equity 31-12-2007	1,056.4	124.2	798.1	1,524.9	3,503.6

Cash flow statements – Parent Company

SEK m	2007	2006
Current operations		
Profit after financial items	209.3	1,753.4
Depreciation and impairment of assets	45.1	39.9
Capital gain on sales of fixed assets	-6.6	-1,443.6
Changes in value, interest derivatives	-16.5	-
Change, other provisions	0.2	0.3
Income tax paid	-108.5	-116.6
Cash flow from current operations before changes in working capital	123.0	233.4
Cash flow from changes in working capital		
Decrease (+) / Increase (-) in operating receivables	394.5	210.0
Increase (+) / Decrease (-) in operating liabilities	-557.3	45.9
Cash flow from current operations	-39.8	489.3
Investments		
Additional purchase sum	-	-23.3
Sale of subsidiary	3,011.7	-
Investment in investment properties	-365.4	-54.7
Investment in equipment	-2.8	-4.6
Investment in financial assets	-0.2	-0.2
Cash flow from investments	2,643.3	-82.8
Financing		
Loans raised	500.0	260.0
Amortization of loan liability	-465.0	-420.0
Dividend paid	-2,392.7	-299.1
Cash flow from financing	-2,357.7	-459.1
Cash flow for the year	245.8	-52.6
Liquid funds at the beginning of the year	39.7	92.3
Liquid funds at the year-end	285.5	39.7
Supplementary information, cash flow statements		
Interest received	11.8	0.3
Interest paid	129.4	141.0

Notes

Note 1. Accounting principles

General information

Hufvudstaden AB (publ) is a Swedish listed company with its registered office in Stockholm. Hufvudstaden is quoted in the large cap list on the OMX Nordic Stock Exchange in 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 Lundberg Holding AB, company registration number 556563-2477, SE-601 85 Norrköping, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Annual Consolidated Accounts for Hufvudstaden AB (publ) for 2007 have been approved for publication according to a decision reached by the Board on February 14, 2008. It is proposed that the Annual Report and consolidated accounts be adopted at the Annual General Meeting on March 27, 2008.

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. In addition, the Swedish Financial Accounting Standards Board recommendation RR 30:06, 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 RR 32:06, which means the same accounting principles as the Group except in those cases stated below under the section 'Parent Company accounting principles'. The deviations that occur between the Parent Company's and the Group's principles 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 the drawing up of the financial statements for the Group and the Parent Company

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 in the Group, where investment properties and certain financial assets and liabilities are valued at the fair value. Financial assets and liabilities which are valued at the fair value comprise derivatives and assets classified as financial assets valued at the fair value in profit and loss. Valuation at fair value of investment properties and financial derivatives are the accounting principle that has greatest impact on the Group's financial statements.

The accounting principles stated below for the Group have been applied to all periods which are presented in the Group's 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 make 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 assessments and estimates made by the executive management, and which have a significant impact on the financial statements, are presented in more detail in Note 34.

Amended accounting principles

The following new standards and interpretations have been applied in the preparation of the 2007 financial statements:

IFRS 7 Financial instruments: information and related amendments in IAS 1 Presentation of Financial Statements, requires extensive information regarding the significance of financial instruments to the Company's financial position and result as well as qualitative and quantitative information about the nature and extent of risks. IFRS 7 and related amendments to IAS 1 have resulted in further information in the Group's financial statements for 2007 with regard to the Group's financial objectives and asset management.

The standard has not resulted in any change in accounting principle, only changes in the information requirements concerning financial instruments.

New IFRS and interpretations

A number of new standards, amendments to the standards as well as interpretation statements will come into force from the 2008 financial year and have not been applied in the preparation of these financial statements.

IFRS 8 Operating Segments, could entail a change in the presentation of segment information.

Classification etc.

Fixed assets and non-current liabilities in the Parent Company and Group comprise amounts which 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 which are expected to be recovered or paid within twelve months, calculated from the period-end. Fixed assets, the carrying value of which is calculated to be recovered through sale within one year, are classified as assets held for sale 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 consolidated accounts have been prepared in accordance with the acquisition method, which means that assets and liabilities that have been taken over are valued at the fair value according to the acquisition analysis. 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 we acquire a controlling influence and in conjunction with disposals the date on which the controlling influence ceases.

Reporting of income and costs

Revenue from property management includes rental income as well as costs passed on, such as property tax and media costs. Rental income 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 income.

Income from property sales

Income from property sales is reported on the completion date if material risks and benefits have not passed to the purchaser previously. Checks are made on whether the asset could have been transferred at a point in time other than the completion point and if this has happened the property sale is recognized as revenue at this previous point in time. When assessing the point of recognition of revenue, consideration should be given to what has been agreed between the parties regarding risks and benefits as well as involvement in the ongoing management. In addition, circumstances are taken into account which could affect the outcome of the deal and which are beyond the control of the seller and/or purchaser.

Intra-Group rents and costs

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

Administration costs

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

Financial income and expense

Interest income and interest expense on financial instruments are reported in the Income Statement for the period to which the amounts are attributable. Interest payments on interest swaps which were entered into in order to hedge future interest payments at a fixed rate of interest are reported net in the period to which the amounts are attributable. Loan costs are charged to profit in the period to which they are attributable. Interest income attributable to accounts receivable is included in gross profit. Interest income and interest costs are calculated according to the effective interest method.

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

Note 1 continued on page 65.

return for payment. Remuneration according to a bonus scheme is reported in line with the employee performing services during the term of the programme.

As regards the Group's pension undertakings, the majority of the white-collar workers are covered by the ITP plan, which is secured through insurance with Alecta, and the blue-collar workers are covered by the SAF-LO pension agreement. During the 2007 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 benefit plans are reported as a cost in the Income Statement when they arise.

The Group's net commitment regarding defined benefit plans is calculated separately for each plan by means of an estimate of the future payment, which is discounted at a current value and the fair value of any management assets is deducted. There are only a few defined benefit plans in the Group.

Tax

Tax is reported in the Income Statement except when the underlying transaction is reported directly against equity, whereupon the associated tax effect is reported under equity. Actual tax is the tax to be paid or received for the year in question. This also includes an adjustment of actual 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 of the year-end. In the Parent Company, untaxed reserves are reported inclusive of the deferred tax liability.

Deferred prepaid taxes recoverable in respect of deductible temporary differences and deficit deductions 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 instruments as follows: Financial assets valued at fair value in profit or loss, loan receivables and accounts receivable. The financial liabilities are classified as follows: Financial liabilities valued at fair value in profit and loss or Other financial liabilities. Classification depends on the purpose for which the financial assets or liability was acquired.

A financial instrument is valued initially at the fair value with a supplement for transaction costs, with an exception for the 'financial asset' and 'financial liability' categories valued at the 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. A liability is taken up when the counter-party has performed and a contractual obligation exists to pay 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, fall due or 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 in some other manner extinguished.

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.

The Group assesses on each reporting date whether there are objective grounds for a need for impairment of a financial asset. The impairment examination of accounts receivable is described under loan receivables and accounts receivable below.

Financial assets valued at fair value in profit and loss

This category comprises two sub-groups: financial assets which comprise a holding for trading purposes, i.e. where the main purpose is to sell or repurchase in the short-term, and other financial assets which the Company has initially chosen to place in this category (according to the Fair Value Option). Derivatives are classified as those which are 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.

Loan receivables and accounts receivable

Rental receivables, accounts receivable, loans receivables and other receivables
Receivables are valued at the accrued acquisition value. The accrued acquisition value is determined based on the effective rate of interest which has been 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. after a deduction for

doubtful receivables. 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 which 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 payments not made or delayed (fallen due more than 60 days) are regarded as indicators that there could be a need for impairment of an account receivable. The size of the provision comprises the difference between the reported value of the asset and the current value of assessed future cash flows, discounted using the original effective rate of interest.

Cash and bank balances

This item includes cash and immediately available bank balances. Overdraft facilities are attributable to loan liabilities, under current liabilities. Cash and bank balances are reported at the nominal value.

Other non-current receivables

Receivables with a remaining term of more than 12 months are reported under this item at the accrued acquisition value. Impairment requirements are examined individually against the recovery value. The requisite impairments are made as necessary and are reported in profit and loss.

Other financial liabilities

Loans and other financial liabilities, e.g. accounts payable, are included in this category.

Interest-bearing loans and borrowing

All loans are reported initially at the acquisition price, which is equivalent to the actual value of what has been received with a supplement for costs attributable to the borrowing. The loan liability is subsequently reported at the accrued acquisition value, which means that the value is adjusted for any discounts or premiums in conjunction with the loan being taken up or redeemed and costs in conjunction with the borrowing being allocated over the term of the loan. The allocation is calculated on the basis of the annualized percentage rate of interest for the loan. Any profit or loss that arises when the loan is redeemed is reported in the Income Statement.

Accounts payable and other liabilities

Liabilities are reported initially at the fair value and thereafter at the accrued acquisition value.

Derivatives and hedge accounting

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 has designated all interest swap contracts either as cash flow hedging or as financial instruments valued at fair value in profit and loss depending on how the derivatives are classified on subscription. Through these derivative transactions the desired fixed interest structure is achieved, which can be seen in the table in Note 2.

The method used to report the profit or loss which arises in conjunction with revaluation depends on whether the derivative has been identified as a hedging instrument. The derivatives that are hedged (cash flow hedging) are reported at the fair value in the Balance Sheet and the effective part of the change in value is reported on an ongoing basis against equity. The ineffective part is reported in the Income Statement. Information about fair value for derivatives can be found in Note 2. If a derivative no longer satisfies the requirements for hedge accounting or if the hedging instrument runs out, is sold or is concluded, the possible profit or loss that has arisen is reported as an adjustment of interest costs at the same time that the hedged future interest payments are reported in the Income Statement. If the hedged future interest payments are not expected to take place any accumulated losses are reported directly against profit and loss and any profits are reported as income when the derivative runs out, is sold or is concluded.

Tangible fixed assets

Tangible fixed assets are reported as an asset in the Balance Sheet if it is probable that there will be future financial benefits for the Company. Tangible fixed assets are valued at cost with a deduction for accumulated depreciation and any impairments.

Depreciation, property management

Depreciation of tangible fixed assets used in administration is included in property management administration.

Depreciation, other operations

Depreciation of tangible fixed assets is included in the cost of Other operations.

Depreciation principles

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

Investment properties

Investment properties are properties that are held for the purpose of securing rental income and/or an increase in value. Initially, investment properties are reported at cost, which includes expenses directly attributable to the acquisition. After the initial report, investment properties are reported in the Balance Sheet at the fair value. The fair value is based on internal valuations. These valuations normally take place each year. To assure the valuation, external valuations are made by external valuation companies. The external valuations normally cover 20–30 per cent of the internally assessed market value of the property holdings and the selection of properties represent different property categories, locations, positions and technical and construction standard. 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 indications of changes in the fair value of the properties. These indications could take the form of major lettings, 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 financial advantages that are associated with the asset will be to the benefit of the Company and the acquisition value can be calculated reliably, and also that measures refer to replacement of an existing component or inclusion of a new, identified component. Other repair and maintenance expenses are expensed continuously during the period in which they arise.

Impairments

The carrying amounts for the Group's assets – with the exception of investment properties and assets held for resale – are examined at each period-end to assess whether there is an indication that the carrying value 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 value exceeds the recoverable amount. The recoverable amount is the higher of the fair value minus sales expenses and its value in use. See below 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 which are held for resale and discontinued operations

Assets which are to be disposed of are classified as assets held for resale. 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 legal or informal obligation arising from an event and where it is likely that the obligation will be fulfilled and the amount can be calculated reliably. If the effect of the time when the future payment is deemed to be 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 Other operations.

PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company has prepared its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Board recommendation RR 32:06 Accounting for Legal Entities. RR 32:06 means that the Parent Company shall in the annual report for the legal entity apply all EU-approved IFRS and statements as far as this is possible within the framework of the Annual Accounts Act and in the light of the link between the accounts and taxation. Recommendations state the exceptions and additions that should be made to IFRS. The differences between the Group's and the Parent Company's accounting principles are stated below.

When group contributions have been granted/received for tax equalization purposes, the group contributions are reported as a reduction or an increase in non-restricted equity with consideration given to tax according to URA 7.

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

Investment properties

The Parent Company's investment properties are valued at cost with a deduction for accumulated depreciation. The acquisition value comprises the acquisition price, cost of title deeds and value-enhancing improvements. Hufvudstaden only capitalizes charges that generate a permanent increase in the value of the properties. Development costs of a maintenance nature are charged to profit.

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 to a predominant extent generate independent cash flows, 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 of the year-end can be found in Note 18.

Depreciation – investment properties

The Parent Company's depreciation according to plan is based on the original acquisition values, adjusted where applicable for revaluations and impairments and the estimated useful life. The estimated useful life for buildings is 50–100 years and for building equipment 10–20 years.

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

Amended accounting principles

IAS 39 has been introduced in the Parent Company, whereupon a recalculation has been made for 2006. This has meant that equity, after taking account of fiscal effects, was affected to the amount of SEK -34.0 million as of January 1, 2006.

Note 2. Financial risks

Hufvudstaden is mainly exposed to financing risks and interest risks. The Group endeavours to have a credit portfolio with a diverse credit renewal structure which facilitates possible amortizations. 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 the underlying exposure. At present the Group only has derivatives reported as hedges and derivatives which are reported in the category financial assets and liabilities valued at fair value in profit or loss. Hufvudstaden has not identified any embedded derivatives that should be separated from their host contract and reported separately.

Hufvudstaden's finance function is a Group function charged 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 rules of procedure 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 a low risk. Information regarding borrowing, loan frameworks and terms and conditions is to be found in Note 28.

Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the operating loan requirements. 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 liabilities to credit institutions amounted to SEK 3,400.0 million at the year-end compared to SEK 3,365.0 million at the end of 2006. The average fixed interest period was 40 months (23), the average capital tie-up period was 53 months (33) and the average interest cost 4.6 per cent (4.0). Net debt totalled SEK 3,069.3 million compared to SEK 3,324.6 million at the end of 2006. As of December 31, 2007, the Group had non-current loan assurances of SEK 2 billion, of which SEK 0 billion was unutilized.

Capital tie-up structure, December 31, 2007

Year due	Volume, SEK m	Proportion, %
2008	600.0	17
2009	-	-
2010	500.0	15
2011	950.0	28
2012	250.0	8
2013	350.0	10
2014	-	-
2015	-	-
2016	-	-
2017	750.0	22
Total	3,400.0	100

Other liabilities also include accounts payable, which normally fall due within 30 days.

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/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.

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 increase in the interest rate. This means that the Group's fixed interest structure for the net debt should normally be 12–48 months. To achieve the desired fixed interest structure derivatives are used. As of December 31, 2007, the Group's fixed interest period was 40 months. A change in the interest level of +/- 1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would affect Hufvudstaden's

interest expense in 2008 to the amount of +/- SEK 4.7 million. The change in interest would at the same time mean a change in value in interest derivatives to the amount of SEK 55 million in the result and SEK 35 million in equity.

Fixed interest structure: December 31, 2007

Year due	Volume, SEK m	Of which hedged	Proportion, %	Average APR, %
2008	1,200.0	600.0	35	5.0
2009	-	-	-	-
2010	500.0	500.0	15	4.1
2011	350.0	350.0	10	3.9
2012	250.0	0.0	8	4.9
2013	350.0	350.0	10	4.1
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	750.0	0.0	22	4.8
Total	3,400.0	1,800.0	100	4.6

The cash flow hedges will affect the Income Statement on maturity according to the table above.

Credit risk

A credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and the collateral does not cover the Group's claims. A credit risk can be mainly attributed to outstanding accounts receivable/rent receivables, liquid funds as well as financial derivative agreements with positive values. 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 are unable to meet their payment commitments. The risks are limited by Hufvudstaden deliberately selecting tenants with documented business skills and competitive operations. To limit the risks the financial position of the Group's clients 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.

There is no concentration of credit risks with regard to accounts receivable as the Group has many clients. No individual tenant represents more than 10 per cent of the total contracted rent. The Group's ten largest tenants represent 24 per cent of the contracted rent. Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a very good rating and where the Company has a long-term relationship. In addition, there are general agreements with these institutions regarding the setting off of different derivative agreements, which further reduces the credit risk exposure.

Concentration of credit risk, December 31, 2007 ^{1) 2) 3)}

Annual rent, KSEK	Number of agreements	Annual rent, KSEK	Proportion, %
0 – 99	776	21,151	1.8
100 – 499	233	61,929	5.2
500 – 999	222	160,546	13.5
1,000 – 2,499	178	276,601	23.2
2,500 – 4,999	79	272,333	22.9
5,000 – 9,999	29	199,592	16.8
10,000 –	11	197,882	16.6
Total	1,528	1,190,034	100.0

1) Excluding vacant space and space (storage and office) for Company use.

2) Including residential agreements.

3) Agreements with an annual rent as of December 31, 2007.

Fair value

The fair value of financial instruments traded on an active market (such as financial assets held for resale) is based on 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 etc., which are reported at the accrued acquisition value with a deduction for possible impairment, the fair value is considered to be in line with the carrying value. Liabilities to credit institutions have a three-month fixed interest period whereupon the fair value is considered to essentially concur with the carrying value.

Continuation Note 2.

Information regarding fair values, financial instruments							
	Items valued at fair value in profit and loss Derivatives	Derivatives hedged	Accounts receivable and loan receivables	Other liabilities	Non- financial items	Total carrying value	Fair value
GROUP 2007							
<i>Financial instruments included in the financial net debt</i>							
<i>Non-current financial receivables</i>							
Non-current receivables	16.5	37.7	6.4			60.6	60.6
	16.5	37.7	6.4			60.6	60.6
<i>Current financial receivables</i>							
Other receivables		0.9			1.2	2.1	2.1
Prepaid expenses			5.0		40.2	45.2	45.2
		0.9	5.0		41.4	47.3	47.3
<i>Liquid funds</i>							
Current investments			155.0			155.0	155.0
Liquid funds			130.8			130.8	130.8
			285.8			285.8	285.8
<i>Non-current liabilities</i>							
Interest-bearing liabilities to credit institutions				2,800.0		2,800.0	2,800.0
Other allocations				5.7		5.7	5.7
				2,805.7		2,805.7	2,805.7
<i>Current liabilities</i>							
Interest-bearing liabilities to credit institutions				600.0		600.0	600.0
Accrued expenses				15.9	221.0	236.9	236.9
				615.9	221.0	836.9	836.9
<i>Financial instruments which are not included in the financial net debt</i>							
Accounts receivable			16.4			16.4	16.4
Accounts payable				73.0		73.0	73.0
GROUP 2006							
<i>Financial instruments included in the financial net debt</i>							
<i>Non-current financial receivables</i>							
Non-current receivables		16.3	6.2			22.5	22.5
		16.3	6.2			22.5	22.5
<i>Current financial receivables</i>							
Other receivables		1.2			3,005.3	3,006.5	3,006.5
Prepaid expenses			2.2		18.6	20.8	20.8
		1.2	2.2		3,023.9	3,027.3	3,027.3
<i>Liquid funds</i>							
Liquid funds			40.4			40.4	40.4
			40.4			40.4	40.4
<i>Non-current liabilities</i>							
Interest-bearing liabilities to credit institutions				2,400.0		2,400.0	2,400.0
Other allocations				6.0		6.0	6.0
				2,406.0		2,406.0	2,406.0
<i>Current liabilities</i>							
Interest-bearing liabilities to credit institutions				965.0		965.0	965.0
Accrued expenses				6.3	255.1	261.4	261.4
				971.3	255.1	1,226.4	1,226.4
<i>Financial instruments which are not included in the financial net debt</i>							
Accounts receivable			12.6			12.6	12.6
Accounts payable				79.0		79.0	79.0

Note 2 continued on page 69.

Continuation Note 2.

Information regarding fair values, financial instruments							
	Items valued at fair value in profit and loss	Derivatives hedged	Accounts receivable and loan receivables	Other liabilities	Non- financial items	Total carrying value	Fair value
PARENT COMPANY 2007							
<i>Financial instruments included in the financial net debt</i>							
<i>Non-current financial receivables</i>							
Other non-current receivables	16.5	37.7	6.4			60.6	60.6
	16.5	37.7	6.4			60.6	60.6
<i>Current financial receivables</i>							
Other receivables		0.9			10.3	11.2	11.2
Prepaid expenses			5.0		15.3	20.3	20.3
		0.9	5.0		25.6	31.5	31.5
<i>Liquid funds</i>							
Other current investments			155.0			155.0	155.0
Cash and bank			130.5			130.5	130.5
			285.5			285.5	285.5
<i>Non-current liabilities</i>							
Liabilities to credit institutions				2,800.0		2,800.0	2,800.0
Pension provisions				5.4		5.4	5.4
				2,805.4		2,805.4	2,805.4
<i>Current liabilities</i>							
Liabilities to credit institutions				600.0		600.0	600.0
Accrued expenses				15.9	157.7	173.6	173.6
				615.9	157.7	773.6	773.6
<i>Financial instruments which are not included in the financial net debt</i>							
Accounts receivable			2.0			2.0	2.0
Accounts payable				40.1		40.1	40.1
PARENT COMPANY 2006							
<i>Financial instruments included in the financial net debt</i>							
<i>Non-current financial receivables</i>							
Other non-current receivables		16.3	6.2			22.5	22.5
		16.3	6.2			22.5	22.5
<i>Current financial receivables</i>							
Other liabilities		1.2			3,005.1	3,006.3	3,006.3
Prepaid expenses			2.2		9.0	11.2	11.2
		1.2	2.2		3,014.1	3,017.5	3,017.5
<i>Liquid funds</i>							
Cash and bank			39.7			39.7	39.7
			39.7			39.7	39.7
<i>Non-current liabilities</i>							
Liabilities to credit institutions				2,400.0		2,400.0	2,400.0
Pension provisions				5.2		5.2	5.2
				2,405.2		2,405.2	2,405.2
<i>Current liabilities</i>							
Liabilities to credit institutions				965.0		965.0	965.0
Accrued expenses				6.3	176.4	182.7	182.7
				971.3	176.4	1,147.7	1,147.7
<i>Financial instruments which are not included in the financial net debt</i>							
Accounts receivable			2.5			2.5	2.5
Accounts payable				40.2		40.2	40.2

Note 3. Segment information

Property management

The Group's operations are divided into two segments, property management and other 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 submarkets. In conjunction with the reorganization in 2007 the former NK business area was transferred to Stockholm City West and a redistribution of the property holdings took place. The following table shows the income and costs, assets, liabilities and investments for the different business areas in 2007 and the comparison year 2006. The comparison figures for 2006 have been recalculated in line with the new organization. Only continuing operations are reported in the segment as the World Trade Center is reported as discontinued operations, see Note 4. In the Parent Company there is only the property management segment.

SEK m	Stockholm City East Business Area	Stockholm City West Business Area	Gothenburg Business Area	Total
GROUP 2007				
<i>Income and costs</i>				
Net revenue	548.4	507.1	157.7	1,213.2
(of which turnover-based rent supplement)	(0.4)	(16.8)	(-)	(17.2)
Maintenance	-10.9	-12.5	-3.0	-26.4
Operations and administration	-66.2	-111.6	-30.5	-208.3
Ground rent	-0.2	-15.9	-	-16.1
Property tax	-56.4	-40.5	-18.0	-114.9
Gross profit	414.7	326.6	106.2	847.5
<i>Assets</i>				
Investment properties	10,470.5	8,021.5	2,038.5	20,530.5
Tangible fixed assets ¹⁾	4.0	3.4	1.1	8.5
Total	10,474.5	8,024.9	2,039.6	20,539.0
Financial assets ¹⁾	30.0	23.3	7.3	60.6
Current receivables ¹⁾	30.2	25.5	8.0	63.7
<i>Liabilities</i>				
Current liabilities ¹⁾	178.4	150.4	46.9	375.7
<i>Investments</i>				
Tangible investments for the period	457.5	49.9	20.3	527.7
GROUP 2006				
<i>Income and costs</i>				
Net revenue	509.8	442.2	144.5	1,096.5
(of which turnover-based rent supplement)	(0.2)	(10.3)	(-)	(10.5)
Maintenance	-27.9	-30.4	-3.2	-61.5
Operations and administration	-58.8	-105.2	-28.3	-192.3
Ground rent	-0.2	-15.9	-	-16.1
Property tax	-50.6	-31.3	-10.6	-92.5
Gross profit	372.3	259.4	102.4	734.1
<i>Assets</i>				
Investment properties	8,895.9	6,556.4	1,956.5	17,408.8
Tangible fixed assets ¹⁾	4.1	3.4	1.0	8.5
Total	8,900.0	6,559.8	1,957.5	17,417.3
Financial assets ¹⁾	12.0	8.5	2.0	22.5
Current receivables ^{1) 2)}	16.1	13.5	4.1	83.4
<i>Liabilities</i>				
Current liabilities ^{1) 2)}	193.1	157.9	49.0	400.0
<i>Investments</i>				
Tangible investments for the period	141.1	39.8	6.4	187.3

1) Tangible and financial assets and part of the current liabilities and receivables that arose in current operations are divided according to a division key.

2) Current receivables and liabilities have been adjusted by the part which arose in conjunction with the sale of WTC.

Continuation Note 3, page 71.

Continuation Note 3.

Other operations

The Other operations segment includes parking operations at Parkaden AB.

SEK m	2007	2006
GROUP		
Net revenue	63.0	56.0
Rental costs	-36.7	-36.1
Operations and administration	-8.1	-8.2
Depreciation	-0.6	-0.7
Gross profit	17.6	11.0

Note 4. Discontinued operations

On December 12, 2006 an agreement was signed with the occupational pension company Alecta regarding the sale of shares in Vasaterminalen AB, including the two subsidiaries, World Trade Center Stockholm AB and WTC Parkering AB, with completion on February 1, 2007. The companies sold hold the leaseholds Terminalen 1 and Kortbyrån 18, restaurant and conference operations at WTC as well as parking operations. The result from discontinued operations for 2007 refers to an adjustment of the purchase sum and for 2006 the result from the divested World Trade Center operations.

Profit on discontinued operations

SEK m	2007	2006
GROUP		
Net revenue	-	200.0
Operating costs	-	-84.5
Gross profit	-	115.5
Change in value, investment properties	-	30.5
Financial income and expense	-	18.0
Tax	-	-43.9
Profit/loss on divestment of discontinued operations	6.6	986.2
Profit on discontinued operations, net after tax	6.6	1,106.3
Profit per share from discontinued operations before and after dissolution, SEK	0.03	5.36
<i>Net cash flow from discontinued operations</i>		
Cash flow from current operations	10.7	6.1
Cash flow from investments	-10.7	-6.1

Note 5. Profit trend – summary

SEK m	Jan–Mar		Apr–June		July–Sept		Oct–Dec		Jan–Dec	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
GROUP										
<i>Property management</i>										
Net revenue	288.4	269.3	293.0	272.8	308.9	268.2	322.9	286.2	1,213.2	1,096.5
Maintenance	-6.1	-23.6	-2.8	-9.0	-5.1	-9.9	-12.4	-19.0	-26.4	-61.5
Operations and administration	-52.6	-48.8	-49.9	-44.2	-46.2	-42.0	-59.6	-57.3	-208.3	-192.3
Other costs	-27.3	-27.3	-27.4	-27.2	-46.2	-27.5	-30.1	-26.6	-131.0	-108.6
Property management costs	-86.0	-99.7	-80.1	-80.4	-97.5	-79.4	-102.1	-102.9	-365.7	-362.4
Other operations, net	4.2	1.3	3.5	1.3	2.8	2.2	7.1	6.2	17.6	11.0
Gross profit	206.6	170.9	216.4	193.7	214.2	191.0	227.9	189.5	865.1	745.1
Central administration	-6.9	-6.9	-8.1	-6.9	-6.6	-6.6	-9.2	-11.1	-30.8	-31.5
<i>Changes in value</i>										
Investment properties	-	-	1,208.4	539.5	-	-	1,389.3	2,108.0	2,597.7	2,647.5
Interest derivatives	-	-	17.1	-	-4.0	-	3.4	-	16.5	-
Net financial income/expense	-21.5	-34.1	-33.4	-31.6	-35.7	-38.5	-36.0	-36.1	-126.6	-140.3
Tax	-53.4	-43.9	-388.2	-187.9	-47.7	-46.1	-438.3	-626.0	-927.6	-903.9
Profit from continuing operations	124.8	86.0	1,012.2	506.8	120.2	99.8	1,137.1	1,624.3	2,394.3	2,316.9
Profit from discontinued operations	6.6	23.7	-	47.5	-	21.5	-	1,013.6	6.6	1,106.3
Profit for the period	131.4	109.7	1,012.2	554.3	120.2	121.3	1,137.1	2,637.9	2,400.9	3,423.2

Note 6. Operational lease agreements – Group as lessor

The Group has commercial lease agreements for the investment property holdings, which comprise offices, stores, warehouses and other non-residential premises. The remaining term is between 1 and 10 years.

Renewal structure^{1) 2) 3)}

	2008	2009	2010	2011	2012	2013–	Total
<i>Number of agreements</i>							
Offices	74	82	103	29	19	8	315
Stores	103	100	95	23	15	8	344
Other	433	183	164	37	13	21	851
Total	610	365	362	89	47	37	1,510
Proportion, %	40.4	24.2	24.0	5.9	3.1	2.4	100.0
<i>Annual rent, SEK m</i>							
Offices	108.1	103.3	162.2	66.4	63.4	69.0	572.4
Stores	128.5	138.0	126.6	40.0	29.7	34.7	497.5
Other	29.3	50.9	31.4	6.9	5.0	3.1	126.6
Total	265.9	292.2	320.2	113.3	98.1	106.8	1,196.5
Proportion, %	22.2	24.4	26.8	9.5	8.2	8.9	100.0

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

2) Excluding vacant floor space and floor space (warehouse and office) for Company use.

3) Excluding residential contracts.

Note 7. Depreciation, tangible assets and investment properties

SEK m	Group		Parent Company	
	2007	2006	2007	2006
<i>Depreciation per type of asset</i>				
Investment properties	– ¹⁾	– ¹⁾	42.0	37.7
Tangible assets	3.7	3.1	2.8	2.3
Total	3.7	3.1	44.8	40.0
<i>Depreciation per function/ operating area</i>				
Property management	0.2	0.2	42.0	37.7
Administration	2.9	2.2	2.8	2.3
Other operations	0.6	0.7	–	–
Total	3.7	3.1	44.8	40.0

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

Note 8. Average number of employees and sickness statistics

Average number of employees calculated on an annual basis	2007	2007 Of which men, %	2006	2006 Of which men, %
Parent Company	83	48	93	48
of which senior executives	6	100	7	86
<i>Wholly owned subsidiaries</i>				
Parkaden AB	3	60	4	57
WTC Stockholm AB ¹⁾	2	36	21	38
Total, Group	88	48	118	47
of which senior executives	6	100	7	86

1) Discontinued operation refer to just one month in 2007.

Of the Group's 23 managers (28), seven are women (9) or 30 per cent (32). The Board of the Parent Company comprised 7 men (7) and 2 women (1). In the Group there is one other member of the Board (1 man). The Group only has employees in Sweden.

Absenteeism due to sickness in relation to normal working hours

Per cent	2007 Total absenteeism due to sickness	2007 Of which long-term absenteeism due to sickness	2006 Total absenteeism due to sickness	2006 Of which long-term absenteeism due to sickness
GROUP				
Men, total	2	27	5	68
of which 20 – 29 years ²⁾	–	–	–	–
30 – 49 years	2	–	2	–
50 years –	4	67	16	93
Women, total	3	19	2	6
of which 20 – 29 years	1	–	2	–
30 – 49 years	3	27	2	9
50 years –	3	–	2	–
Group, total	2	12	3	51
PARENT COMPANY				
Men, total	2	28	6	68
of which 20 – 29 years ²⁾	–	–	–	–
30 – 49 years	2	–	2	–
50 years –	4	67	15	92
Women, total	3	21	1	9
of which 20 – 29 years ²⁾	–	–	–	–
30 – 49 years	3	31	1	13
50 years –	3	–	–	–
Parent Company, total	2	24	4	55

2) Not reported due to the exception rule in the law, which means that information should not be furnished if the number of employees in the Group is 10 or fewer or if the information can be traced to a single individual. The term 'group' refers both to age groups and gender distribution within an age group.

Note 9. Salaries and remuneration

SEK K	Group				Parent Company			
	2007	Of which bonus	2006	Of which bonus	2007	Of which bonus	2006	Of which bonus
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	337		300		337		300	
Fee to other Board members	1,164		958		1,144		938	
Payment and benefits, President	3,563	406	3,165	471	3,563	406	3,165	471
Payment and benefits, other senior executives	6,730	1,116	7,512	739	6,730	1,116	7,512	739
Payment and benefits, other employees	34,394	1,339	40,991	1,795	32,547	1,304	33,194	1,453
Total	46,188	2,861	52,926	3,005	44,321	2,826	45,109	2,663
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	109		97		109		97	
Other Board members	340		309		333		303	
President	1,292		1,183		1,292		1,183	
Other senior executives	2,460		2,796		2,460		2,796	
Other employees	12,317		14,421		11,736		11,837	
Total	16,518		18,806		15,930		16,216	
<i>Pension expenses</i>								
President	830		664		830		664	
Other senior executives	1,562		1,528		1,562		1,528	
Other employees	4,227		5,067		4,536		4,624	
Total	6,619		7,259		6,928		6,816	

A director's fee was paid to the Chairman of the Board Fredrik Lundberg to the amount of SEK 337,500 and to Board members Claes Boustedt, Bengt Braun, Peter Egardt, Hans Mertzig, Sten Peterson and Anna-Greta Sjöberg to the amount of SEK 168,750 each. Louise Lindh, who was elected to the Board of Directors in March 2007, received SEK 131,250. President Ivo Stopner does not receive any payment for his work on the Board. Within the Group there is also Arne Lundin, who is a member of the board of Parkaden AB. Arne Lundin received a director's fee of SEK 20,000.

The Group's pensions, including the President, are covered by the ITP plan and are defined benefit pensions. 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 years. In addition, there is a defined contribution pension to the President for the part of the salary not covered by the ITP plan.

If the President is given notice by the Company, the President is entitled to a period of notice of two years. If notice is given by the President, the period of notice is six months. In both cases any payment received from a new employer shall be deducted.

If other senior executives are given notice by the Company, the period of notice is one year. If notice is given by a senior executive, the period of notice is six months. In both cases any payment received from a new employer shall be deducted.

Guidelines for salary, bonus and other remuneration to senior executives are decided at the Annual General Meeting. For 2007, the meeting decided that the same guidelines should be applied as previously, i.e. the Company's remuneration shall comprise market-based salaries as well as a limited profit-

related bonus scheme, as described below. There are no share-related incentive schemes in the Company. Payment to the President is proposed by the Chairman of the Board and adopted by the Board (the President is not involved in this decision). The President has been assigned the task by the Board of negotiating and reaching agreement with other senior executives regarding their remuneration, followed by a report thereon to the Chairman of the Board.

For senior executives there was a bonus scheme in place during the year based on result, customer satisfaction and personal objectives. The bonus is maximized to SEK 500,000 per year for the President and for other senior executives SEK 250,000 each.

All permanent employees in the Group were covered by a bonus scheme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers with personnel responsibility there was also a personal assessment and individual objectives. For permanent employees the bonus payable was a maximum of half a month's salary, although subject to a minimum of SEK 15,000 for full-time employees. For managers, the bonus was a maximum of one month's salary.

Both bonus schemes are subject to a decision by the Board, valid for one year on each occasion and subject to a ceiling. A bonus is only payable if the Company reports a positive result without consideration given to unrealized changes in value. The bonus is not pensionable.

A provision has been made in the final accounts for profit targets and customer satisfaction. For personal objectives a provision has been made equivalent to 75 per cent of the maximum outcome (KSEK 280). The bonus outcome for 2007 has been charged with a cost for 2006 amounting to KSEK 142.

Note 10. Fees and other remuneration to auditors

SEK m	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Audit assignments, KPMG	1.0	1.0	0.9	1.0	1.0	0.9
Other assignments, KPMG	0.5	0.5	0.6	0.5	0.5	0.6
Total	1.5	1.5	1.5	1.5	1.5	1.5

Note 11. Operational lease agreements – Group as the Lessee

Annual rent, SEK m	Group		Parent Company	
	2007	2006	2007	2006
– 1 year	19.9	23.7	8.4	8.4
1 year – 5 years	19.9	23.7	8.4	8.4
5 years –	14.0	13.8	8.2	8.2

Agreements entered into refer to site leasehold agreements, tenant charges and rental agreements with an external landlord.

Note 12. Operating costs per cost category

SEK m	Group		Parent Company	
	2007	2006	2007	2006
Maintenance	26.4	61.5	144.3	149.0
– of which special projects	1.1	0.2	3.2	35.9
Operation and administration	210.2	195.4	84.4	55.8
Ground rent	16.1	16.1	8.0	8.0
Property tax	114.9	92.5	77.8	64.8
Depreciation	3.7	3.1	44.8	40.0
Personnel costs	71.1	70.9	69.8	69.1
Total	442.4	439.5	429.1	386.7

Note 13. Changes in value, investment properties

SEK m	Group		Parent Company	
	2007	2006	2007	2006
Unrealized	2,597.7	2,647.5	–	–
Total	2,597.7	2,647.5	–	–

Note 14. Financial income

SEK m	Group		Parent Company	
	2007	2006	2007	2006
Dividend from subsidiaries	–	–	–	170.8
Capital gain on disposal of a subsidiary	–	–	6.6	1,443.6
Interest income on bank holdings	0.7	0.6	0.2	0.2
Interest income on current investments	11.3	–	11.3	–
Interest income, other	0.3	0.1	0.3	0.1
Total	12.3	0.7	18.4	1,614.7

Note 15. Financial expense

SEK m	Group		Parent Company	
	2007	2006	2007	2006
Interest expense to credit institutions	131.8	101.0	131.7	101.0
Interest expense, swaps	2.8	39.5	2.8	39.5
Penalty interest on accounts payable	–	0.1	–	0.1
Interest expense, other	4.3	0.4	2.4	0.4
Total	138.9	141.0	136.9	141.0

Note 16. Appropriations

SEK m	Parent Company	
	2007	2006
Change in accumulated additional depreciation	-5.9	-8.0
Change in tax allocation reserve	-95.0	-116.0
Total	-100.9	-124.0

Note 17. Income taxes

SEK m	Group		Parent Company	
	2007	2006	2007	2006
<i>Actual tax expense</i>				
Tax expense for the year	-103.8	-98.0	-27.1	-6.5
Tax attributable to previous years	–	-0.2	–	-0.1
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation:				
Revaluation/reversal/impairment	–	–	9.0	3.9
Original acquisition values	-59.6	-55.2	–	-4.3
Unrealized change in value, investment properties	-727.4	-741.3	–	–
Unrealized change in value, securities	-4.6	–	-4.6	–
Effect of company sold (property)	–	28.2	–	–
Effect, allocation to untaxed reserves	-32.2	-37.4	–	–
Total tax	-927.6	-903.9	-22.7	-7.0
<i>Reported profit before tax</i>				
	3,321.9	3,220.8	108.4	185.8
Tax at the current tax rate of 28%	-930.1	-901.8	-30.4	-52.0
Tax attributable to previous years	4.3	-0.2	9.6	-0.1
Non-taxable income in conjunction with the sale of a subsidiary (property)	1.8	–	1.8	47.8
Non-taxable income	0.1	0.1	0.1	0.1
Non-deductible expense	-0.5	-0.3	-0.4	-0.3
Utilization of previously un-capitalized deficit deductions	0.1	0.1	–	–
Standard income, tax allocation reserve	-3.5	-2.6	-3.5	-2.5
Other	0.2	0.8	0.1	–
	-927.6	-903.9	-22.7	-7.0
<i>Tax items reported directly against equity</i>				
Deferred tax in respect of hedge reserve	-5.9	-18.1	-5.9	-18.1
Actual tax in group contributions received	–	–	-53.8	-91.5
	-5.9	-18.1	-59.7	-109.6

There were no deficit deductions as of the year-end.

The subsidiary Fastighets AB Stockholms City is involved in a dispute with the National Tax Agency on how much is to be capitalized as a building. As the Company does not share the view of the Tax Agency the decision has been appealed in the County Administrative Court. The amount of taxes and charges is approximately SEK 25 million and does not have any impact on the total reported tax expense for the Group.

Note 18. Investment properties**GROUP**

Investment properties are reported according to the fair value method.

SEK m	2007	2006
Investment properties, Group	20,530.5	17,408.8

Information regarding changes in carrying values for investment properties

SEK m	Investment properties purchased	Investment properties sold	Investment properties owned for the full year
31-12-2007			
Opening fair value	-	-	17,408.8
Acquisition value	312.5	-	-
Property adjustment	-312.5	-	312.5
Investment in properties	-	-	211.5
Unrealized change in value	-	-	2,597.7
Closing fair value	-	-	20,530.5
31-12-2006			
Opening fair value	-	1,695.8	14,580.2
Investment in properties	-	4.4	181.1
Disposed operations	-	-1,730.7	-
Unrealized change in value	-	30.5	2,647.5
Closing fair value	-	0.0	17,408.8

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 and cover the items Buildings, Building equipment, Land and Development in progress in the Balance Sheet. Fair value is based on an internal valuation.

Valuation method

Valuation of property holdings has taken place by making an assessment of each individual property's fair value. The assessment has taken place on the basis of a valuation according to the direct yield method.

The operating surplus is based on the market-adapted rental revenue. Income has been reduced for an assessed long-term rental vacancy level of 5-7 per cent. A deduction has been made for standard costs for operation and maintenance.

The yield requirement which has been used in conjunction with the valuation varies between different regions and different sub-areas within the regions. The assessment of the yield requirement is based on information obtained about the market's yield requirements in conjunction with the purchase and sale of comparable properties in similar locations. Account has been taken of different property types, technical standard and building construction. For properties on leasehold the calculation has been based on a yield requirement which is 0.25 percentage points higher than properties where the land is owned.

The following information has been used in the valuation:

	Rental revenue, SEK m	Operating profit, SEK m	Direct yield requirement, %
Stockholm, commercial			4.0-5.25
Gothenburg, commercial			4.5-5.75
Property holdings, Group	1,309.9	935.3	4.6 ¹⁾

1) Average.

External valuation

To guarantee the valuation, external valuations have been made by two valuation companies, DTZ Sverige AB and FS Fastighetsstrategi AB. The external valuations cover 14 properties and are equivalent to 40 per cent of the internally assessed fair value. The starting point for the selection of the properties was that the objects selected should represent different property categories, towns, locations, technical standards and construction standards. The properties that underwent an external valuation were Achilles 1, Grönlandet

Södra 11, Hästskon 10, Kvasten 2 and 6, Kåkenhusen 39, Orgelpipan 7, Oxhuvudet 18, Rännilen 19 and Svärdfisken 2 in Stockholm as well as Inom Vallgraven 12:8, 12:10 and 20:4 and Nordstan 8:24 in Gothenburg.

The external valuation companies have set a market value of SEK 8.6 billion with a range of +/- 3-9 per cent. Hufvudstaden's internal valuation of the same properties is SEK 8.2 billion. The internal valuation is thus SEK 0.4 billion below the external valuations. A comparison between the internal and external valuation reveals that Hufvudstaden's valuations are within the value range stated by the external valuation companies apart from two minor properties. Hufvudstaden has, among other things, made an assessment that the value of the Svärdfisken 2 property is slightly lower as a result of the fact that a large proportion is made up of a listed cinema.

For a risk analysis, see Administration Report page 50 and Note 2.

Tax values, investment properties, Group

SEK m	2007	2006
Tax values, buildings	7,628.7	4,456.0
Tax values, land	4,318.6	4,558.3
	11,947.3	9,014.3

PARENT COMPANY

Investment properties are reported according to the acquisition method.

SEK m	2007	2006
Investment properties, Parent Company	5,972.9	5,649.5

Investment properties, excluding land

SEK m	2007	2006
Opening acquisition values	1,656.6	1,601.9
Investments for the year	247.5	54.7
Closing acquisition values	1,904.1	1,656.6
Opening depreciation	-541.9	-518.2
Depreciation for the year	-28.0	-23.7
Closing depreciation	-569.9	-541.9
Closing revaluations according to the adopted Balance Sheet for the preceding year	1,203.0	1,217.1
Depreciation for the year	-14.0	-14.1
Closing revaluations	1,189.0	1,203.0
Closing residual value according to plan	2,523.2	2,317.7

Land

SEK m	2007	2006
Opening acquisition value	290.2	290.2
Investment for the year	117.9	-
Closing acquisition value	408.1	290.2
Opening value, revaluations	3,041.6	3,041.6
Closing value, revaluations	3,041.6	3,041.6
Closing residual value according to plan	3,449.7	3,331.8

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

- Buildings: offices 1 per cent
- Buildings: Department stores, multi-storey car parks, hotels, 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	2007	2006
Investment properties, Parent Company	12,562.9	10,743.0

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

Note 18 continued on page 77.

Continuation Note 18.

The following information has been used in the valuation:

	Rental revenue, SEK m	Operating profit, SEK m	Direct yield require- ment, %
Stockholm, commercial			4.0–5.25
Gothenburg, commercial			5.0–5.75
Property holdings, Parent Company	845.9	604.0	4.8 ¹⁾

1) Average.

Tax values, investment properties, Parent Company		
SEK m	2007	2006
Tax values, buildings	5,044.0	3,168.4
Tax values, land	3,189.0	3,385.3
	8,233.0	6,553.7

Note 19. Tangible fixed assets

SEK m	2007	Group 2006	Parent Company 2007	2006
Opening acquisition value	31.0	36.7	17.2	16.6
Investments for the year	3.7	6.3	2.7	4.6
Discontinued operations	–	-8.0	–	–
Disposals	-2.4	-4.0	-2.4	-4.0
Closing acquisition value	32.3	31.0	17.5	17.2
Opening depreciation	-22.5	-29.2	-11.0	-12.7
Depreciation for the year	-3.7	-3.1	-2.8	-2.3
Discontinued operations	–	5.8	–	–
Disposals	2.4	4.0	2.4	4.0
Closing accumulated depreciation	-23.8	-22.5	-11.4	-11.0
Closing residual value according to plan	8.5	8.5	6.1	6.2

Note 20. Participation in Group Companies

	Company reg. no.	Reg. office	Capital (votes), %	Number	Carrying value 2007, SEK m
PARENT COMPANY					
<i>Shares in subsidiaries</i>					
AB Citypalatset	556034-7246	Stockholm	100	1,200	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	32.3
Aktiebolaget Hamngatsgaraget	556068-6601	Stockholm	100	3,000	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	1,449.3
Parkaden Aktiebolag	556085-3599	Stockholm	100	5,000	0.6
					2,824.5
<i>Shares in dormant companies</i>					
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	–
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	–
Förvaltnings AB Liljeholmstorget	556030-5251	Stockholm	100	1,000	–
Förvaltnings AB Normalmstorg nr. 1	556019-5405	Stockholm	100	150	–
Hufvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	0.1
					0.3
Parent Company, total					2,824.8
OTHER GROUP COMPANIES					
<i>Owned by AB Citypalatset</i>					
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	239.5
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>					
Hotel Stockholm AB	556031-4303	Stockholm	100	10,000	3.4
<i>Owned by AB Nordiska Kompaniet</i>					
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	0.1
					0.5
Other Group companies, total					243.4

Change in Parent Company's holdings in Group companies

SEK m	Parent Company	
	2007	2006
Opening carrying amount	2,824.8	4,329.3
Additional purchase sum	–	23.2
Disposals for the year	–	-1,527.7
Closing carrying amount	2,824.8	2,824.8

There are no foreign subsidiaries in the Group.

Note 21. Non-current receivables

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Opening carrying amount	22.5	61.6	22.5	5.9	
Acquisitions for the year	38.1	16.6	38.1	16.6	
Discontinued operations	-	-55.7	-	-	
Closing carrying amount	60.6	22.5	60.6	22.5	

For information regarding capital tie-up and interest terms, see Note 2.

Note 22. Accounts receivable

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Accounts receivable	14.9	12.3	1.5	2.5	
Rent receivables	1.5	0.3	0.5	-	
Total	16.4	12.6	2.0	2.5	

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

Rent receivables are charged in advance, the majority on a quarterly basis. Accounts receivable are invoiced subject to terms of payment of 30 days. Bad debt losses for the year amounted to SEK 1.0 million (0.1).

Note 23. Prepaid expenses and accrued income

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Accrued rent revenue	30.1	18.3	10.3	8.7	
Prepaid expenses	10.1	0.3	5.0	0.3	
Accrued interest income	5.0	2.2	5.0	2.2	
Total	45.2	20.8	20.3	11.2	

Note 24. Liquid funds

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Bank balances	130.8	40.4	130.5	39.7	
Total	130.8	40.4	130.5	39.7	

The Company receives interest on bank balances at a variable rate of interest based on the banks' daily investment rate.

Note 25. Equity

GROUP		
Specification of equity item, reserves		
SEK m	2007	2006
<i>Hedge reserve</i>		
Opening hedge reserve	-12.6	34.0
<i>Cash flow hedges:</i>		
Reported directly against equity	-21.0	-64.7
Tax attributable to hedges for the year	5.9	18.1
Closing hedge reserve	-27.7	-12.6
<i>Total reserves</i>		
Opening reserves	-12.6	34.0
Hedge reserve	-15.1	-46.6
Closing reserves	-27.7	-12.6

Other capital contributed

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

Reserves

Hedge reserve. The hedge reserve covers the accumulated change in fair value following a deduction for deferred tax on the effective part of the cash flow hedging instrument.

Profit brought forward, including profit for the year

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

Share capital

SEK m	2007	2006
<i>Breakdown of share series</i>		
A 202 996 869 shares	1,015.0	1,015.0
C 8 275 064 shares	41.4	41.4
Total	1,056.4	1,056.4

Huvudstaden AB (publ) has two share series, Series A and Series C. Both share series are registered on the OMX Nordic Stock Exchange in Stockholm. Series A carry one vote per share. Series C 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 A-shares. No buy-back of shares took place during the year.

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

Hufvudstaden's aim is to increase profit on current operations and to have a well-consolidated balance sheet with an equity ratio of at least 40 per cent over time. The shareholders should receive a good dividend growth over time and the dividend shall comprise more than half of the net profit on current operations unless investments or the Company's financial position generally justify a deviation.

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 which is not used to cover a loss brought forward. The statutory reserve also includes amounts which prior to January 1, 2006 were added to the share premium reserve.

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

Non-restricted equity

Profit brought forward. This comprises non-restricted equity from previous years or dividend paid. Profit brought forward, together with the profit for the year, is the amount available for payment of a dividend to the shareholders.

Note 26. Deferred tax liability

SEK m	2007	Group 2006	2007	Parent Company 2006
Investment properties	5,085.1	4,298.1	1,210.8	1,219.9
Hedge accounting	15.4	4.9	15.4	4.9
Untaxed reserves	222.8	190.6	-	-
Total	5,323.3	4,493.6	1,226.2	1,224.8

No deficit deduction as at the year-end 2007.

Change in deferred tax

SEK m	Balance as of January 1	Reported in profit and loss	Reported against equity	Discontinued operations	Balance as of December 31
GROUP					
<i>2007</i>					
Investment properties	4,298.1	787.0	-	-	5,085.1
Untaxed reserves	190.6	32.2	-	-	222.8
Hedge reserve	4.9	4.6	5.9	-	15.4
	4,493.6	823.8	5.9	-	5,323.3
<i>2006</i>					
Investment properties	3,674.4	796.7	-	-173.0	4,298.1
Untaxed reserves	176.9	37.4	-	-23.7	190.6
Hedge reserve	-13.2	-	18.1	-	4.9
	3,838.1	834.1	18.1	-196.7	4,493.6
PARENT COMPANY					
<i>2007</i>					
Investment properties	1,219.9	-9.1	-	-	1,210.8
Hedge reserve	4.9	4.6	5.9	-	15.4
	1,224.8	-4.5	5.9	-	1,226.2
<i>2006</i>					
Investment properties	1,219.5	0.4	-	-	1,219.9
Hedge reserve	-13.2	-	18.1	-	4.9
	1,206.3	0.4	18.1	-	1,224.8

Note 27. Liabilities to credit institutions

SEK m	2007	Group 2006	Parent Company 2007	2006
Loans	3,400.0	3,365.0	3,400.0	3,365.0
Total	3,400.0	3,365.0	3,400.0	3,365.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	2,000.0	700.0	2,000.0	700.0

As of December 31, 2007, Hufvudstaden had non-current loan assurances of SEK 2 billion. The loan assurances are subject to undertakings regarding the equity ratio and interest coverage ratio. At the year-end SEK 0 million was utilized.

Information regarding capital tie-up, loan terms and APR.

Bank loans 2007

Year due	Group		Parent Company	
	Average APR, % ¹⁾	Nominal amount	Average APR, % ¹⁾	Nominal amount
2008	5.5	600.0	5.5	600.0
2009	-	-	-	-
2010	5.3	500.0	5.3	500.0
2011	5.2	950.0	5.2	950.0
2012	5.1	250.0	5.1	250.0
2013	5.3	350.0	5.3	350.0
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	5.1	750.0	5.1	750.0
Total		3,400.0		3,400.0

1) Interest terms are 3 months Stibor with a supplement for an interest margin. Interest is paid quarterly. All loans are in SEK.

The loans raised are normally secured by means of a property mortgage and supplemented in many cases with a guarantee regarding the equity ratio and interest coverage level.

Continuation Note 27, see page 80.

Interest swaps 2007**Group and Parent Company**

Year due	Average APR		Nominal amount	Fair value
	Fixed interest, % ²⁾	Variable interest, % ³⁾		
2008	4.3	4.7	600.0	0.8
2009	-	-	-	-
2010	3.7	4.7	500.0	9.1
2011	3.5	4.7	350.0	12.4
2012	4.8	4.7	250.0	0.2
2013	3.7	4.7	350.0	16.3
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	4.6	4.7	750.0	16.2
Total			2,800.0	55.0

2) Interest is paid annually.

3) Interest terms are 3 months Stibor. Interest is paid quarterly. Swap contracts are in SEK.

The cash flows of the interest swaps concur with the hedged item.

For a presentation of the finance policy, risks and interest exposure, see Note 2.

Note 28. Pension provision

A provision has been made in the Balance Sheet for defined benefit pension plans for the President and former employees. The Group applies the ITP plan through insurance with Alecta and the total cost amounted to SEK 2.0 million. Charges for the year for pension insurance taken out with Alecta total SEK 2.8 million (3.1). Alecta's surplus can be distributed to the policyholders and/or the insured. At the end of 2007, Alecta's surplus in the form of the collective consolidation level amounted to 152 per cent (143). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance undertakings, calculated according to Alecta's insurance calculation undertakings, which do not concur with IAS 19. The premium to Alecta during the fourth quarter of 2007 was discounted by 40 per cent. The same premium discount will be applied for the whole of 2008.

Note 29. Other liabilities

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Liability, Vasaterminalen AB	-	441.7	-	-	-
VAT settlement	30.5	40.5	15.1	26.2	
Other	35.3	19.0	2.9	2.7	
Total	65.8	501.2	18.0	28.9	

Note 30. Untaxed reserves

SEK m	Parent Company	
	2007	2006
Accumulated depreciation in excess of plan		
Opening balance	68.1	60.1
Depreciation for the year	5.9	8.0
Closing balance	74.0	68.1
Tax allocation reserves	587.5	492.5
Total	587.5	492.5
Total untaxed reserves	661.5	560.6

Note 31. Accrued expenses and prepaid income

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Accrued interest	15.9	6.3	15.9	6.3	
Prepaid rent	174.0	192.8	102.2	114.3	
Other	47.0	62.3	55.5	62.1	
Total	236.9	261.4	173.6	182.7	

Note 32. Pledged assets and contingent liabilities

SEK m	2007	Group		Parent Company	
		2006	2007	2006	2007
Property mortgages for liabilities at credit institutions	1,706.4	1,621.3	1,706.4	1,621.3	
(of which mortgages on subsidiaries' properties)	(-)	(-)	(606.0)	(356.0)	
Other non-current receivables	4.1	3.9	4.1	3.9	
Total	1,710.5	1,625.2	1,710.5	1,625.2	

Pledged assets for own liabilities include mortgages which Hufvudstaden has lodged as collateral for loans on its own properties. Mortgages not used to raise loans are filed with the Company. The Group's contingent liabilities refer mainly to tax cases involving disputed amounts for which no provision has been made. See also Note 17.

Note 33. Affiliations

Hufvudstaden AB is under the controlling influence of L E Lundbergföretagen and Fredrik Lundberg. No material transactions had taken place with L E Lundbergföretagen. Following a decision at the Annual General Meeting, Fredrik Lundberg's director's fee for 2007 was SEK 350,000. Details of payments to Board members and senior executives are to be found in Note 9.

In addition to the affiliations that have been stated for the Group, the Parent Company also has affiliations, which means that it has a controlling influence over its subsidiaries, see Note 20.

Note 34. Events after the year-end

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

Note 35. Essential estimates and assessments

The most important sources of uncertainty in the assessments are presented below.

Investment properties

The value of 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 yield valuation. This valuation includes estimates of future rent levels, levels of vacant space and property costs. In the calculation model, an estimate is also made of each individual property's direct yield requirement. Hufvudstaden's internal property valuation is checked with external valuation companies, where an uncertainty range of +/- 3-9 per cent of the assessed market 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 on page 50.



Biblioteksgatan, Stockholm.

Proposed distribution of unappropriated earnings

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

A statement giving reasons for the proposed distribution of earnings is available on the Company's website, www.hufvudstaden.se or from the Company on request.

Profit brought forward	SEK 1,439,185,688
<u>Profit for the year</u>	<u>SEK 85,739,933</u>
	SEK 1,524,925,621
Dividend of SEK 1.75 per share	SEK 360,965,383 ¹⁾
<u>To be carried forward</u>	<u>SEK 1,163,960,238</u>
	SEK 1,524,925,621

1) See Definitions, page 93, Dividend.

The undersigned members of the Board of Directors hereby state that as far as they are aware, the Annual Accounts have been prepared in accordance with generally accepted accounting principles for publicly listed companies, the information provided concurs with the actual circumstances and nothing of material significance has been excluded that could affect the view of the Company that has been created by the Annual Accounts.

Stockholm, February 14, 2008

Fredrik Lundberg
Chairman

Claes Boustedt

Bengt Braun

Peter Egardt

Louise Lindh

Hans Mertzig

Sten Peterson

Anna-Greta Sjöberg

Ivo Stopner
President

My audit report was submitted on February 18, 2008

Bo Ribers
Authorized Public Accountant
KPMG

Auditors' Report

To the Annual General Meeting of the shareholders of Hufvudstaden AB (publ), company registration number 556012-8240.

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Hufvudstaden AB (publ) for 2007. The Company's annual accounts and consolidated accounts are included in the printed version of this document on pages 50–82. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS, as adopted by the EU, and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and the circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board Member or the President. I also examined whether any Board member or the President has,

in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRS, as adopted by the EU, and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual meeting of the shareholders that the Income Statements and Balance Sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 18, 2008

Bo Ribers
Authorized Public Accountant
KPMG

Board of Directors and Auditors

The Board of Directors consists of nine members, without any deputies, all elected at the Annual General Meeting. The members include persons who have links to Hufvudstaden's largest shareholders Lundbergs and SEB Trygg Liv. The President is also a member of the Board of Directors. Other executives in the Company take part in Board meetings to present specific points. During the 2007

financial year, the Board of Directors held seven meetings, of which one was a statutory meeting. The work of the Board of Directors is in compliance with the rules of procedure adopted by the Board governing the undertakings of the President and the Board 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 L E Lundbergföretagen AB. Chairman of Holmen AB and Cardo AB. Board member of L E Lundbergföretagen AB, Handelsbanken, AB Industrivärden, NCC AB and Sandvik AB. Holding in Hufvudstaden: 1,659,412 shares.



Bengt Braun

Born 1946. MBA, LL.M. Board member since 2000. Deputy Chairman of Bonnier AB Board member of the Swedish American Chamber of Commerce Hjärnfonden and Bonnier Holding AB. Holding in Hufvudstaden: 3,750 shares.



Claes Boustedt

Born 1962. MBA. Board member since 1998. Vice President of L E Lundbergföretagen AB. President of L E Lundberg Kapitalförvaltning AB. Holding in Hufvudstaden: 1,000 shares.

Auditors

Bo Ribers born 1942. Authorized Public Accountant, KPMG. Auditor to the Board since 1999.
Stefan Älgne born 1955. Authorized Public Accountant, KPMG. Deputy auditor to the Board since 2000.



Peter Egardt
 Born 1949. BA.
 Board member since 2003.
 President of the Stockholm Chamber of Commerce and the Association of Swedish Chambers of Commerce.
 Chairman of Chamber Sign AB, the Swedish National Space Board and Kungsträdgården Park & Evenemang AB. Deputy Chairman of Eurochambres and Stockholmsmässan. Member of the Board of Governors of the Bank of Sweden.
 Holding in Hufvudstaden: 3,000 shares.



Louise Lindh
 Born 1979. MBA.
 Board member since 2007.
 Vice President, Fastighets AB L E Lundberg. Member of the Board of Byggnads AB Karlsson & Wingsjö and L E Lundberg Kapitalförvaltning AB.
 Holding in Hufvudstaden: 29,166 shares.



Hans Mertzig
 Born 1941. Economist.
 Board member since 2000.
 Asset manager at KK-stiftelsen. Chairman of Tryggstiftelsen. Member of the Board of the Seventh Swedish Pension Fund.
 Holding in Hufvudstaden: –



Sten Peterson
 Born 1956. MSc.
 Board member since 2006.
 President of Byggnads AB Karlsson & Wingsjö. Member of the Board of L E Lundbergföretagen AB, Fastighets AB L E Lundberg and Byggnads AB Karlsson & Wingsjö.
 Holding in Hufvudstaden: –



Anna-Greta Sjöberg
 Born 1967. MBA.
 Board member since 2006.
 Managing Director, Royal Bank of Scotland, Nordic Branch.
 Member of the Board of LKAB.
 Holding in Hufvudstaden: –



Ivo Stopner
 Born 1962. MSc. President and Board member since 1999.
 Holding in Hufvudstaden: 3,300 shares (including family). Ivo Stopner has no material shareholdings or partnership in companies with which the Company has significant business relations

Secretary

Sten-Åke Stenshamm born 1944. Lawyer at Landahl Öhman Advokatbyrå KB. Secretary to the Board since 2001.

President and Senior Executives

Ivo Stopner

*Born 1962. MSc. President, employed since 1990.
Holding in Hufvudstaden: 3,300 shares (including family).
Ivo Stopner has no material shareholdings or partnership in
companies with which the Company has significant
business relations.*

Magnus Jacobson

*Born 1958. MBA. Head of Finance, employed 2002.
Holding in Hufvudstaden: –*

Sverker Källgården

*Born 1968. MSc. Head of the Stockholm City West Business Area,
employed 2005. Holding in Hufvudstaden: –*

Eric Nihlmark

*Born 1952. MSc. Head of the Gothenburg Business Area,
employed 1983. Holding in Hufvudstaden: 1,000 shares.*

Anders Nygren

*Born 1970. MSc. Head of Property Development,
employed 2006. Holding in Hufvudstaden: –*

Bo Wikare

*Born 1963. MSc. Head of the Stockholm City East Business Area,
employed 1994. Holding in Hufvudstaden: 62 shares.*



Hufvudstaden executive management:

Bo Wikare, Magnus Jacobson, Ivo Stopner, Eric Nihlmark, Sverker Källgården and Anders Nygren.

Property designation	Address	Site area, sq. m	Year of purchase	Year of construction/ redevelopment	Tax assessment 2007, SEK m
Stockholm City East Business Area					
<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	276.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	301.0
Kåkenhusen 39	Kungsgatan 4 A–B–10, Brunnsgatan 5–9, Norrlandsgatan 29	3,788	1921	1926/28/30/84/85/89/91	545.0
Oxhuvudet 18 ¹⁾	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 29–33, Malmkillnadsgatan 39	4,509	1926	1931/85/89/91	1,017.0
<i>Total</i>		10,684			2,139.0
<i>Norrmalmstorg Management Area</i>					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	161.0
Kvasten 6 ¹⁾	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	270.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	168.0
Norrmalm 2:62 ²⁾	Norrmalmstorg, Café Palmhuset		1992	1993	8.0
Packarhuset 4 ^{1) 3)}	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	810.0
Pumpstocken 10 ^{1) 4)}	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	593.9
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	120.0
Rännilen 11	Biblioteksgatan 6–8, Mäster Samuelsgatan 5	775	1958	1902/85	120.0
Rännilen 18 ¹⁾	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986	355.0
Rännilen 19 ⁵⁾	Norrmalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39 2007	1902/42/64/90/2002	546.0
Skären 9	Smålandsgatan 20, Norrlandsgatan 10	2,195	1917	1984/2001	478.0
Vildmannen 7 ¹⁾	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	164.8
<i>Total</i>		17,663			3,794.7
Total, Stockholm City East Business Area		28,347			5,933.7
Stockholm City West Business Area					
<i>NK Management Area, Stockholm</i>					
Hästen 19 ¹⁾ och 20, Spektern 14 ⁶⁾	Hamngatan 18–20, 29–33, Regeringsgatan 26–32, 36–40	8,875	1998	1915/91	1,893.0
<i>NK Management Area, Gothenburg</i>					
Inom Vallgraven 10:9 ⁷⁾	Östra Hamngatan 42, Kyrkogatan 54, Fredsgatan 5–7, Drottninggatan 39, 45	4,520	1998	1964/94	632.0
<i>Parkaden Management Area</i>					
Hästskon 10 ⁸⁾	Regeringsgatan 49–53, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	322.0
<i>West Management Area</i>					
Achilles 1 ⁹⁾	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th century/1974	118.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	203.0
Kungl Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	99.0
Medusa 1 ^{1) 10)}	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	57.2
Orgelpipan 7 ¹¹⁾	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	723.0
Svärdfisken 2 ¹⁾	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	170.5
<i>Total</i>		12,075			1,370.7
Total, Stockholm City West Business Area		30,391			4,217.7
Gothenburg Business Area					
Inom Vallgraven 12:8	Drottninggatan 52	398	1967	1875	16.1
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	217.0
Inom Vallgraven 20:4	Kungsgatan 46	982	1974	1914	63.6
Nordstaden 8:24	Postgatan 26–32, Nordstadstorget 6, Spannmålgatan 19, Nils Ericssonsgatan 17	8,404	1979	1972	1,215.0
Nordstaden GA:5 ¹²⁾	Nordstadstorget and others				284.2
Total, Gothenburg Business Area		13,941			1,795.9
TOTAL		72,679			11,947.3

Rentable space, sq. m								
Offices	Stores	Restaurants	Cinemas	Storage	Garage	Residential	Other	Total
4,957	1,594			239				6,790
6,621	1,588			1,026				9,235
11,896	3,024	564		552				16,036
21,400	4,665			1,974	1,954		5	29,998
44,874	10,871	564		3,791	1,954		5	62,059
2,843	764			287	792			4,686
3,534	2,751	270		146	204			6,905
2,469	533	192		262				3,456
	52	137						189
10,850	3,289	704		406				15,249
7,744	3,443	582		438		192	1	12,400
2,018	371	158		66				2,613
1,586	854	539						2,979
5,393	557	911		388				7,249
8,044	2,293			692	1,033			12,062
7,710	1,642			402	1,139			10,893
1,935	1,517			9		900	1	4,362
54,126	18,066	3,493		3,096	3,168	1,092	2	83,043
99,000	28,937	4,057		6,887	5,122	1,092	7	145,102
11,622	21,525	1,828		3,588			15	38,578
5,161	9,187	893		1,228			12	16,481
	2,696	512		8,670	24,482		8	36,368
4,006	351			604				4,961
7,548	377	263		835				9,023
2,617								2,617
1,282	242	259		99		298		2,180
9,897	3,909	1,919		2,789	13,421		1	31,936
3,896	175		1,893	389	1,105			7,458
29,246	5,054	2,441	1,893	4,716	14,526	298	1	58,175
46,029	38,462	5,674	1,893	18,202	39,008	298	36	149,602
572	186			147				905
10,269	3,218	404		1,031	1,250			16,172
741	1,690							2,431
20,378	15,951	740		2,342			62	39,473
31,960	21,045	1,144		3,520	1,250		62	58,981
176,989	88,444	10,875	1,893	28,609	45,380	1,390	105	353,685

Properties

- 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) Following property adjustment the former properties Pumpstocken 11, 12 and 13 are included.
- 5) Following property adjustment the newly acquired former property Rännilen 15 is included.
- 6) Owned by the subsidiary AB Nordiska Kompaniet. Hästen 20 och Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 2.5 million and is fixed until May 1, 2010. The ground rent for Spektern 14 is SEK 0.2 million and is fixed until October 1, 2005. The ground rent after October 1, 2005 is the subject of negotiation. Both ground rents are regulated every 10 years. The tax assessment value of the land is included to the amount of SEK 574.0 million.
- 7) Owned by the subsidiary AB Nordiska Kompaniet.
- 8) Owned by the subsidiary AB Hamngatgaraget. Leasehold. The ground rent is SEK 4.4 million, fixed until August 31, 2014 and reviewed every 10 years. The tax assessment value of the land is included to the amount of SEK 75.0 million.
- 9) The property is a listed building.
- 10) Owned by the subsidiary Fastighetsaktiebolaget Medusa.
- 11) Leasehold. The ground rent is SEK 7.9 million, fixed until October 31, 2014 and reviewed every 10 years. The tax assessment value of the land is included to the amount of SEK 232.0 million.
- 12) The property is jointly owned and includes parking operations, some leasing of premises as well as servicing and maintenance of a pedestrian precinct, loading areas, cooling and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 29.6 per cent, equivalent to 25,359 square metres.

Statistics

Property holdings (comparable holdings)	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2007		2006		2007		2006		2007		2006		2007		2006	
	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m	SEK	m/sq. m
Gross rent including charge for consumables (of which property tax supplement)	573.9	4,049	560.6	3,944	528.4	3,532	489.0	3,266	161.3	2,735	148.8	2,521	1,263.6	3,607	1,198.4	3,415
Rent losses on vacant space	-35.4	-250	-50.8	-357	-20.6	-138	-46.2	-309	-3.3	-56	-4.3	-73	-59.3	-169	-101.3	-289
Bad debt losses	-	-	-	-	-0.7	-5	-0.6	-4	-0.3	-5	-	-	-1.0	-3	-0.6	-2
Net sales	538.5	3,799	509.8	3,586	507.1	3,390	442.2	2,953	157.7	2,674	144.5	2,448	1,203.3	3,435	1,096.5	3,125
Maintenance	-10.9	-77	-27.9	-196	-12.5	-84	-30.4	-203	-3.0	-51	-3.2	-54	-26.4	-75	-61.5	-175
Operating costs	-39.4	-278	-36.3	-255	-88.9	-594	-85.7	-572	-24.3	-412	-23.2	-393	-152.6	-436	-145.2	-414
Administration	-25.9	-183	-22.5	-158	-22.7	-152	-19.5	-130	-6.2	-105	-5.1	-86	-54.8	-156	-47.1	-134
Property tax	-55.8	-394	-50.6	-356	-40.5	-271	-31.3	-209	-18.0	-305	-10.6	-180	-114.3	-326	-92.5	-264
Ground rent	-0.2	-1	-0.2	-1	-15.9	-106	-15.9	-106	-	-	-	-	-16.1	-46	-16.1	-46
Total property expenses	-132.2	-933	-137.5	-967	-180.5	-1,207	-182.8	-1,221	-51.5	-873	-42.1	-713	-364.2	-1,040	-362.4	-1,033
Gross operating profit	406.3	2,866	372.3	2,619	326.6	2,183	259.4	1,732	106.2	1,801	102.4	1,735	839.1	2,395	734.1	2,092

Property data	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	2007	2006	2007	2006	2007	2006	2007	2006
	Number of properties	16	16	9	9	4	4	29
Floor space, sq. m	145,102	142,148	149,602	149,726	58,981	59,021	353,685	350,895
Vacant rental space, %	3.8	7.7	3.3	6.0	1.7	3.3	3.3	6.5
Vacant floor space, %	5.4	10.2	4.7	7.4	2.4	4.8	4.6	8.1
Total rentable parking spaces	184	185	1 276	1 278	52	51	1 512	1 514

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, 2007							
Offices	99,000	400.8	46,029	144.3	31,960	56.4	176,989	601.5
Stores and restaurants	32,994	176.1	44,136	287.0	22,189	85.1	99,319	548.2
Cinemas	-	-	1,893	1.3	-	-	1,893	1.3
Storage and miscellaneous	6,894	12.4	18,238	28.4	3,582	5.9	28,714	46.7
Garages	5,122	6.1	39,008	37.4	1,250	1.3	45,380	44.8
Residential	1,092	1.7	298	0.3	-	-	1,390	2.0
Total	145,102	597.1	149,602	498.7	58,981	148.7	353,685	1,244.5

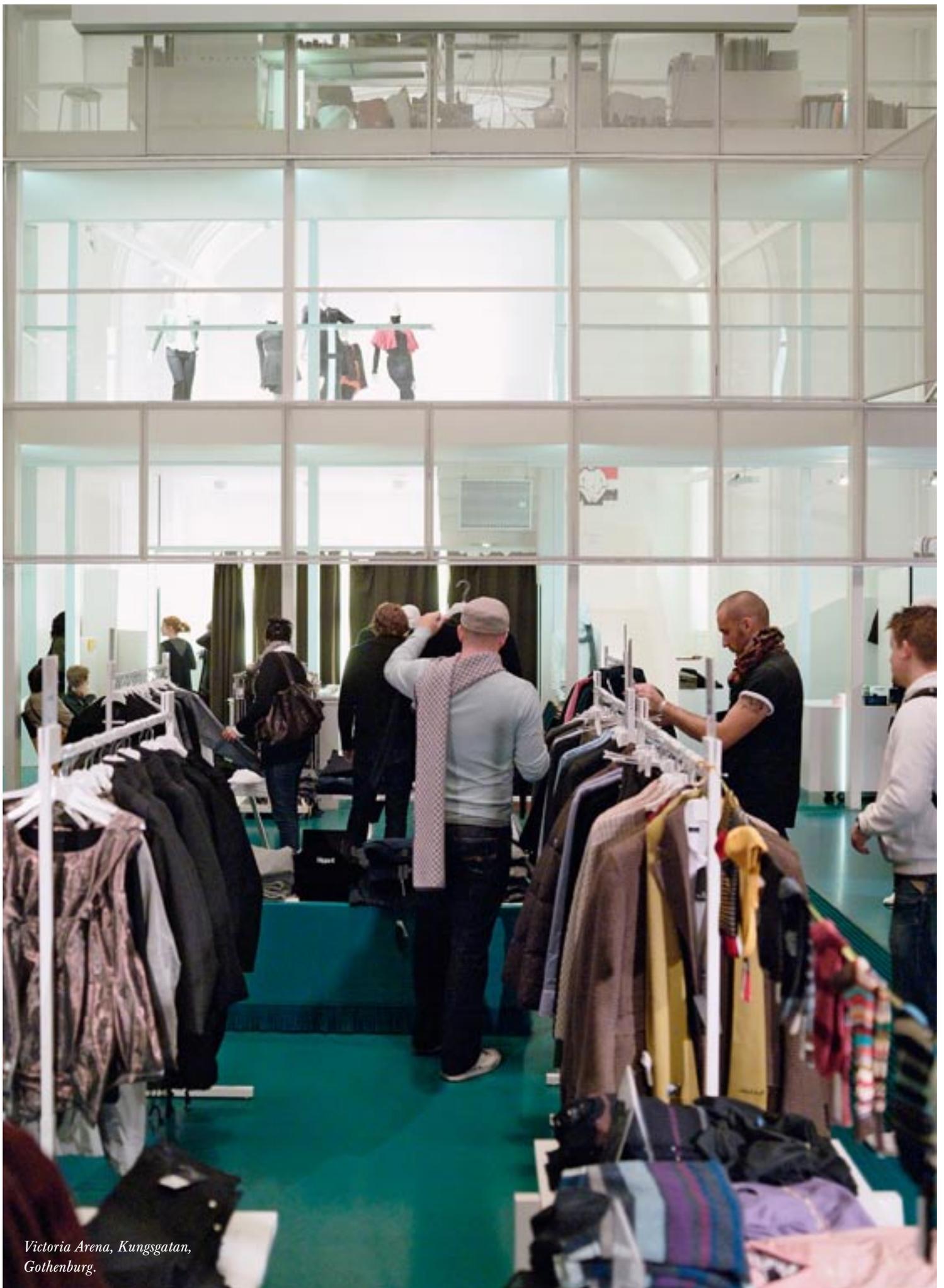
Floor space, vacancy level and vacant rental space	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	Vacant floor space, sq. m	Rental vacancy level, SEK m	Vacant floor space, sq. m	Rental vacancy level, SEK m	Vacant floor space, sq. m	Rental vacancy level, SEK m	Vacant floor space, sq. m	Rental vacancy level, SEK m
	December 31, 2007							
Offices	4,793	16.0	3,009	9.0	1,159	2.3	8,961	27.3
Stores and restaurants	479	2.8	1,098	4.3	-	-	1,577	7.1
Cinemas	-	-	-	-	-	-	-	-
Storage and miscellaneous	1,139	1.6	2,754	2.8	273	0.2	4,166	4.6
Garages	935	1.2	108	0.1	-	-	1,043	1.3
Residential	501	0.9	-	-	-	-	501	0.9
Total	7,847	22.5	6,969	16.2	1,432	2.5	16,248	41.2

Lease term structure^{1) 2) 3)}							
December 31, 2007							
NUMBER OF CONTRACTS	2008	2009	2010	2011	2012	2013–	Total
Stockholm City East Business Area							
Offices	49	51	54	14	10	6	184
Stores	23	21	35	7	5	4	95
Miscellaneous	251	87	59	15	7	19	438
Total	323	159	148	36	22	29	717
Proportion, %	45.1	22.2	20.6	5.0	3.1	4.0	100.0
Stockholm City West Business Area							
Offices	21	17	24	6	7	1	76
Stores	71	57	39	6	3	1	177
Miscellaneous	146	74	62	8	5	2	297
Total	238	148	125	20	15	4	550
Proportion, %	43.3	26.9	22.7	3.7	2.7	0.7	100.0
Gothenburg Business Area							
Offices	4	14	25	9	2	1	55
Stores	9	22	21	10	7	3	72
Miscellaneous	36	22	43	14	1	–	116
Total	49	58	89	33	10	4	243
Proportion, %	20.2	23.9	36.6	13.6	4.1	1.6	100.0
Hufvudstaden, total							
Offices	74	82	103	29	19	8	315
Stores	103	100	95	23	15	8	344
Miscellaneous	433	183	164	37	13	21	851
Total	610	365	362	89	47	37	1 510
Proportion, %	40.4	24.2	24.0	5.9	3.1	2.4	100.0
ANNUAL RENT, SEK m							
Stockholm City East Business Area							
Offices	79.8	77.9	89.5	40.4	32.5	64.8	384.9
Stores	28.4	33.6	47.9	11.3	12.1	21.1	154.4
Miscellaneous	13.8	8.7	4.5	2.0	2.0	1.7	32.7
Total	122.0	120.2	141.9	53.7	46.6	87.6	572.0
Proportion, %	21.3	21.0	24.8	9.4	8.2	15.3	100.0
Stockholm City West Business Area							
Offices	22.8	19.2	51.0	17.6	18.0	4.0	132.6
Stores	95.9	84.2	56.5	14.9	4.0	6.3	261.8
Miscellaneous	13.6	38.6	22.8	3.0	2.7	1.4	82.1
Total	132.3	142.0	130.3	35.5	24.7	11.7	476.5
Proportion, %	27.8	29.8	27.3	7.4	5.2	2.5	100.0
Gothenburg Business Area							
Offices	5.5	6.2	21.7	8.4	12.9	0.2	54.9
Stores	4.2	20.2	22.2	13.8	13.6	7.3	81.3
Miscellaneous	1.9	3.6	4.1	1.9	0.3	–	11.8
Total	11.6	30.0	48.0	24.1	26.8	7.5	148.0
Proportion, %	7.8	20.3	32.4	16.3	18.1	5.1	100.0
Hufvudstaden, total							
Offices	108.1	103.3	162.2	66.4	63.4	69.0	572.4
Stores	128.5	138.0	126.6	40.0	29.7	34.7	497.5
Miscellaneous	29.3	50.9	31.4	6.9	5.0	3.1	126.6
Total	265.9	292.2	320.2	113.3	98.1	106.8	1,196.5
Proportion, %	22.2	24.4	26.8	9.5	8.2	8.9	100.0

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

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

3) Excluding residential leases.



*Victoria Arena, Kungsgatan,
Gothenburg.*

Definitions

Annual rent. Gross rent at the end of the year, calculated on an annual basis, excluding the turnover-based rent supplement. Vacant premises are reported at the market rent.

Average interest on interest-bearing liabilities. Interest expense in relation to the average interest-bearing liabilities.

Average number of employees. The volume of work performed during the year, expressed as the number of full-time employees. (Paid working hours in relation to the normal annual working hours at the Company).

Average number of outstanding shares. The average number of outstanding shares during the year.

CBD. Central Business District. The most central part of a city for office and retailing properties.

Capital employed. Total assets less non-interest-bearing liabilities and deferred tax liabilities.

Cash flow from current operations per share. Cash flow from current operations in relation to the average number of outstanding shares during the year.

Cash flow per share for the year. Cash flow for the year in relation to the average number of outstanding shares during the year.

Central administration. The costs for Group Management and Group staff functions as well as the cost of maintaining the Company's stock exchange listing and other Company costs.

Collateral level, properties. Interest-bearing liabilities in relation to the properties' carrying values.

Comparable property holdings. Properties acquired and sold during the year are excluded.

Debt/equity ratio. Net liabilities in relation to equity at the year-end.

Direct yield. Dividend per share in relation to the share price at the year-end.

Direct yield, properties. Net operating profit in relation to the fair value of the properties.

Dividend. The total dividend is calculated on the total number of issued shares as of 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 per share divided by the profit per share for the year.

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

Equity per share. Equity in relation to the number of outstanding shares at the year-end.

Floor space vacancy level. Vacant premises in square metres in relation to the total rentable floor space.

Golden Triangle. The central business district in Stockholm, between Stureplan, Norrmalmstorg and Nybroplan and bordered by Birger Jarlsgatan, Norrlandsgatan and Hamngatan.

Gross margin. Gross profit in relation to net sales.

Gross rent. The contracted rent including the estimated market rent for vacant premises.

Interest coverage ratio. Profit after financial income and expense, excluding unrealized changes in value, plus interest expense less interest contributions, in relation to interest expense less interest contributions.

Investments. Expenses related to value-enhancing improvements that generate future financial benefits are capitalized. Rebuilding costs of an ongoing maintenance nature are charged to profit.

Net liabilities. Interest-bearing liabilities less interest-bearing assets.

Net operating profit. Net property management revenue less the cost of special projects, maintenance, operation and administration, ground rent and property tax.

Net profit on current operations. Profit before tax, excluding changes in value, properties and derivatives and items affecting comparability charged with 28 per cent standard 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.

Outstanding shares. The total number of issued 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 in relation to the average number of outstanding shares during the year.

Properties' carrying value per share. The carrying value of the properties in relation to the number of outstanding shares at the year-end.

Property tax supplement. Reimbursement of property tax from tenants.

Renegotiated leases. New or extended leases with existing tenants whose earlier leases came to an end during the year.

Rentable floor space. Total area available for renting.

Rental losses. Loss of revenue as a result of vacancies.

Rental vacancy level. Vacant floor space at an estimated market rent in relation to the total annual rent.

Return on capital employed. Profit after financial items plus interest expense minus interest contributions in relation to the average capital employed.

Return on equity. Profit for the year in relation to the average equity.

Share price/equity. The share price at the year-end in relation to equity per share.

Special projects. Costs for the development and improvement of the property holdings. In the Income Statement this refers to the part of the cost that has been expensed.

Tax. The Group's total tax comprises actual tax and deferred tax.

Turnover-based rent supplement. Rent in addition to the guaranteed minimum rent, based on the store's net turnover.

Yield gap. The difference between the long-term interest rate and the properties' direct yield.

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