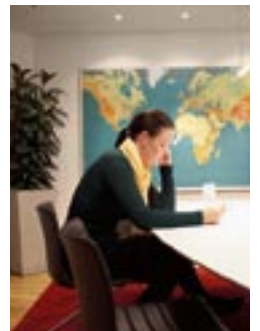


# HUFVUDSTADEN 2008







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## *The year in brief*

- The gross profit from property management for comparable holdings increased by 4 per cent to SEK 874 million (839). The improved profit can be attributed mainly to higher rents.
- The result for the year was SEK -449 million (2,401), equivalent to SEK -2.18 per share (11.64). The fall can be attributed to an unrealized decrease in value in the property holdings during the year of SEK 1,629 million compared with the unrealized increase in value the previous year (2,598).
- The equity ratio was 56 per cent, the net loan-to-value ratio was 16 per cent and the interest coverage ratio multiple was 5.5.
- The Board proposes an increase in the ordinary dividend to SEK 1.90 per share (1.75).
- The fair value of the property holdings was set at SEK 19.1 billion (20.5) at the turn of the year, equivalent to a net asset value of SEK 66 per share (73).
- The rental vacancy level at the year-end was 5.3 per cent (3.3) and excluding projects in progress 2.9 per cent (3.2).

## *Annual General Meeting*

The Annual General Meeting will take place at 4pm on Thursday, March 26, 2009 at the Grand Hotel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual General Meeting will be published in Dagens Nyheter and Svenska Dagbladet and on the Post- och Inrikes Tidningar website [www.bolagsverket.se/poit](http://www.bolagsverket.se/poit).

### **Notification**

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by Euroclear Sweden/VPC AB by Friday, March 20, 2009, whereupon shareholders who have their shares under management must have the shares re-registered temporarily in their own name at Euroclear Sweden/VPC AB to be entitled to attend the meeting. Registration must be completed by March 20, 2009.
- notify Hufvudstaden by Friday, March 20, 2009 at the latest, preferably before 4pm. Notification must be sent using the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se), by e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se), by telephone on +46-8-7629000, by fax on +46-8-7629001, 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,

the 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 20, 2009 at the latest. A proxy form is provided on request and is available on the Company's website.

### **Dividend**

The Board of Directors proposes that a dividend of SEK 1.90 per share, totalling SEK 391.9 million, be paid for 2008, with the record date March 31, 2009. Payment is expected to be made on April 3, 2009.

### **Change of address**

Shareholders who are legal entities or who are not registered as resident in Sweden, and who have changed name, address or account number, should notify Euroclear Sweden/VPC AB of the change as soon as possible through the institution at which their account is registered.

## *Financial information*

Interim report, Jan–Mar 2009.....	May 6, 2009
Interim report, Jan–June 2009 .....	August 26, 2009
Interim report Jan–Sept 2009.....	November 5, 2009
Year-end report 2009.....	February 11, 2010
Annual Report 2009 .....	March 2010

### **Contacts**

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

# *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 holdings 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 knowledge 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 391.9 million, equivalent to 75 per cent of the net profit from current operations.
- The equity ratio exceeded 40 per cent at the end of 2008 and amounted to 56 per cent.

### *Operating objectives*

- Profit on current operations increased by 5 per cent during the year. The net profit from current operations increased by 3 per cent during the year.
- Hufvudstaden came top and has the most satisfied office tenants according to 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 15,000 square metres of office space for new and old tenants. During the autumn ABN AMRO vacated its premises at Rännilen 18 in Stockholm, giving us the opportunity to completely refurbish the property and create an open office area and make efficient use of floor space. Re-development is expected to be completed during autumn 2009.
- An extensive leadership programme was completed for all the Company's managers during 2008. All employees are encouraged and given the opportunity to acquire greater know-how by setting personal objectives and preparing individual activity plans.



## *Statement by the President*

In the middle of September 2008 the global financial crisis worsened. Interest margins increased and it was difficult to secure financing. The stock market fell and was down by around 40 per cent at the end of the year. Financial uncertainty also spread to the property industry and few property transactions were completed.

Although the downturn in the economy has also affected Hufvudstaden, we have seen ever since the beginning in 1915 that there are good times and bad. We have learnt the value of stable finances. Hufvudstaden has one of the strongest balance sheets among the leading publicly listed property companies with an equity ratio of over 50 per cent and a loan-to-value ratio of less than 20 per cent. We are thus well equipped to deal with adverse conditions and we have the potential to make interesting, long-term property investments.

### **Strong financial result despite a harsher economic climate**

Despite the recession, Hufvudstaden's results have been good. The profit from current operations was SEK 907 million, an increase of 5 per cent. The improvement can be explained mainly by a rise in rents in conjunction with new leases, renegotiations and a falling level of vacant space.

Taking into account unrealised changes in value in the property holdings, which have been negative during the year, the result after tax was SEK -449 million. As Hufvudstaden has a strong financial position the negative growth in value has not had any impact on operations.

### **Satisfactory levels on the rental market**

In Stockholm, the market rent for office space in prime locations and of the highest standard is between SEK 4,500 and 5,000 per square metre. In Gothenburg the level is between SEK 1,600 and 2,300 per square metre. Hufvudstaden's net revenue increased by 6 per cent and renegotiations have also proved successful with an increase of 14 per cent. The rental vacancy level at the year-end was very low at 3 per cent (excluding current projects). On the whole, the year went according to plan and we are well placed as we enter 2009.

We must, however, expect a slightly cooler rental market as long as the uncertainty in the economy continues. This need not be entirely negative for Hufvudstaden as certain tenants who were considering moving due to a lack of expansion potential have now opted to stay.

The retail trade has for many years shown a strong rate of growth. This was also the case during the first half of 2008. During the autumn, private consumption waned although

Christmas trade was once again strong and contributed to a relatively good 2008 retailing year, which as a whole was on a par with 2007.

Particularly at a time when the retail trade is slowing down Hufvudstaden has an important competitive advantage: good city centre locations. Through our attractive marketplaces and strong brands we should be in a good position to maintain the low level of vacant space and stable rent levels.

### **Slow-down in the property market**

At the turn of the year 2007/2008 property prices reached an all-time high. The direct yield requirement for commercial properties in prime locations in Stockholm amounted to approximately 4 per cent. During the first half of the year the property market was stable with unchanged direct yield levels. Interest on the part of both Swedish and foreign investors continued to be good, with a number of major transactions as a result. One example was the acquisition of Vasakronan by AP Fastigheter before the summer.

During the autumn activity on the property market slowed down in line with increasing uncertainty worldwide. The direct yield requirement increased, purchasers and sellers had different price expectations and the banks were very restrictive when lending to the property sector. Foreign investors, who were previously very active, disappeared and the few transactions that were completed involved Swedish purchasers.

During the year as a whole the direct yield requirement for commercial properties in prime locations rose by approximately 0.5 – 1.0 percentage points in both Stockholm and Gothenburg. The market value of Hufvudstaden's holdings fell during the year and at the year-end it was put at SEK 19.1 billion (20.5).

### **Continued development of the property holdings**

The construction market has been overheated for a number of years with limited competition and high costs as a result. Now that the construction of residential properties has fallen and planned commercial projects have been put on hold, the situation has become more advantageous for property owners wishing to develop their buildings.

Hufvudstaden continuously evaluates new projects to maintain and enhance the attractiveness of the city environments in co-operation with politicians and other property owners and also to adapt the Company's premises to generate added value in the property holdings.

At present we are totally refurbishing one of the very first office buildings in Stockholm. In a prime location, on the corner of Birger Jarlsgatan and Smålandsgatan, we are redeveloping a building that is of considerable cultural and historical value in order to live up to the strict demands of the most quality-minded tenants for modernity and efficiency – a typical Hufvudstaden project. The building is expected to be ready in autumn 2009.



#### **Hufvudstaden has the most satisfied office tenants**

In this year's Customer Satisfaction Survey among the leading property companies, Hufvudstaden came top. Our standing increased as the industry as a whole fell. Hufvudstaden came top in nine of the ten categories.

We are pleased to have succeeded in meeting the extremely high expectations of our tenants. Particularly heartening is coming top for service, which we know is especially important for our tenants. The result highlights the importance of the daily involvement of our employees in all matters, both large and small.

#### **Responsible enterprise**

A key part of Hufvudstaden's operations is the Company's long-term approach. We must act judiciously, responsibly and with a focus on the long term in every context – from financial risk-taking through to how we develop and look after our properties. This also applies to our impact on climate and environment and we are following developments in the environmental field closely. We will strive to choose construction materials wisely from a long-term point of view as well as saving energy as far as possible. We have, for example, succeeded in reducing energy consumption several years in succession despite the increase in letting.

#### **Focus 2009**

During 2009 we will focus on maintaining and, if possible, reinforcing our earning capacity. We will therefore work to reinforce relationships with both new and existing customers. As part of our efforts we have reinforced our service and marketing organization. In 2009 we intend to reinforce Hufvudstaden's brand more clearly than ever to ensure we are the preferred choice for anyone looking for high-quality office or retailing premises in prime locations.

We will examine costs, both large and small, to ensure that our resources are channelled into measures that generate

the greatest possible return. The project at Birger Jarlsgatan/Smålandsgatan has been assigned top priority to ensure that implementation and signing of new leases take place optimally. Work on energy-saving measures will be intensified.

During the year we will work to identify and assure new projects which in the long term will result in higher earning capacity and subsequently improved value for our shareholders. The possibility of making property acquisitions that complement Hufvudstaden's holdings cannot be excluded.

#### **The economy, Hufvudstaden and the future**

Hufvudstaden has a strong financial position, a good cash flow, committed employees and the most satisfied tenants in the industry in the best locations in Stockholm and Gothenburg. We have learnt from past experience and done our utmost to prepare for the economic situation that is now a reality.

I therefore view the future with confidence as we continue to develop operations, following the long-term path that has already been marked out and with the focus firmly on quality and long-term thinking.

Stockholm, February 2009

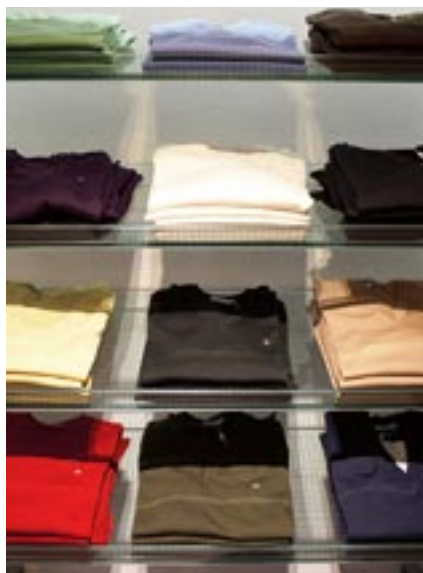
A handwritten signature in blue ink, appearing to read 'Ivo Stopner', written over a faint circular stamp.

Ivo Stopner  
*President*



*Biblotecksgatan is part of what is known as the Golden Triangle. It is the Golden Triangle that is historically the core of the Hufvudstaden property holdings. This is where the Company has developed a beautiful area into an attractive, modern business district. A district in which interesting stores, offices and business restaurants exist side by side. Images: Biblotecksgatan, Stockholm.*









*The well-known restaurant Prinsen is located in the property Mäster Samuelsgatan 4. Another tenant at the same address is Alrutz Advokatbyrå, which this year will celebrate 100 years as a tenant in this property. This is something that we are proud of as Hufvudstaden is constantly endeavouring to establish long-term business relationships. Fellow law firm Magnusson Advokatbyrå is a tenant in the neighbouring property Mäster Samuelsgatan 6. Images: Mäster Samuelsgatan, Stockholm.*

## Five-year summary – Group

<b>Income statements</b>					
<b>SEK m</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<i>Net revenue</i>					
Property management	1,282	1,213	1,097	1,096	1,273
Parking operations	65	63	56	57	85
	1,348	1,276	1,153	1,152	1,358
<i>Operating expenses</i>					
Maintenance, operation and administration	-260	-235	-254	-281	-289
Ground rents	-16	-16	-16	-10	-36
Property tax	-119	-115	-93	-93	-106
Depreciation	–	–	–	–	-1
Property management	-395	-366	-363	-385	-431
Parking operations	-46	-45	-45	-44	-74
	-441	-411	-408	-428	-506
Gross profit	907	865	745	724	853
– of which Property management	887	847	734	711	842
– of which Parking operations	20	18	11	13	11
Central administration	-32	-31	-32	-31	-29
<i>Changes in value</i>					
Investment properties	-1,629	2,598	2,648	996	298
Interest derivatives	-127	16	–	–	–
Operating result	-881	3,449	3,361	1,689	1,121
Financial income and expense	-144	-127	-140	-140	-225
Result before tax	-1,025	3,322	3,221	1,550	896
Tax	576	-928	-904	-435	-125
Profit from discontinued operations, net after tax <sup>1)</sup>	–	7	1,106	220	–
Result for the year	-449	2,401	3,423	1,334	771
<b>Balance sheets</b>					
<i>Assets</i>					
Investment properties	19,083	20,531	17,409	16,276	15,000
Other fixed assets	12	69	31	69	84
Current assets	489	349	3,080	144	59
Total assets	19,584	20,949	20,520	16,489	15,142
<i>Equity and liabilities</i>					
Equity	10,950	11,809	11,785	8,615	8,140
Interest-bearing liabilities	3,400	3,400	3,365	3,525	3,135
Other liabilities and allocations	5,234	5,740	5,370	4,349	3,867
Total equity and liabilities	19,584	20,949	20,520	16,489	15,142
<b>Property holdings</b>					
Fair value, SEK billion	19.1	20.5	17.4	16.3	15.0
Tax assessment value, SEK billion	11.9	11.9	9.0	10.6	10.9
Rentable floor space, 1,000 sq. m.	354	354	351	408	407
Rental vacancy level, %	5.3	3.3	6.5	7.1	8.2
Floor space vacancy level, %	5.9	4.6	8.1	8.7	9.5
Investments in properties, SEK m	182	524	181	76	69
Property sales, SEK m	–	6.6	1,106	–	18
Net operating income, SEK per sq. m. <sup>2)</sup>	2,506	2,411	2,091	1,964	2,071
<b>Financial key ratios</b>					
Gross margin, %	67.3	67.8	64.7	60.6	62.8
Return on equity, %	-3.9	20.4	33.6	15.9	9.8
Return on capital employed, %	-5.7	22.3	23.9	16.5	9.7
Equity ratio, %	55.9	56.4	57.4	52.2	53.8
Interest coverage, multiple	5.5	6.2	5.1	5.7	3.5
Debt/equity, multiple	0.3	0.3	0.3	0.4	0.4
Net loan-to-value ratio, properties, %	15.6	15.8	19.3	21.7	20.9
Loan-to-value ratio, properties, %	17.8	16.6	19.3	21.7	20.9
Cash flow from current operations, SEK m	696	119	608	579	313
Cash flow for the year, SEK m	153	245	-52	79	-148
Average number of employees in the Group	87	88	119	122	122
<b>Share data</b>					
Result for the year, SEK <sup>3)</sup>	-2.18	11.64	16.60	6.47	3.74
Ordinary dividend, SEK	1.90 <sup>4)</sup>	1.75	1.60	1.45	1.30
Extra dividend, SEK	–	–	10.00	–	2.70
Dividend proportion (ordinary), %	–	15.0	9.6	22.4	34.8
Equity, SEK	53.09	57.25	57.14	41.77	39.46
Fair value of properties, SEK	92.52	99.53	84.40	78.91	72.72
Cash flow from current operations, SEK	3.38	0.58	2.95	2.81	1.52
Cash flow for the year, SEK	0.74	1.19	-0.25	0.38	-0.72
Net asset value, SEK	66.00	73.00	71.00	53.00	50.00
Share price, Series A, at the year-end, SEK	55.25	62.00	77.50	52.00	47.60
P/E ratio, multiple	–	5.3	4.7	8.0	12.7
Share price/equity, %	104.1	108.3	135.6	124.5	123.5
Direct yield (ordinary), %	3.4	2.8	2.1	2.8	2.7
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933

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

For Definitions, see page 93.

2) 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.

3) No dilution effect.

4) In accordance with a proposal by the Board.



# 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 2008, the share capital amounted to SEK 1,056.4 million with a par value of SEK 5 per share.

## Share series

Hufvudstaden has two share series, Series A and Series C. Both series are listed in the large cap list on the NASDAQ OMX Stockholm. Series A shares carry one vote per share and Series C shares carry 100 votes per share. 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 2008 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 2008.

## Ownership structure

The number of shareholders at the year-end was 18,977. The largest shareholder was L E Lundbergföretagen AB with 45.2 per cent of the total number of outstanding shares and 88 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, 2008, institutions and companies with holdings of over 100,000 shares held a total of 185,002,795 shares, equivalent to 89.7 per cent of the total number of outstanding shares and 96.5 per cent of the votes. Of these, 44 were Swedish institutions and companies, which together held a total of 143,808,239 shares, equivalent to 69.7 per cent of the total number of outstanding shares and 92.5 per cent of the votes. There were 72 foreign institutions and companies with holdings over 100,000 shares. Their holdings amounted to 41,194,556 shares, equivalent to 20.0 per cent of the outstanding shares and 4.0 per cent of the votes. In addition, two Swedish private individuals each held more than 100,000 shares. The number of shareholders fell during the year by 556. The proportion of foreign ownership rose during the year from 20.3 to 22.2 per cent of the total number of outstanding shares.

## Ownership structure as of December 31, 2008

		Number of share- holders	Proportion of share- holders, %	Number of shares	Proportion of shares, %
1 –	500	14,114	74.4	1,981,100	0,9
501 –	5,000	4,219	22.2	5,921,953	2,8
5,001 –	10,000	245	1.3	1,819,545	0,9
10,001 –	20,000	119	0.6	1,729,848	0,8
20,001 –	50,000	96	0.5	3,076,432	1,4
50,001 –	100,000	66	0.4	4,785,348	2,3
100,001 –		118	0.6	186,951,707	88,5
		18,977	100.0	206,265,933	97,6
Hufvudstaden				5,006,000	2,4
Total				211,271,933	100,0

Source: Euroclear Sweden/VPC AB

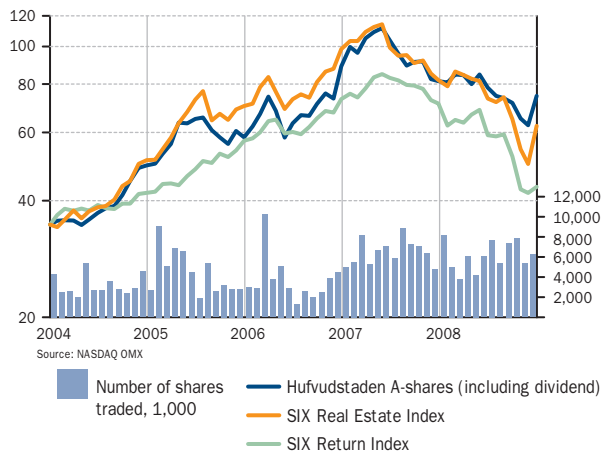
## Market capitalization

At the end of 2008, Hufvudstaden's total market value was SEK 11,745 million. The graph on the opposite page shows the price trend and trading in Hufvudstaden's Series A shares during the year.

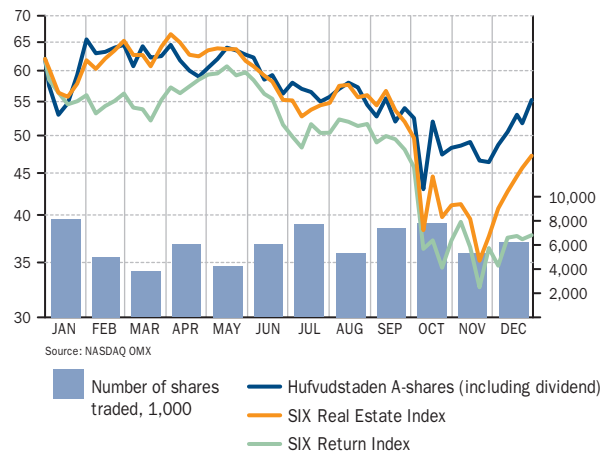
## Dividend policy

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 1.90 per share is proposed for 2008, equivalent to 75 per cent of the net profit on current operations. (See Definitions, page 93, Dividend amount).

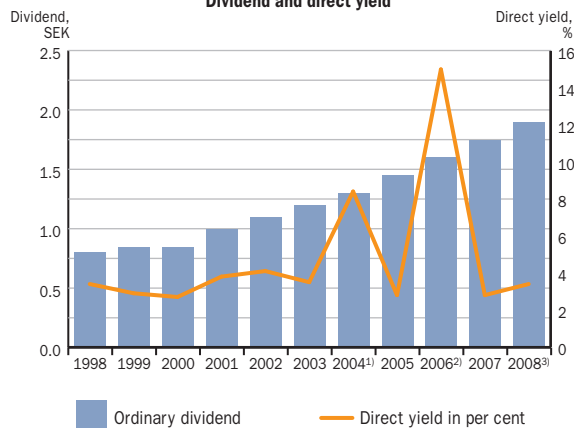
Share price trend and trading from January 1, 2004 in relation to the SIX Real Estate Index and the SIX Return Index



Share price trend and trading from January 1, 2008 in relation to the SIX Real Estate Index and the SIX Return Index



Dividend and direct yield



- 1) In 2004 there was an extra dividend of SEK 2.70  
 2) In 2006 there was an extra dividend of SEK 10.00  
 3) In accordance with approposal by the Board

The ten largest property companies as of December 31, 2008

	Market value, SEK m
Hufvudstaden	11,745
Castellum	10,449
Atrium Ljungberg	8,076
Kungsleden	7,371
Fabege	5,079
Wihlborgs	3,843
Wallenstam	3,594
Klövern	2,191
Heba	1,820
FastPartner	988

Source: NASDAQ OMX

The largest shareholder groups as of December 31, 2008

	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	23,553,007		23,553,007	11.4	2.3	11.1	2.3
State Street Bank & Trust funds	7,185,996		7,185,996	3.5	0.7	3.4	0.7
Mellon funds	6,729,828		6,729,828	3.3	0.7	3.2	0.7
Second AP Fund	5,418,183		5,418,183	2.6	0.5	2.6	0.5
Swedbank Robur funds	4,963,557		4,963,557	2.4	0.5	2.3	0.5
JP Morgan Funds with Chase Bank	4,036,832		4,036,832	2.0	0.4	1.9	0.4
Other shareholders	60,962,237	97,384	61,059,621	29.6	6.9	28.9	6.8
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: Euroclear Sweden/VPC AB

# Corporate Social Responsibility

Corporate Social Responsibility is a prerequisite for long-term profitability, 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 contributes 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 the risk of any of its operations conflicting with the UN Universal Declaration of Human Rights to be very limited. 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 how we work to bring about equality and to counteract discrimination, and our environmental policy states how we work to ensure an environmentally sustainable society.

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

## Quality and the environment

One of Hufvudstaden's strategies to achieve the Company's objectives is that our quality and environmental systems ensure the highest possible level of quality in all products and services. This is measured primarily through the annual Customer Satisfaction Index.

Part of this strategy involves Hufvudstaden contributing to and acting as a model for the development of the property industry, striving towards an environmentally sustainable society. The environmental programme is an integral part of day-to-day work and the person responsible is the

head of property development, who is also a member of the executive management. This work is governed by the environmental policy and prioritized areas are energy use, water consumption, waste management, choice of materials and hazardous substances. Hufvudstaden does not carry on any operations that require permits or notification 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.

## 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 customers, partners and employees in their environmental work

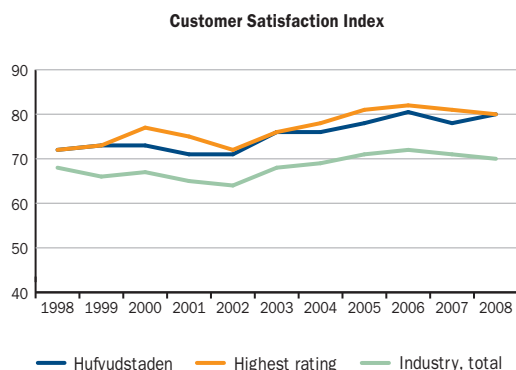
### Support for overall objectives

- Apply the prudence 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

## Customer Satisfaction Index

According to the annual Customer Satisfaction Survey run by Fastighetsbarometern, Hufvudstaden has the most satisfied office tenants. The survey covers most of the other leading property companies and the results for 2008 revealed that Hufvudstaden had the highest score in 9 of the 10 assessment criteria, which included quality, service and fault notification.





### Follow-up of the quality and environmental objectives for 2008

#### *Development of the quality and environmental programmes*

The quality programme is being constantly developed within all the designated and established areas – Leasing, Adaptation of Premises and Management – together with the auxiliary and support processes.

The environmental programme has been developed through a reinforced environmental organisation, which is designed to develop the environmental programme more efficiently in all operating areas. The practical environmental work is focused mainly on the areas that have the greatest impact on the environment: energy use, environmentally adapted redevelopment and waste management. These areas are described in more detail below.

#### *Expand environmentally adapted development*

The construction material assessment – BVB (Byggsvarubedömningen) is the common tool used by the property industry to make an environmental assessment of materials used in both construction and management with the aim of ensuring that only environmentally scrutinised and approved construction materials are used. Hufvudstaden plays an active role in the development of BVB, which is an important aid in planning and production to ensure that the correct materials are incorporated into our properties.

#### *Improve waste management efficiency*

Waste generated in Hufvudstaden properties mainly comes from the tenants' operations as well as the Company's construction activities.

The handling of waste from construction operations takes place according to routines where sorting and recycling are adapted to each project. The handling of waste generated by the tenants is based on the principle that sorting shall in the first instance take place at the point where the waste is generated. A total of 1,252 tonnes of waste were handled for recycling during the year. Hufvudstaden has signed a general agreement with a waste contractor who is actively involved in the development of the system. Alongside the tenants' own waste management, a number of our larger properties have central recycling stations to facilitate the sorting of waste.

#### *Improve energy efficiency by 3 per cent*

The use of energy in Hufvudstaden properties is exclusively in the form of district heating, district cooling and electricity. Hufvudstaden's carbon dioxide emissions from energy use have fallen by 1,908 tonnes during the year. The total energy use in Hufvudstaden's properties during the period 2001–2008 fell by 16 per cent. During 2008, total energy use, excluding project consumption, fell by 1.5 per cent. The reduction was possible despite the higher letting levels and expanded opening hours at the NK department store in Stockholm. The work involves prioritized efforts to reduce energy use and thus also carbon dioxide emissions. The geographical concentration of operations means that the number of business trips is very limited.

The table below shows the total energy use according to energy category.

**Energy and water use <sup>1)</sup>**

	2008	2007	2006	2005	2004
District heating	17,502	19,105	19,806	21,773	23,052
Electricity, MWh	46,761	46,261	46,133	44,470	45,852
District cooling, MWh	4,521	4,453	4,910	4,491	4,853
Total, MWh	68,784	69,819	70,849	70,734	73,757
Water, m <sup>3</sup>	246,676	238,571	237,735	227,795	314,705
CO <sub>2</sub> , tonnes	6,972	8,880	8,914		

1) For comparable holdings and excluding projects.

#### *Prepare energy declarations for all properties*

At the year-end, energy declarations according to the EU directive on energy end-use efficiency were made for a number of properties and these will be completed in February 2009.

#### *Information about energy and environmental issues for our tenants*

Information regarding energy issues and Hufvudstaden's environmental programme was presented at customer meetings. Reporting has also taken place directly to tenants who requested more specific information regarding their particular load on the environment.

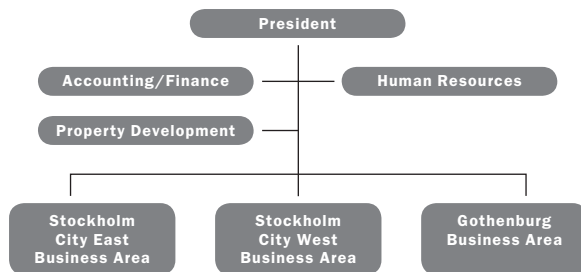
### Quality and environmental objectives 2009

- Continue to develop the quality and environmental programmes
- Continue to expand environmentally adapted redevelopment
- Continue to improve waste management efficiency
- Improve energy efficiency by 3 per cent
- Implement energy declarations
- Investigate the possibility of environmentally certifying certain properties
- Improve information about energy and environmental issues to tenants and employees

# 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. In addition, we have the staff functions Accounting/Finance, Property Development and Human Resources, which support the work on the operative level. Parking operations are run through the subsidiary Parkaden AB.



At the end of 2008, 87 persons worked in the Group, of whom 82 were in the Parent Company and five at the subsidiary Parkaden AB. At the year-end, the division was 50 per cent women and 50 per cent men. Of the Group's managers, 35 per cent are women. The average age was 45 years for women and 44 years for men. The average period of employment was 8 years.

## Value-controlled corporate culture

At Hufvudstaden our aim is to apply a clear, common, broadly accepted set of values that are intended to permeate everything we do, both internally and externally. The values are not only a vital basis for leading and controlling operations towards achieving the Company's vision and objectives but also a prerequisite for being able to conduct operations in such a way that they promote social responsibility. Our core values are attentiveness, honesty, commitment and quality.

The Company's values and policies have been brought together in a Human Resources Handbook, which provides guidance to employees on how they should act both on a day-to-day basis and in specific situations.

## Attractive workplace

At Hufvudstaden it is important that employees are involved in the work of the Company. This is measured in the annual Employee Satisfaction Survey, where questions related to job satisfaction, leadership and attitudes are highlighted. The 2008 survey, in line with previous years, had a high response rate and demonstrated that Hufvudstaden is

a workplace characterized by equality and good leadership. The number of employees who are proud of working at Hufvudstaden has been consistently high for several years and increased slightly in 2008. The views of the employees are important and the results from the survey are used in the ongoing process of developing operations and the working environment with the aim of achieving established objectives.

## Committed employees

Committed, expert, service-oriented, satisfied employees throughout the Company are a key requirement for achieving the Company's objectives. A key element in creating this corporate culture is the appraisal discussion. 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. A further element in increasing the level of involvement is the bonus scheme that was in place during the year.

## Competence and leadership development

In our endeavour to maintain a high level of quality we focus on competence development in all parts of the organization. We want our employees to make use of their full potential and in doing so be strengthened in their professional roles. Our competence development work is focused on professional know-how using a variety of means, including company-adapted training programmes. Continually identifying and developing employees who demonstrate leadership qualities is thus a prioritized area. Hufvudstaden's leadership should be marked by fortitude and an exemplary manner along with the capacity to be forward-thinking and inspirational. The effort made in recent years to develop leadership has become a key success factor and is helping us to assure the constant generation of skilled leaders. Work on developing common corporate attitudes is ongoing, from the introduction of new employees to regular information meetings.

## Ethics and equality

Hufvudstaden is working actively to counteract all forms of discrimination or harassment as a result of gender, ethnic affiliation or sexual disposition. It is taken for granted that men and women are given the same opportunity to develop and that unfounded salary differences are counteracted. One of the highest scores in the Employee Satisfaction Survey can be found in the Equality area.

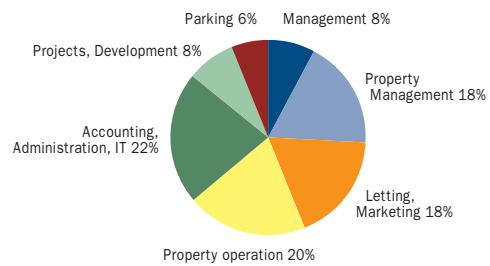
## Health

We adopt a preventive approach to health through regular health checks, ongoing health-promoting activities and health insurance for all employees. The results of our efforts in this area can be seen, for example, in the very low level of absenteeism due to illness and a pleasant working environment. Improving the working environment is an ongoing process conducted by a group made up of representatives from different parts of the organization and where health-related activities are planned and implemented. In the Employee Satisfaction Survey the employees state that they feel well and that they have a good balance between work and leisure.

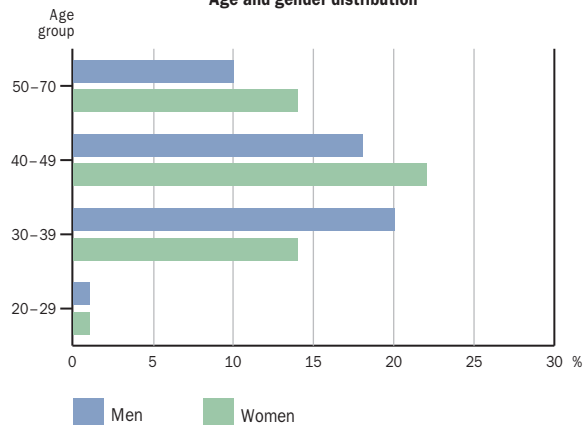
## Recruitment

At Hufvudstaden we have a clear recruitment policy and we endeavour to ensure that as many vacant posts as possible are filled through internal recruitment. In 2008, two out of a total of three managerial positions were filled internally. It has also been stated that as far as possible employees should be allowed to grow within the organization. We feel that this strategy is one of the contributing factors behind the low staff turnover at Hufvudstaden, which allows us to base our operations on solid experience and expertise. To attract new talent on the labour market we have continued during the year to profile ourselves, among other things through our participation in what are known as 'labour market days'. We also have positive experience from our contact with colleges and universities and by taking in students on placement.

Employees per working area



Age and gender distribution

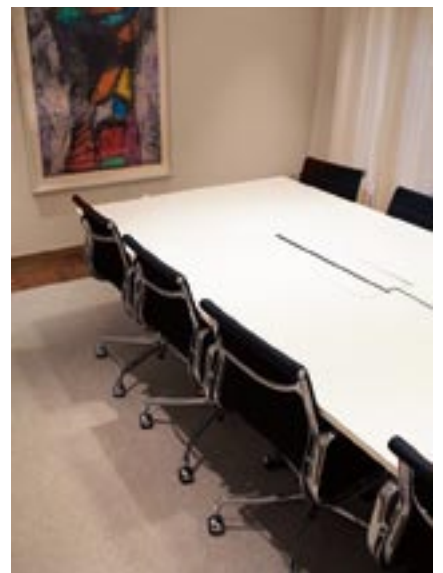
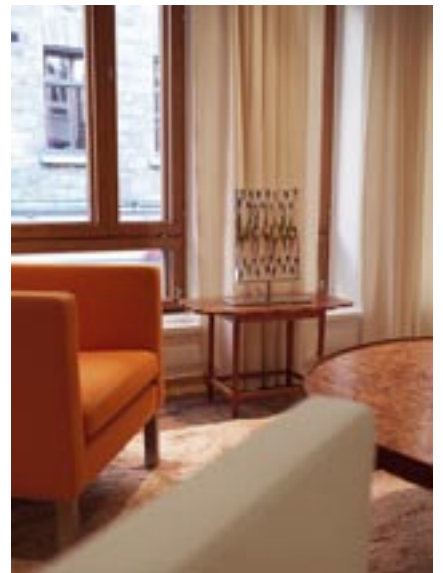






*When the Koasten 9 property was built on Biblioteksgatan in 1977 it was the first new construction on Biblioteksgatan for 60 years. The building was designed by the famous architects Backström & Reinius. Today the tenants include companies in the finance sector as well as exclusive clothing brands. The property also houses the highly popular Italian Sosta Espresso Bar. A strong contributing factor to the atmosphere is the fact that the waiters speak to the guests in both Italian and Swedish. Images: Jakobsbergsgatan, 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 2008 Stockholm, despite the financial crisis and considerable downturn in the economy, reported good financial growth through to the third quarter when the business climate showed signs of weakening. The deterioration was, however, less than for the country as a whole. Gothenburg and western Sweden have been affected more, due primarily to problems in the automotive industry.

### 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 a 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. 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 (GNP). The gross regional product (GRP) for Stockholm in 2008 showed a slightly lower rate of growth compared with 2007. The region's industrial structure has a high proportion of IT, telecom, biotechnology, finance and service companies and has not been exposed to the same pressures in the recession as the rest of Sweden.

Stockholm has 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. The banking and finance sector employs more than 35,000 persons at 1,400 companies. 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

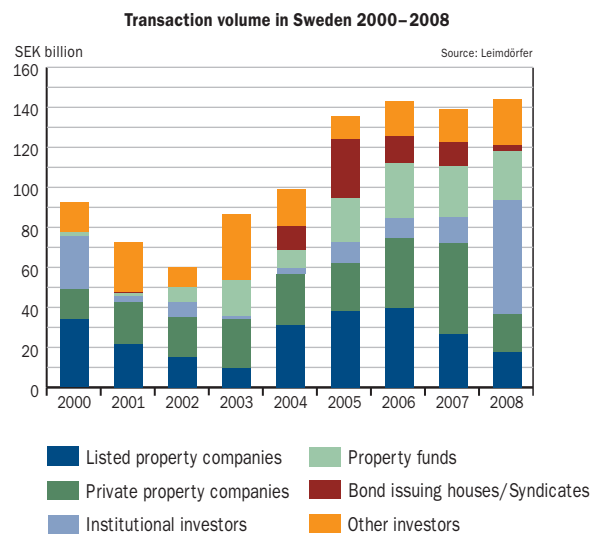
region has a well-developed infrastructure and a stable increase in population and employment. Growth in the Gothenburg region has been the highest in the country over the past few years. Growth is driven to a large extent by expanding private service production. Service-based companies at present employ around 100,000 people in the Gothenburg region.

### The investor market

In recent years there has been an historically strong demand for investment properties in Sweden. Transaction activity on the Swedish property market during 2008 was on a par with the high turnover volumes in recent years. During the year Swedish and foreign investors invested over SEK 140 billion in Swedish properties, including the purchase of Vasa-kronan by AP Fastigheter. High liquidity, lower transaction costs and a transparent market make the Swedish property market attractive compared with many other markets, quite apart from the expected long-term economic growth in Sweden. Several active investors have been working on the Swedish property market and new investors, both Swedish and foreign, were added during the year. The financial crisis, however, has made it difficult for highly leveraged players to complete transactions during the autumn.

Difficulty financing property deals, combined with the expectation of a slower rise in rent levels and increasing levels of vacant space have contributed to falling market values.

The direct yield requirements for office premises in Stockholm and Gothenburg increased between 1998 and 2003. Since 2003, direct yield requirements have fallen as a







Larger property owners in the Stockholm CBD.

result of strong demand, falling interest rate levels and expectations of a stronger rental market. During 2008, direct yield requirements began to rise once again. Growth has been particularly strong for properties in peripheral locations and for properties of a lower standard.

Property acquisitions completed during the year were in the more central locations of Stockholm and Gothenburg and revealed that the direct yield requirements were adjusted upwards during the latter part of the year. Direct yield requirements for modern office and retailing space in these locations was just below 5 up to 5.75 per cent in Stockholm and in Gothenburg between 5.50 and 6.75 per cent.

Swedish investors were the most active purchasers in the Stockholm CBD during the year. The transaction volume after the Vasakronan deal in June was restricted by the extremely limited range of available properties in the central parts of Stockholm and Gothenburg. Despite this, certain investors have made significant sales. It is mainly opportunistic funds with a high loan-to-value ratio that have divested their property holdings.

#### The largest commercial property owners in the Stockholm CBD

	Sq. m.
Vasakronan	291,000
Hufvudstaden	263,000
Diligentia	166,000
AMF Pension	160,000
Fabège	110,000
SEB Trygg Liv	95,000

Source: Leimdorfer

### Rental market in Stockholm

The level of vacant office space in Stockholm's central sub-markets fell slightly during the year, mainly due to a positive growth in employment during the first half of the year. Demand, however, was lower during 2008 compared with the previous year in the outer areas of the city. The demand for prime location retailing premises continued to be stable although transfer sums for store premises have fallen. The result has been a weaker rental market with store and office rents levelling out.

#### 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 are in 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 when it comes to upgrading older premises. The availability of modern premises during 2008 remained unchanged. Major projects in the city include the area around Centralen and Västra City, redevelopment of the Salén building, redevelopment of the Klockan block on Vasagatan, a new office building at Kungsbron and the Putten block on Sveavägen. Several 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. 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 levelled out 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 7 per cent (6–9 per cent the previous year) in the inner city and between 7 and 35 per cent (8–20 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 the most central sub-market was high during the year although such premises were generally not available. The good level of demand can in turn be attributed to the fact that households, despite the downturn in the economy, have continued to spend in both the durable and non-durable goods sectors. 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 17,000 per square metre per year, excluding the property tax supplement.

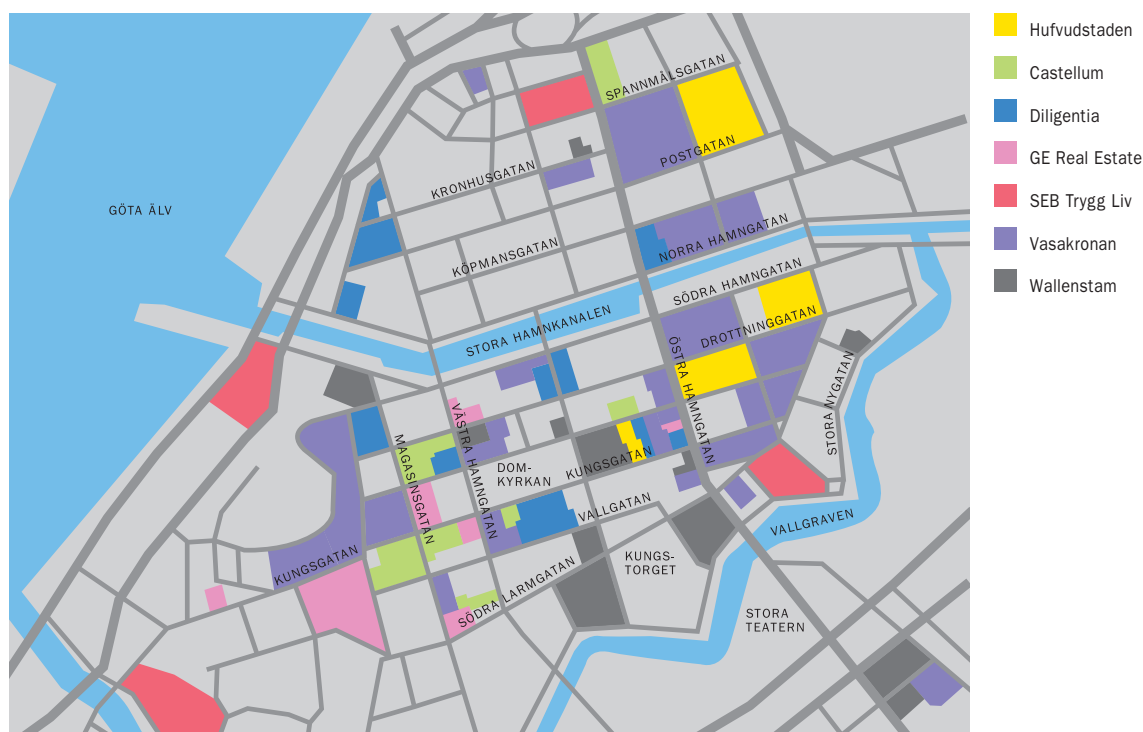
A large number of retailing projects are either in progress or are planned for the Stockholm area. These are in time expected to increase the retailing floor space by approximately 500,000 square metres, or almost 40 per cent, including approximately 50,000 square metres within the Tull areas.

### Rental market in Gothenburg

The rental market during the year for office space in central Gothenburg was marked by a fall in vacant space and an increase in rent levels. 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 the centre of Gothenburg, there are 1.5 million square metres of office premises, of which 0.9 million square metres



Larger property owners in Gothenburg.

Source: Forum Fastighetsekonomi

are within the CBD. New office construction continued to be low during 2008 and there are few new projects in central Gothenburg.

The District Court as well as the regional rent and 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 is about to commence is in Gårda, which it is estimated will result in 18,000 square metres of office space. At Norra Älvstranden construction is in progress and there are plans for substantial expansion over the next few years.

The rent levels in the central parts of Gothenburg revealed a stable rate of growth during 2008. The future, however, is slightly uncertain, due mainly to the fact that the level of vacant space could rise and the possibility that 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 due to developments in the automotive industry which is currently in a state of crisis. In the most attractive locations, market rents are between SEK 1,600 and 2,300 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, Kungssportsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Vacant space in the central areas of Gothenburg during the year was between 5 and 7 per cent (10–11 per cent the previous year).

### Stores

Rents for stores in prime locations remained relatively stable during the year. In A-locations rents were noted between SEK 5,000 and 10,000 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 Nordstan, Fredsgatan, Arkaden, Kungsgatan between Korsgatan and Fredsgatan and part of Korsgatan.

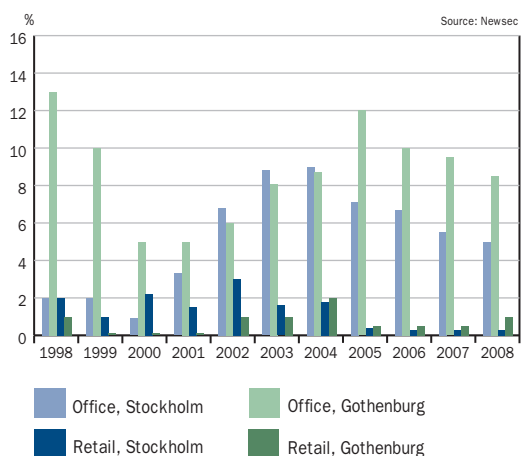
Even in the Gothenburg region there is strong expansion of new and existing retailing facilities. One example is Frölunda Torg, which will add approximately 22,000 square metres of new retailing space.

**Market rents, December 2008, Stockholm and Gothenburg  
(excluding the property tax supplement)**

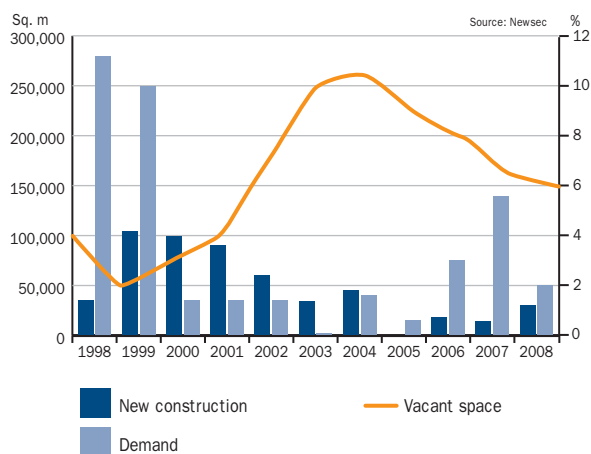
Sub-market	Offices,	Stores,
	SEK/sq. m. per year	SEK/sq. m. per year
<i>Stockholm</i>		
Golden Triangle/NK	4,500–5,000	12,000–17,000
City, other	3,500–4,500	4,000–10,000
Östermalm	2,300–3,600	3,000–8,500
Gamla Stan	2,200–3,000	2,500–5,000
Slussen/Södermalm	2,000–3,000	2,500–5,000
Kungsholmen	1,600–2,800	2,000–7,000
Liljeholmen	1,400–2,200	1,500–5,000
Globen	1,400–2,000	3,500–5,000
Kista	1,100–2,400	3,500–7,000
<i>Gothenburg</i>		
Inom Vallgraven	1,600–2,300	5,000–10,000



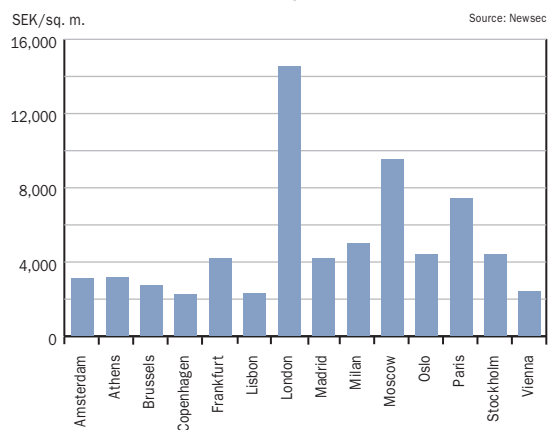
**Vacant office and retail space,  
Prime location premises**



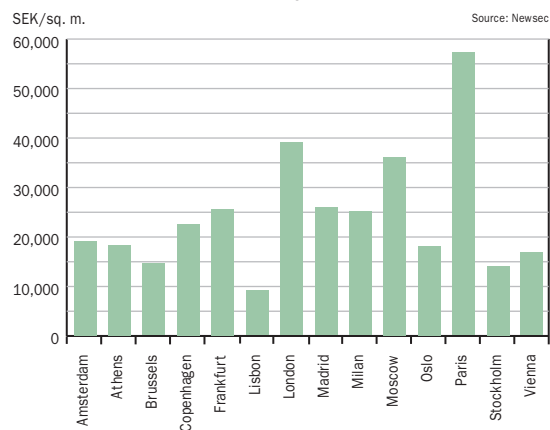
**New construction, demand and vacant space,  
office premises in Central Stockholm**



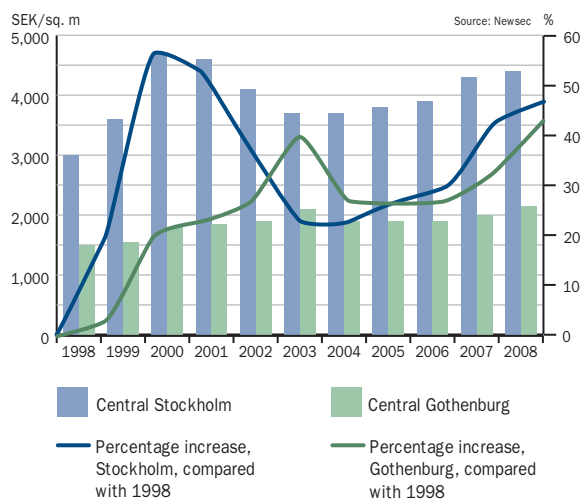
**Office rents in European cities, December 2008  
Premises in prime locations**



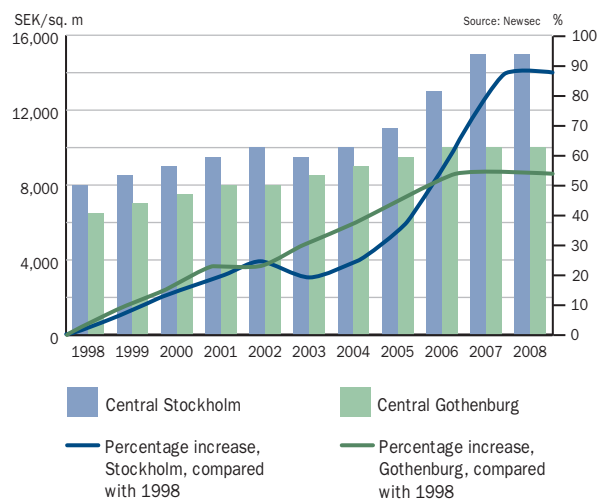
**Store rents in European cities, December 2008  
Premises in prime locations**



**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 under constant review. 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 customers 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, if necessary, 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. We own many properties that are adjacent to

each other. This facilitates the integration of premises with adjoining floor space, thus optimising 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 value.

During the year renovation and adaptation of approximately 15,000 square metres of office space were completed. The adaptations were mainly for existing tenants who had increased their rented floor space. In conjunction with extensive reinforcement work on the Pumpstocken block the ceiling height has been raised in certain premises located below street level for conversion from storage to retailing space. Adaptation of premises has taken place at the Järnplåten 28 block for, among others, Valea, JKL and Swedfund. Two new office tenants added during the year are the advertising agencies IK Stockholm and Fröjd Interactive.

### **Future projects**

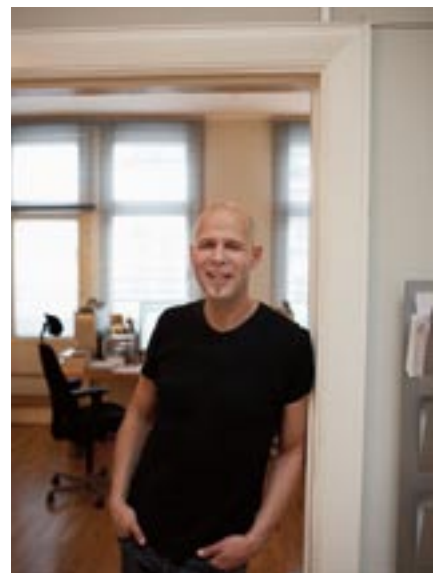
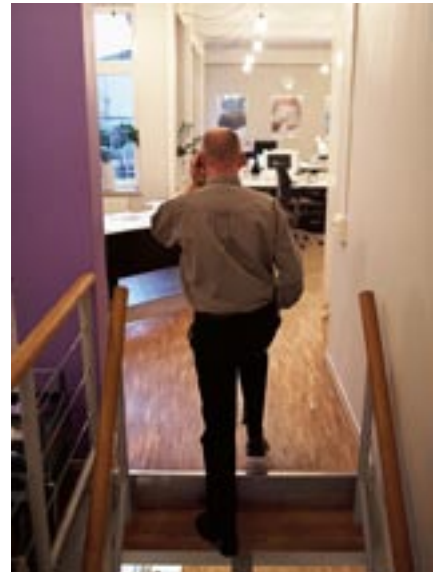
During the spring ABN AMRO vacated 7,400 square metres on the Rännilen block. During autumn 2008 work began on these premises to create modern, efficient, flexible offices with the latest technology although with a firm emphasis on preserving the original character. The redevelopment will be carried out in stages for different tenants. Work is expected to be completed in autumn 2009. One of the new tenants is Lynx Asset Management AB.





*The success story Weekday is continuing. In the autumn they moved into premises comprising over 1,000 square metres of newly refurbished floor space in one of the very best retailing locations, Kungsgatan 46, in the very heart of central Gothenburg. The property also houses other young companies in specially adapted office premises. Images: Kungsgatan, Gothenburg.*







*We are continuing to build on our idea of creating an atmosphere with an exciting blend of unique stores, cafes and restaurants. A good example is Restaurang Zink Grill with its distinctive French rustic interior. Opened in the spring, it was voted Business Restaurant of the Year. The menu includes everything from a simple continental breakfast to a selection of delectable grill dishes. Images: Biblioteksgatan, Stockholm.*





# *Stockholm City East Business Area*

## **Property holdings**

The Stockholm City East Business Area comprises 16 (16) properties and is made up of two management areas. Norrmalmstorg and Kungsgatan. The Norrmalmstorg Management Area comprises properties in the area around Biblioteksgatan, Norrmalmstorg and adjacent streets in the Golden Triangle. Historically, this has been the core of Hufvudstaden's property holdings since the Company was founded in 1915. The Kungsgatan Management Area comprises properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The properties are entirely commercial and comprise office and retailing premises.

## **Development of holdings**

The major refurbishment project at Rännilen 18, which commenced in 2008, will continue for most of 2009. The refurbishment will be done carefully as the building is listed. At the same time, it will acquire state-of-the-art technology. The property will also be opened up inside to ensure the floor space is used efficiently and adapted to the needs of present-day tenants.

The task of creating a more attractive retailing area in the eastern part of the city has continued. Our idea for 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. A new store opened during the year is J Lindeberg. Restaurang Zink Grill was opened in the spring and was voted Business Restaurant of the Year. The focus of the majority 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 also developed positively and the market rents for prime locations were SEK 12,000 to 16,000 per square metre per year, excluding the property tax supplement.

## **Customers**

The office tenant structure 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 recruitment, management and media consultants. In total, there are 306 tenants in the Business Area. The ten largest tenants lease 35,000 square metres (41,400), representing annual rent revenue of SEK 162 million (189).

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, Diesel, Replay, Georg Jensen and Inditex with its brand names Massimo Dutti and Zara. The store tenants along Kungsgatan are largely Swedish chain stores such as Stadium, Naturkompaniet, Alewals and Duka. At Hufvudstaden we strive to build up long-term business relationships. We have, for example, the old-established men's and women's clothing retailer Ströms at the junction of Sveavägen and Kungsgatan, which has become a well-known feature in the area. They have been a tenant in the same property for 69 years and for a total of 80 years with Hufvudstaden. Another office tenant, Advokatfirman Alrutz, will be celebrating 100 years as a tenant in our property at Mäster Samuelsgatan 4, which Hufvudstaden acquired in 1992.

## **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.* The passage, located between Birger Jarlgatan and Smålandsgatan in the Golden Triangle, has a particular cultural, historical and architectural value.

### Property holdings

	December 31, 2008	December 31, 2007
Number of properties	16	16
Rentable space, sq. m	145,536	145,102
– which offices	99,012	99,000
– of which stores and restaurants	33,534	32,994
Annual rent, SEK m	617	597
Rental vacancy level, %	8.7	3.8
Floor space vacancy level, %	9.6	5.4

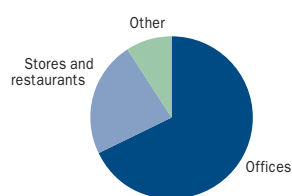
### Renegotiations and new leases

	2008	2007
New leases, sq. m.	9,600	12,200
New leases, annual rent, SEK m	40	48
Renegotiated leases, sq. m.	17,000	20,800
Renegotiated annual rent, SEK m	79	84

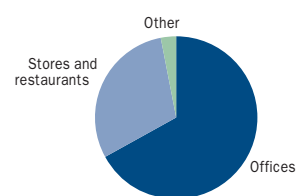
### Property management results, comparable holdings

SEK m	2008	2007
Net revenue	563,2	538,5
Maintenance	-17,8	-10,9
Operation and administration	-64,9	-65,3
Other costs	-57,0	-56,0
Total costs	-139,7	-132,2
Gross profit	423,5	406,3

Rentable floor space per  
type of premises



Annual rent per  
type of premises



Lease term structure



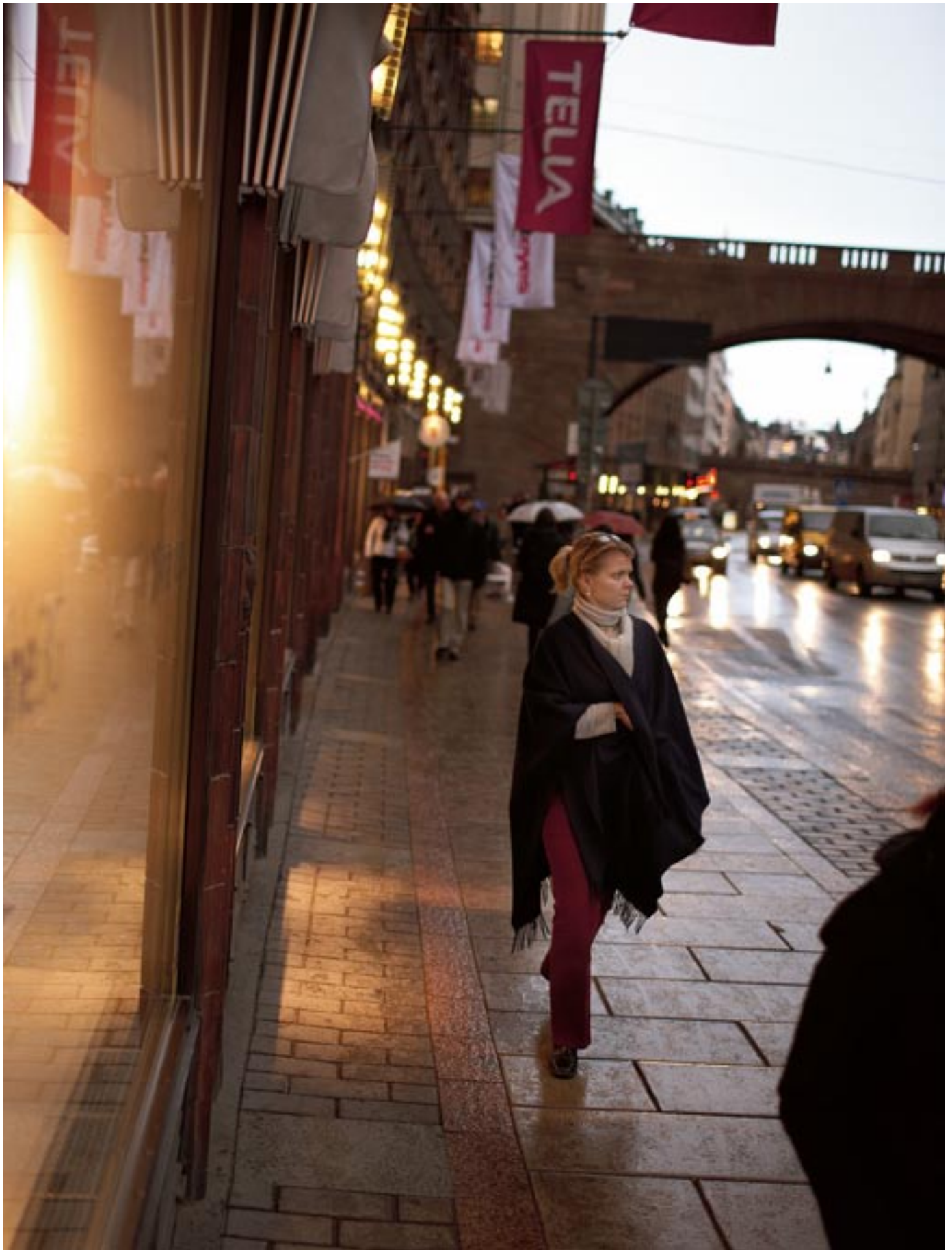




*Norrmalmstorg is one of the absolute focal points in the city and a meeting point for many. This is also one of the most attractive office areas in Stockholm. Careful renovation is currently taking place at Rännilen 18, which is a listed building. The interior of the property will be opened up and adapted to the needs of the current tenants. At the same time new, state-of-the-art technology is being incorporated into the construction. Images: Norrmalmstorg, Stockholm.*

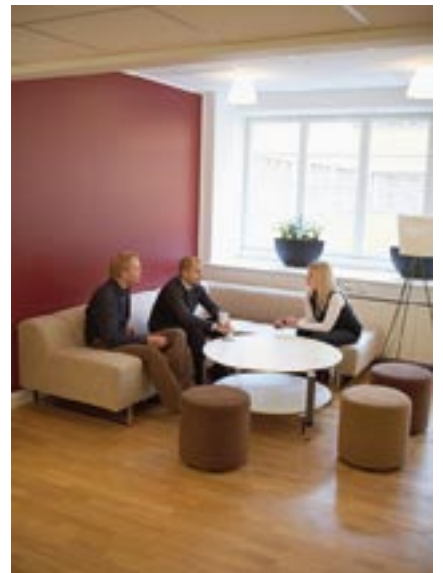
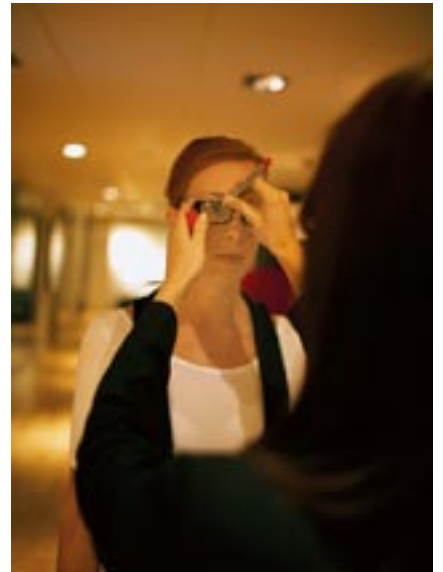
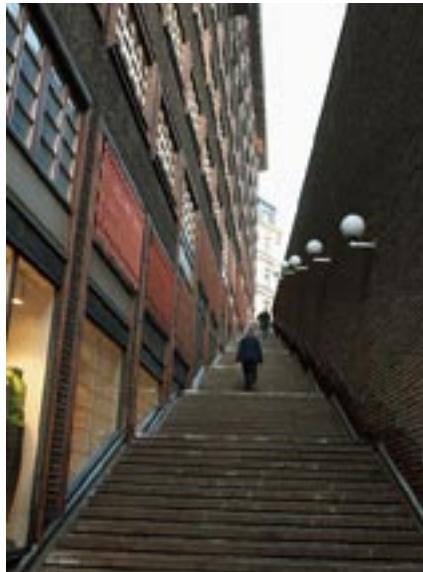
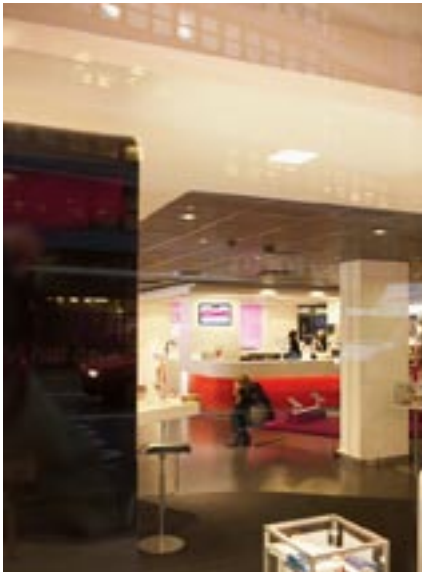






*In Centrumhuset, on the corner of Sveavägen and Kungsgatan, there are excellent examples of long-term business relationships. The men's and women's clothing store Ströms has been a store tenant with Hufvudstaden for 69 years. Hufvudstaden owns a number of properties along Kungsgatan, the majority with stores specialising in sport, home interior and leisure, although there are also many office tenants. Images: Kungsgatan, Stockholm.*





# *Stockholm City West Business Area*

## **Property holdings**

The Stockholm City West Business Area comprises 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, Klara-bergsgatan, Hamngatan, Regeringsgatan and in Gamla Stan in Stockholm and on Östra Hamngatan in Gothenburg.

## **Development of holdings**

Refurbishment and adaptation of premises totalling just over 3,700 square metres of floor space was completed during the year on behalf of new and existing tenants. New office tenants include Gothia Financial Group, Affärskoncept i Stockholm AB, and Scandinavian Internet Group, which have moved in on Drottninggatan, and the investment bank UBS, which has located its branch in the NK building in Gothenburg.

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.

The NK department stores in 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, such as Tods and Bruuns Bazaar. NK Nordiska Designers, Paul & Friends and Filippa K are examples of departments that have expanded. Consequently the range has been improved as well as clarity for the customers. Work on improving the department stores is ongoing.

## **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 5,000 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 store, were between SEK 6,000 and 10,000 per square metre per year, excluding the property tax supplement. At the NK department store, which occupies the very best

location and best retailing space in Stockholm, agreements signed in conjunction with renegotiations and new leases resulted in rent levels of between SEK 12,000 and 17,000 per square metre per year, excluding the turnover-based rent supplement and the property tax supplement. The equivalent rent levels for NK Gothenburg were between SEK 5,000 and 10,000 per square metre.

## **Customers**

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 219 customers in the Business Area. The ten largest customers lease 32,600 square metres (31,700), representing annual rent revenue of SEK 189 million (183).

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. NK is included as two management areas in 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 revenue 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 through the property association, 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.

Property owners and the proprietors' co-operative association work together to formulate annual marketing plans to reinforce NK as a brand name and retail outlet.

### The rental and retailing market

The retailing trade in Sweden had a stable year even if growth slowed down during the second half. According to the Retail Survey Index, DHI, sales increased for the country as a whole by 2 per cent. NK reported a slight fall in sales of 3 per cent.

### Parking operations

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 Central Station with 435 parking spaces. At the Parkaden car park maintenance work was carried out on, among other things, the driving lanes and a set of signs was produced for new internal directions. There was also an examination of the entrances to and from the car park to increase the attractiveness and availability. Parkaden, being one of the safest parking facilities in Stockholm, is an important service function for customers in the Hufvudstaden market areas.

#### Property holdings

	December 31, 2008	December 31, 2007
Number of properties	9	9
Rentable space, sq. m	149,774	149,602
– of which offices	45,702	46,029
– of which stores and restaurants	44,786	44,136
Annual rent, SEK m	536	499
Rental vacancy level, %	2.7	3.3
Floor space vacancy level, %	4.1	4.7

#### Renegotiations and new leases

	2008	2007
New leases, sq. m.	3,000	7,900
New leases, annual rent, SEK m	12	25
Renegotiated leases, sq. m.	18,000	10,600
Renegotiated annual rent, SEK m	105	47

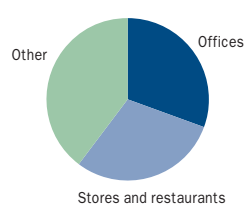
#### Property management results, comparable holdings

SEK m	2008	2007
Net revenue	536.0	507.1
– of which turnover-based rent supplement	10.1	16.8
Maintenance	-24.1	-12.5
Operation and administration	-119.6	-111.6
Other costs	-58.5	-56.4
Total costs	-202.2	-180.5
Gross profit	333.8	326.6
<i>Parking operations</i>		
Revenue	65.4	63.0
Costs	-45.8	-45.4
Operating profit	19.6	17.6

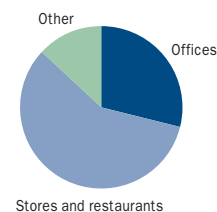
#### NK Department stores

	2008	2007
<i>NK Stockholm</i>		
Rentable floor space, sq. m	27,529	26,941
Number of departments	103	103
Number of restaurants	8	8
Sales, including VAT, SEK m	2,058	2,124
<i>NK Gothenburg</i>		
Rentable floor space, sq. m	11,283	11,308
Number of departments	45	45
Number of restaurants	4	4
Sales, including VAT, SEK m	515	542

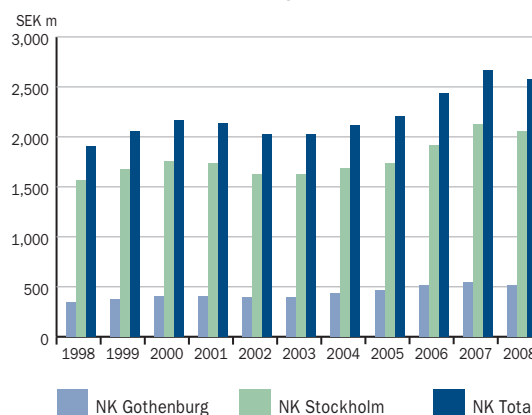
Rentable floor space per type of premises



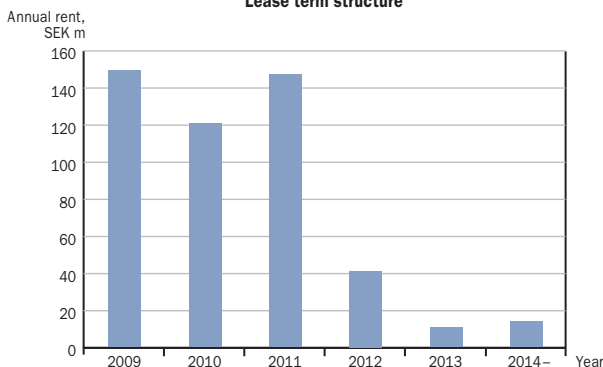
Annual rent per type of premises



Sales, NK Department stores



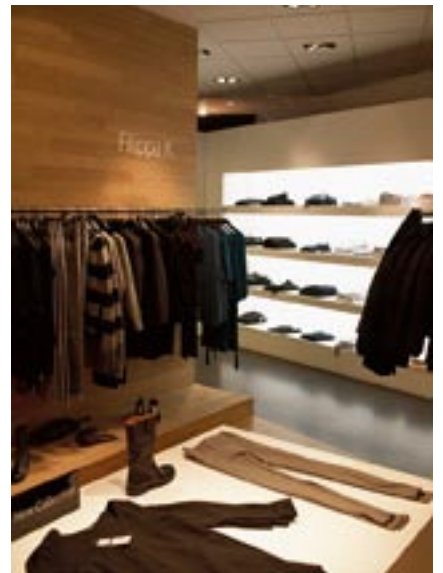
Lease term structure



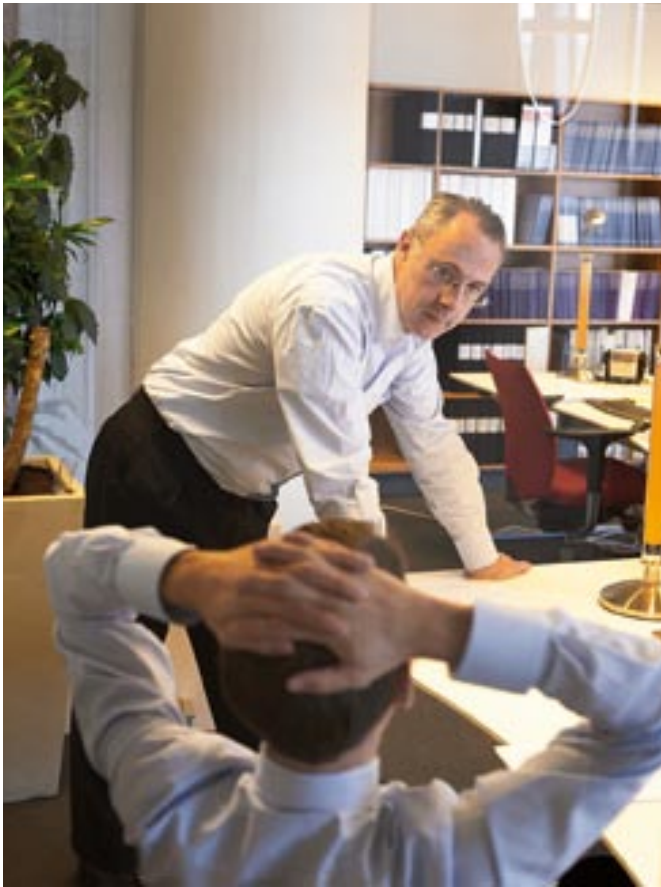




*At the forefront in fashion, inspirational and stylish: three ways of describing our common objective, permeating the NK brand name and the atmosphere in the stores. This is the philosophy at NK, which the company firmly stands by. With a tradition going back over 100 years it has a firm foundation on which to build. Images: NK Stockholm.*







*Many of the office tenants in the NK properties are law firms, advertising agencies, IT and media companies and banks that require modern, centrally located offices. Images: NK, Stockholm.*





Images: NK Gothenburg

# Gothenburg Business Area

## Property holdings

At the year-end, the Gothenburg Business Area comprised four properties, located in the very heart of the Gothenburg central business district. The holdings are entirely commercial and consist of 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 35 million visitors each year, around 14 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 Nordstan Co-operative Association, which owns and manages the Nordstan Car Park as well as the square and pedestrianized streets.

The Femman Shopping Precinct has 65 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

Ongoing refurbishment of office premises was carried out for a number of tenants during the year. The premises have thus been modernized and adapted to the needs of present-day tenants.

In the Femman building Monkki has opened a new store on the upper floor. All the escalators in Femman have been replaced and new switchgear for the property has been installed. In our property at Kungsgatan 46, Weekdays has opened a new store. Plans for the transfer of construction rights at Femman are underway and could result in the possibility of extending the property by approximately 4,500 square metres.

## Rental market

The rental market for office premises during the year was marked by a continued low level of vacant space and stable rent levels. The market rent for office space in prime locations was between SEK 1,600 and SEK 2,300 per square metre per year, excluding the property tax supplement. In the case of stores, the market rent trend continued to be good. Prime location premises attracted rents of between SEK 6,000 and SEK 10,000 per square metre per year, excluding the property tax supplement.

## Customers

The Business Area's customers are principally companies that require centrally located, high-quality premises. The dominant sectors are law firms, accountants, the media, public authorities and organizations. There are 135 tenants within the Business Area. The 10 largest tenants lease 27,700 square metres (27,700), representing annual rent revenue of SEK 57 million (56).

## Brand names within the Business Area

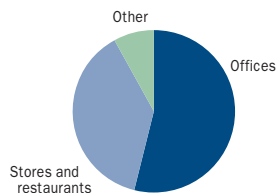
*Femman.* The Femman Shopping Precinct is one of the strongest brand names in retailing in Western Sweden and represents a wide range within the clothing and non-food sectors.

*Nordstan.* The Nordstan Shopping Centre is one of Europe's largest indoor centres and has around 35 million visitors each year. Hufvudstaden is the largest individual partner in the Östra Nordstan Co-operative Association with a share of approximately 30 per cent.

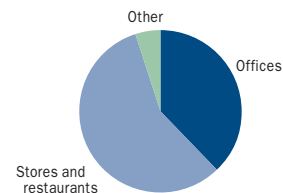
### Property holdings

	December 31, 2008	December 31, 2007
Number of properties	4	4
Rentable space, sq. m	58,935	58,981
– of which offices	31,812	31,960
– of which stores and restaurants	22,189	22,189
Annual rent, SEK m	153	149
Rental vacancy level, %	1.0	1.7
Floor space vacancy level, %	1.5	2.4

Rentable floor space per  
type of premises



Annual rent per  
type of premises



### Renegotiations and new leases

	2008	2007
New leases, sq. m.	3,700	1,700
New leases, annual rent, SEK m	8	5
Renegotiated leases, sq. m.	6,000	6,700
Renegotiated annual rent, SEK m	15	22

### Property management results, comparable holdings

SEK m	2008	2007
Net revenue	167.0	157.7
Maintenance	-1.9	-3.0
Operation and administration	-30.2	-30.5
Other costs	-18.0	-18.0
Total costs	-50.1	-51.5
Gross profit	116.9	106.2

Lease term structure



normalmstorg 1

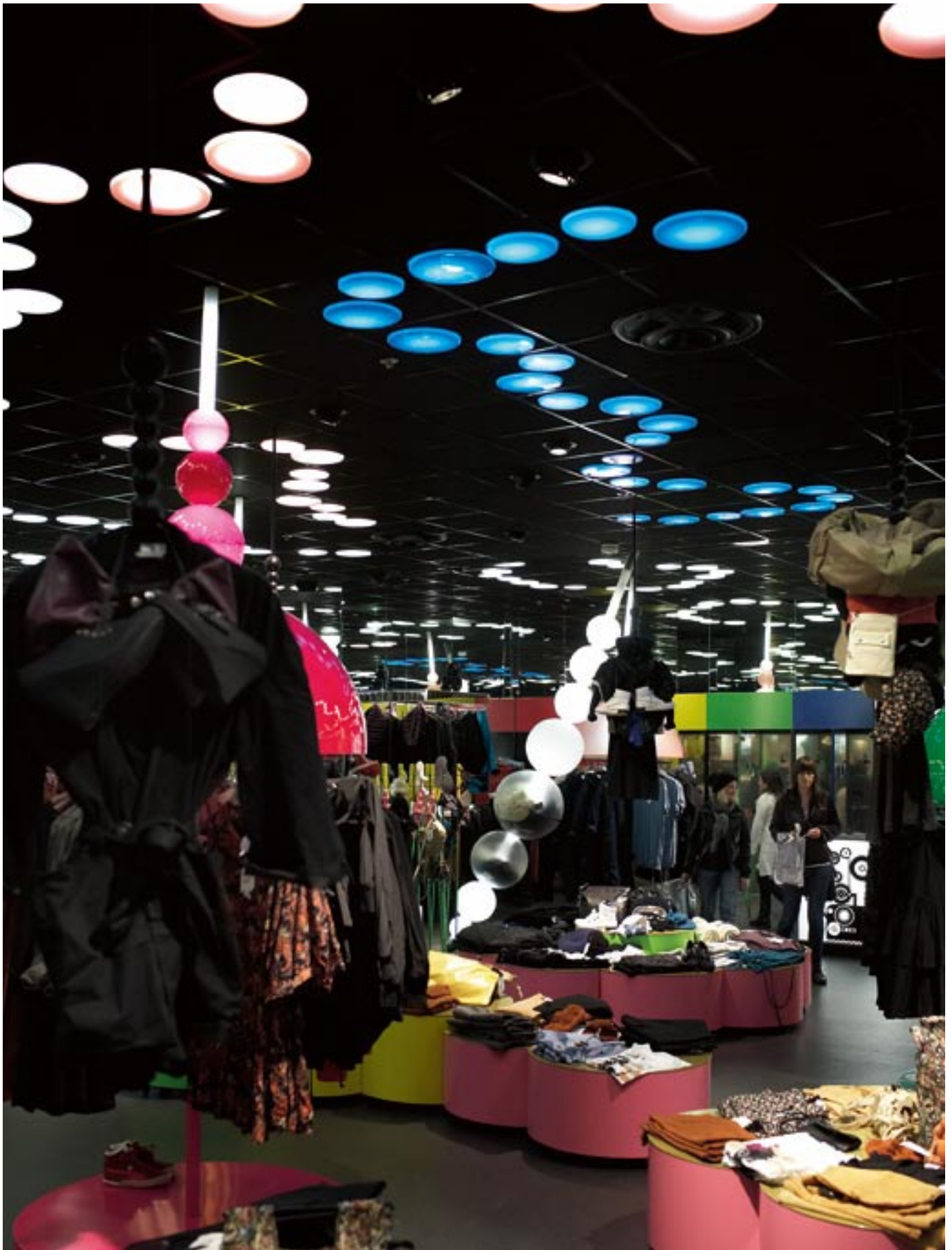
BJP  
BIRGER JARLSPASSAGEN



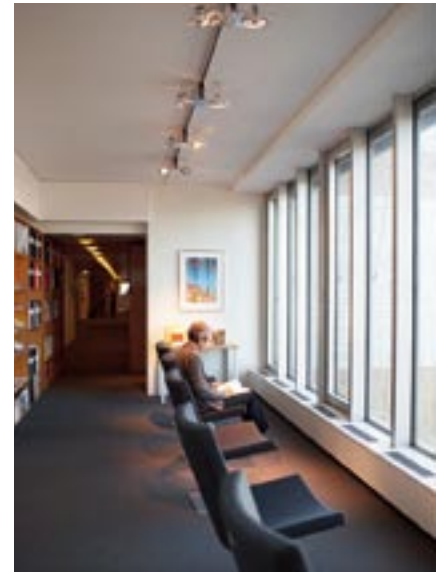
Femman

Group brand names





*Range, location and change: the Nordstan concept for a successful shopping centre. The success is obvious with 35 million visitors each year, one million more than in 2007. Nordstan is the largest indoor shopping centre in the Nordic region with 180 stores and restaurants on three floors. There are also 150 modern offices. Images: Nordstan/Femman, 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 NASDAQ OMX Stockholm rules for issuers, including the Swedish Corporate Governance Code (the Code), as well as other applicable laws and rules. The Code aims to create good prerequisites for active, responsible ownership and is intended to act as guidance in self-governance within Swedish industry. 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 justified and can be explained.

Hufvudstaden complies with the Code with the following deviation:

- Election Committee

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

### **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 Directors and auditors, principles for remuneration to the senior executives and other important matters.

The 2008 Annual General Meeting was held on March 27. A total of 267 shareholders, representing 135,188,579

A-shares and 8,254,526 C-shares, were present and they represented a total of 960,641,179 votes, equivalent to 93.7 per cent of the total number of votes. The 2009 Annual General Meeting will be held in Stockholm on March 26.

### **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 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 evaluating 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 2008**

During the 2008 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 matters of principle or of 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 2007 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. The only member of the executive management on the Board is the President and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder L E Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson) 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.

<b>Name</b>	<b>Function</b>	<b>Attendance 2008<sup>1)</sup></b>	<b>Independent in relation to the Company</b>	<b>Independent in relation to the owners</b>
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		7	Yes	Yes
Peter Egardt		7	Yes	Yes
Louise Lindh		7	Yes	No
Hans Mertzig		7	Yes	No
Sten Peterson	President	7	Yes	No
Anna-Greta Sjöberg		7	Yes	Yes
Ivo Stopner		7	No (employee)	Yes

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

#### **Audit**

At the 2008 Annual General Meeting, authorised public accountants George Pettersson and Joakim Thilstedt, both from KPMG, were elected as auditor and deputy auditor. George Pettersson's other major assignments include LE Lundbergföretagen AB and B&B Tools AB.

The Board meets the auditor twice a year, once in the absence of the President. On these occasions the auditor presents a report and there is a discussion about the audit orientation and observations made. Internal routines and control systems are examined continuously during the year. A final examination 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 fee to the auditors, including the fee for advisory services, is reported in Note 10.

#### **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 sufficiently factual, complete and relevant for the Board of Directors to reach well-informed decisions.

In addition to the President, the executive management comprises the three business area heads, the Head of Finance, the Head of Property Development and the Head of Human Resources. The executive management meets approximately once a month to discuss current issues. For information about individual members see 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 2008 it was decided that remuneration for Board work for 2008, totalling SEK 1,575,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work on the Board. The Chairman received SEK 350,000 and the other seven non-employed members received SEK 175,000 each.

### **Remuneration Committee**

The Board of Directors has examined the question of setting up a Remuneration Committee but has opted not to 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 of the Board. 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 2008, 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 commissioned by the Board of Directors to negotiate 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 and risk management**

The Board of Directors has overall responsibility for ensuring that Hufvudstaden has a satisfactory internal control system. The President is responsible for ensuring that such a system is in place and covers any material risk of error in the financial statements. Hufvudstaden's internal control systems cover the control environment, risk assessment, control measures, information, communication and follow-up.

#### *Control environment*

The control environment is the basis for internal control of financial reporting. Hufvudstaden's internal control structure is based 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 Company's valuation principles, 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 in the organization, the Hufvudstaden executive management identifies, analyses and decides on the procedures regarding the risk of errors 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 that it confirms the orientation and any necessary measures. 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 areas that have a material impact on the Company's result and which have carefully formulated control measures are repair, maintenance and letting.

### *Information and communication*

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

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

### **Internal audit statement**

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

Stockholm, February 12, 2009

### *Board of Directors*

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



# 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 at NASDAQ OMX Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group.

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 26, 2009.

## 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.

The global financial crisis which originated in the USA reached Sweden in autumn 2008. Uncertainty in the financial sector has led to credit restrictions and a downturn in economic growth. In times of financial difficulty it is particularly important that the Company's financial position is secure, that earning capacity is good and that there is ready access to financing. Hufvudstaden has a strong balance sheet and a good cash flow. The equity ratio is in excess of 50%, the interest coverage ratio was five-fold and there are unutilized loan assurances of SEK 2 billion. The Company has no loans that fall due in 2009 and SEK 500 million that fall due in 2010.

Economic growth in Stockholm through to the third quarter was good before the economy went into decline. The deterioration was, however, less than for the country as a whole. Gothenburg has been hit harder, due mainly to problems in the automotive industry.

## Property holdings

At the end of the year Hufvudstaden owned 29 properties (29). The rentable floor space was 278,848 square metres in Stockholm and 75,397 square metres in Gothenburg, totalling 354,245 square metres.

The total rental vacancy level in the Group as of December 31, 2008 was 5.3 per cent (3.3) and the floor space vacancy level was 5.9 per cent (4.6). In Stockholm, the rental vacancy level was 6.2 per cent and in Gothenburg 1.1 per cent.

During the year a total of 16,300 square metres (21,800) were let on new leases and 41,000 square metres (38,100) were renegotiated at a total value of SEK 198,9 million per year.

## 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, 2008. The valuation is made using the properties' earning capacity and the yield requirements of the market as a starting point. To assure the valuation, external valuations were commissioned from two valuation companies. The external valuations made in the turn of the year were equivalent to 22 per cent of the fair value and the equivalent proportion for the whole of 2008 was 43 per cent.

The fair value of the property holdings as of December 31, 2008 was set at SEK 19.1 billion (20.5).

## 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. This method is based on information about the market's change demands regarding transactions involving comparable properties in several locations and the properties' earning capacity. 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/m <sup>2</sup>	SEK 700 million
Property costs	SEK 50/m <sup>2</sup>	SEK 350 million
Rental vacancy level	1.0 percentage points	SEK 260 million
Yield requirement	0.5 percentage points	SEK 2,100 million

## Net asset value

The assessed fair value of the property holdings as of December 31, 2008 was SEK 19.1 billion. Based on the valuation of the property holdings, the net asset value is SEK 13.7 billion or SEK 66 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 (26.3 per cent) is used in the calculation, the net asset value would have been SEK 10.9 billion or SEK 53 per share. If the tax rate is assumed to be 0 per cent, the net asset value would have been SEK 15.4 billion or SEK 74 per share.

#### Net asset value, December 31, 2008

SEK million	
Reported equity	10.9
Reversal of book deferred tax	4.4
Net asset value before tax	15.3
Calculated deferred tax of 10 per cent	-1.7
Net asset value after tax	13.7
Net asset value per share	SEK 66

### Opportunities and risks

The downturn in the economy and unrest on the credit market have resulted in a greater focus on the risk areas in the Company's operations. In particular, an examination has been made of the Company's financial risks. Hufvudstaden's financing potential has been guaranteed through long-term loan assurances amounting to SEK 2 billion and no loans will fall due during 2009 that need to be refinanced. The Company also has covenants regarding the loan agreements. The interest risk has been handled by hedging the interest level for SEK 2.9 billion of the total borrowing of SEK 3.4 billion. The fixed interest period amounted to 43 months and the average APR was 4.0 per cent. Measures have also been taken to further heighten monitoring of accounts receivable and rent receivables.

Hufvudstaden's potential to influence profits in current operations in the short term is limited. Revenue is governed by relatively long leases – normally three to five years – and operating costs are difficult to change in the short term without sacrificing service and quality. Hufvudstaden's profitability and operations are affected mainly by macro-economic factors, such as the business climate, interest rates, developments in Stockholm and Gothenburg as well as political decisions. Long 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 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 slowdown 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 the 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.

#### **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 2008 financial year if the changes had occurred at the beginning of 2008.

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	35
Vacancy level <sup>1)</sup>	1 percentage point	11
Operation and maintenance	10 per cent	15
Property tax <sup>2)</sup>	1 percentage point	10
Interest level <sup>3)</sup>	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 taking into account the fixing of interest through derivatives.  
For details of the effect, including derivatives, see Note 2, page 67.*

#### **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 2008 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 par 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-företagen 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 2008 Annual General Meeting. As of December 31, 2008, 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 11, 2009).



### **Board of Directors**

A description of the work of the Board of Directors etc. can be found under Corporate Governance on page 46.

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

Guidelines for salaries, bonuses and other remuneration to the Company's senior executives is decided at the Annual General Meeting. For 2008 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 2009 will be presented at the Annual General Meeting. The auditor's statement on whether guidelines for remuneration to senior executives, which was adopted at the Annual General Meeting in 2008, have been followed, is available on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se) and will be attached to the documents distributed at the Annual General Meeting. It is also available from the Company on request.

Remuneration to the President is proposed by the Chairman of the Board and is confirmed by the Board of Directors. The President does not take part in this decision. The President is assigned the task by the Board of Directors of negotiating with other senior 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 senior 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 'customer satisfaction'. In the case of managers with responsibility for personnel, there is also a personal assessment with individual objectives.

In the case of both 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 2008, the bonus cost was SEK 2.5 million (2.9) or an average of SEK 18,000 per employee. For the executive management, including the President, the average was SEK 146,000 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 expressed an interest.

Reports and press releases are available on the Company's website, [www.hufvudstaden.se](http://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 to devote its efforts to managing, refining and developing its property holdings to ensure the highest possible yield.

The global financial crisis and the deterioration in the economy in Sweden will affect the property industry in 2009 and will in all probability result in a slightly cooler rental market. Despite this we believe that demand will be stable with satisfactory rent levels for the Company's well-located, high-standard office and retailing premises.

Hufvudstaden's stable finances will facilitate the implementation of current projects and an evaluation of new investments that will in time increase the attractiveness of the property holdings.

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 a dividend of SEK 1.90 per share, making a total of SEK 391.9 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](http://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	2008	2007
<i>Net revenue</i>			
Property management		1,282.2	1,213.2
Parking operations		65.4	63.0
	3	<b>1,347.6</b>	<b>1,276.2</b>
<i>Property management costs</i>			
– Maintenance		-43.8	-26.4
– Operations and administration	7	-216.0	-208.3
– Ground rents		-16.1	-16.1
– Property tax		-119.0	-114.9
<b>Property management expenses</b>		<b>-394.9</b>	<b>-365.7</b>
Parking operations, costs	3, 7	-45.8	-45.4
<b>Cost of operations</b>		<b>-440.7</b>	<b>-411.1</b>
<b>Gross profit</b>		<b>906.9</b>	<b>865.1</b>
– of which Property management	3, 6	887.3	847.5
– of which Parking operations	3	19.6	17.6
Central administration		-32.0	-30.8
<b>Operating profit before changes in value</b>		<b>874.9</b>	<b>834.3</b>
<i>Changes in value</i>			
– Investment properties	13	-1,629.4	2,597.7
– Interest derivatives		-126.6	16.5
<b>Operating result</b>	8–13	<b>-881.1</b>	<b>3,448.5</b>
<i>Financial income and expense</i>			
Financial income	14	17.3	12.3
Financial expense	15	-161.6	-138.9
		<b>-144.3</b>	<b>-126.6</b>
<b>Result before tax</b>		<b>-1,025.4</b>	<b>3,321.9</b>
Tax	17	576.2	-927.6
<b>Result for the year from continuing operations</b>		<b>-449.2</b>	<b>2,394.3</b>
Profit from discontinued operations, net after tax	4	0.0	6.6
<b>RESULT FOR THE YEAR</b>		<b>-449.2</b>	<b>2,400.9</b>
Result per share, continuing operations, before and after dilution, SEK		-2.18	11.61
Result for the year per share before and after dilution, SEK		-2.18	11.64
Ordinary dividend per share, SEK (proposed)		1.90	1.75

### **Property Management**

Net revenue during the year totalled SEK 1,282.2 million (1,213.2), equivalent to an increase of 6 per cent. The rise can be attributed to an increase in gross rents in conjunction with new releases and renegotiations as well as slightly lower rent losses on vacant space. During the year, Hufvudstaden renegotiated leases equivalent to approximately SEK 199 million in annual rent revenue. Renegotiations for both office and retailing premises resulted in increased rent levels by an average of around 14 per cent (6).

The turnover-based rent supplement in the NK properties was SEK 10.1 million (16.8). Apart from this there are no seasonal variations with regard to rents.

Maintenance costs increased by SEK 17.4 million to SEK 43.8 million (26.4), the main reason being evacuation of tenants in conjunction with redevelopment of a number of properties. Operating costs amounted to SEK 159.0 million (153.1). The increase can be attributed to higher energy costs. Administration expenses increased to SEK 57.0 million (55.2). Property tax increased to SEK 119.0 million (114.9) as a result of a lower cost the preceding year resulting from reductions in property tax for vacated premises. The cost has mainly been passed on to the tenants. Overall, this means that the total cost for property management amounted to SEK 394.9 million (365.7).

The gross profit during the year was SEK 887.3 million (847.5), which is equivalent to an increase of 4.7 per cent.

### **Parking operations**

Parking operations comprise parking operations at Parkaden AB.

Net revenue was SEK 65.4 million (63.0). Costs amounted to SEK 45.8 million (45.4) and the gross profit SEK 19.6 million (17.6).

### **Changes in value, investment properties**

Changes in the value of investment properties amounted to SEK -1,629.4 million (2,597.7). The unrealized change in value can be attributed to an estimated higher direct yield requirement as a result of the uncertainty on the credit market and the downturn in the economy although this was counteracted by the effect of increased market rents. The average direct yield requirement in conjunction with the above valuation was 5.1 per cent (4.6).

### **Financial items**

The financial items result for the year was SEK -144.3 million (-126.6). Interest income was SEK 17.3 million (12.3) and interest expense SEK -161.6 million (-138.9). The increase in interest income can be explained by a strong increase in short-term market interest rates as a result of uncertainty on the credit market.

### **Tax**

The Group's tax expense was SEK 576.2 million (-927.6), of which SEK -115.8 million (-103.8) was actual tax and SEK 692.0 million (-823.8) deferred tax. The positive tax can be attributed to deferred tax on negative changes in value and the recalculation of previously deferred tax from 28 per cent to 26.3 per cent as a result of a reduction in corporation tax with effect from 2009.

### **Result for the year**

The result for the year was SEK -449.2 million (2,400.9). The decrease can be explained by an unrealized fall in the value of the property holdings of SEK 1,629.4 million compared to the unrealized increase in value the previous year (2,597.7).



## *Consolidated balance sheets with comments*

SEK m	Note	31-12-2008	31-12-2007
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	18	19,083.2	20,530.5
Tangible fixed assets	19	7.8	8.5
Non-current receivables	21	3.8	60.6
<b>Total fixed assets</b>		<b>19,094.8</b>	<b>20,599.6</b>
<b>Current assets</b>			
Accounts receivable	22	13.7	16.4
Other receivables		6.4	2.1
Prepaid expenses and accrued income	23	30.2	45.2
Current investment		425.0	155.0
Liquid funds	24	13.9	130.8
<b>Total current assets</b>		<b>489.2</b>	<b>349.5</b>
<b>TOTAL ASSETS</b>		<b>19,584.0</b>	<b>20,949.1</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Other reserves		-25.5	27.7
Profit brought forward, including profit for the year		9,290.7	10,096.5
<b>Total equity</b>	25	<b>10,949.7</b>	<b>11,808.7</b>
<i>Non-current liabilities</i>			
Interest-bearing liabilities to credit institutions	26	3,400.0	2,800.0
Deferred tax liabilities	27	4,606.9	5,323.3
Other non-current liabilities		147.9	3.7
Other provisions	28	5.0	5.7
<b>Total non-current liabilities</b>		<b>8,159.8</b>	<b>8,132.7</b>
<i>Current liabilities</i>			
Interest-bearing liabilities to credit institutions	26	–	600.0
Accounts payable		73.6	73.0
Current tax liabilities		76.3	32.0
Other liabilities	29	88.7	65.8
Accrued expenses and prepaid income	31	235.9	236.9
<b>Total current liabilities</b>		<b>474.5</b>	<b>1,007.7</b>
<b>Total liabilities</b>		<b>8,634.3</b>	<b>9,140.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>19,584.0</b>	<b>20,949.1</b>

#### **Investment properties**

The properties' carrying amount in the Group was SEK 19,083.2 million (20,530.5). The decrease in the properties' fair value can be attributed to an unrealized change in value of SEK -1,629.4 million (2,597.7) and the investments in the property holdings made during the year, which amounted to SEK 182.1 (524.0). 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 2,107.7 billion.

#### **Liquid funds**

Liquid funds, the sum of cash and bank holdings as well as current investments, amounted to SEK 438.9 million (285.8). 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, 2008, such current investments amounted to SEK 425.0 million (155.0). 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 (3,400.0). The average fixed interest period was 43 months (40), the average capital tie-up period was 51 months (53) and the average interest cost at the year-end was 4.0 per cent (4.6). Net indebtedness totalled SEK 3,112.0 million (3,069.3). Financial items included in net indebtedness are given in Note 2, page 68.

#### **Deferred tax liabilities**

Deferred tax liabilities amounted to SEK 4,606.9 million (5,323.3). The decrease can be explained by the dissolution of deferred tax on negative changes in value and by the recalculation of the previously deferred taxes to 26.3 per cent.

## *Changes in consolidated equity*

SEK m	Share capital	Other contributed capital	Reserves	Profit brought forward, including profit for the year	Total
<b>Opening balance 1-1-2007</b>	<b>1,056.4</b>	<b>628.1</b>	<b>12.6</b>	<b>10,088.2</b>	<b>11,785.3</b>
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
<b>Closing equity 31-12-2007</b>	<b>1,056.4</b>	<b>628.1</b>	<b>27.7</b>	<b>10,096.5</b>	<b>11,808.7</b>
<b>Opening equity 1-1-2008</b>	<b>1,056.4</b>	<b>628.1</b>	<b>27.7</b>	<b>10,096.5</b>	<b>11,808.7</b>
Change for the year in the hedging reserve	–	–	-73.1	–	-73.1
Tax attributable to the hedging reserve	–	–	20.5	–	20.5
Recalculation, deferred tax 26.3%	–	–	-0.6	4.4	3.8
Total changes in wealth reported directly against equity, excluding dividends	–	–	-53.2	4.4	-48.8
Result for the year	–	–	–	-449.2	-449.2
Total changes in wealth	–	–	-53.2	-444.8	-498.0
Dividends	–	–	–	-361.0	-361.0
<b>Closing equity 31-12-2008</b>	<b>1,056.4</b>	<b>628.1</b>	<b>-25.5</b>	<b>9,290.7</b>	<b>10,949.7</b>

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 27, 2008, 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 2008.

During 2008, a dividend of SEK 1.75 per share was paid to the Company's shareholders, totalling SEK 360,965,383.

The proposed dividend according to the allocation of unappropriated earnings is SEK 391.9 million. (See Definitions, page 93, Dividend amount)





*A new store opened during the year is J Lindeberg. Image: Biblioteksgatan, Stockholm.*

## *Cash flow statements with comments – Group*

SEK m	2008	2007
<b>Current operations</b>		
Result before tax	-1,025.4	3,328.5
Depreciation and impairment of assets	4.4	4.7
Capital loss on sale of fixed assets	–	-6.6
Change in other provisions	–	–
Change in value, investment properties	1,629.4	-2,597.7
Change in value, derivatives	126.6	-16.5
Other changes	-0.6	-0.2
Income tax paid	-71.5	-97.1
<b>Cash flow from current operations before changes in working capital</b>	<b>662.9</b>	<b>615.1</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (–) in operating receivables	11.5	-30.3
Increase (+) / Decrease (–) in operating liabilities	21.9	-465.5
<b>Cash flow from current operations</b>	<b>696.3</b>	<b>119.3</b>
<b>Investments</b>		
Sale of subsidiary	–	3,011.7
Investment in investment properties	-182.1	-524.0
Investment in equipment	-2.7	-3.7
Change in non-current receivable	2.6	-0.2
<b>Cash flow from investments</b>	<b>-182.2</b>	<b>2,483.8</b>
<b>Financing</b>		
Loans raised	–	500.0
Amortization of loan liability	–	-465.0
Dividend paid	-361.0	-2,392.7
<b>Cash flow from financing</b>	<b>-361.0</b>	<b>-2,357.7</b>
<b>Cash flow for the year</b>	<b>153.1</b>	<b>245.4</b>
<b>Liquid funds at the beginning of the year</b>	<b>285.8</b>	<b>40.4</b>
<b>Liquid funds at the year-end</b>	<b>438.9</b>	<b>285.8</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	11.4	12.5
Interest paid	163.3	131.3

#### **Cash flow from current operations**

Cash flow from current operations before changes in operating capital increased by SEK 47.8 million to SEK 662.9 million (615.1), which can be explained by a higher net flow from operations. Changes in working capital reduced the cash flow by SEK 33.4 million (-495.8). Cash flow from current operations thus totalled SEK 696.3 million (119.3).

#### **Cash flow from investments**

Cash flow from investments amounted to SEK -182.2 million (2,483.8). Investments in property holdings decreased by SEK 341.9 million compared with the preceding year, which can be attributed mainly to the purchase the previous year of the property Rännilen 15.

#### **Cash flow from financing**

Cash flow from financing increased by SEK 1,996.7 million to SEK -361.0 million (-2,357.7). The decrease can be explained by the extra dividend the previous year. Net changes in interest-bearing liabilities amounted to SEK 0 million (35.0). No buy-back of Company shares took place during the year (0).

The cash flow for the year was SEK 153.1 million (245.4).

#### **Liquid funds**

The Group's liquid funds totalled SEK 438.9 million (285.8), of which cash and bank holdings amounted to SEK 13.9 million and current investment of surplus liquidity was SEK 425.0 million. Including unutilized overdraft facilities, liquidity amounted to SEK 478.9 million (325.8). All current investments have a term shorter than three months. As of December 31, 2008, 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	2008	2007
Net revenue		789.1	740.1
Operating costs		-387.6	-398.0
<b>Gross profit</b>		<b>401.5</b>	<b>342.1</b>
Central administration		-32.0	-30.8
Changes in value – interest derivatives		-126.6	16.5
<b>Operating profit</b>	7–12	<b>242.9</b>	<b>327.8</b>
<b>Profit from financial items</b>			
Interest income and similar profit/loss items	14	16.7	18.4
Interest expense and similar profit/loss items	15	-161.0	-136.9
		<b>-144.3</b>	<b>-118.5</b>
<b>Profit from financial items</b>		<b>98.6</b>	<b>209.3</b>
Appropriations	16	-95.7	-100.9
<b>Profit before tax</b>		<b>2.9</b>	<b>108.4</b>
Tax	17	66.2	-22.7
<b>PROFIT FOR THE YEAR</b>		<b>69.1</b>	<b>85.7</b>

## Balance sheets – Parent Company

SEK m	Note	31-12-2008	31-12-2007
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	18	5,966.6	5,972.9
Tangible fixed assets	19	5.9	6.1
		<b>5,972.5</b>	<b>5,979.0</b>
<i>Financial fixed assets</i>			
Participations in Group companies	20	2,824.8	2,824.8
Other non-current receivables	21	3.8	60.6
<i>Total financial fixed assets</i>		2,828.6	2,885.4
<b>Total fixed assets</b>		<b>8,801.1</b>	<b>8,864.4</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Accounts receivable	22	2.3	2.0
Receivables from Group companies		5.7	9.4
Other receivables		5.5	11.2
Prepaid expenses and accrued income	23	20.6	20.3
<i>Total current assets</i>		34.1	42.9
Other current investments		425.0	155.0
Cash and bank holdings	24	13.7	130.5
<b>Total current assets</b>		<b>472.8</b>	<b>328.4</b>
<b>TOTAL ASSETS</b>		<b>9,273.9</b>	<b>9,192.8</b>

## Balance sheets – Parent Company cont'd.

SEK m	Note	31-12-2008	31-12-2007
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital (211,271,933 shares)		1,056.4	1,056.4
Share premium reserve		124.2	124.2
Statutory reserve		798.1	798.1
<b>Total restricted equity</b>		<b>1,978.7</b>	<b>1,978.7</b>
<i>Non-restricted equity</i>			
Profit brought forward		1,305.4	1,439.2
Profit for the year		69.1	85.7
<b>Total non-restricted equity</b>		<b>1,374.5</b>	<b>1,524.9</b>
<b>Total equity</b>	25	<b>3,353.2</b>	<b>3,503.6</b>
<i>Untaxed reserves</i>	30	757.2	661.5
<i>Provisions</i>			
Pension provisions	28	4.8	5.4
Provisions for taxes	27	1,100.3	1,226.2
<b>Total provisions</b>		<b>1,105.1</b>	<b>1,231.6</b>
<i>Non-current liabilities</i>			
Liabilities to credit institutions	26	3,400.0	2,800.0
Liabilities to Group companies		0.7	0.7
Other liabilities		147.8	3.5
<b>Total non-current liabilities</b>		<b>3,548.5</b>	<b>2,804.2</b>
<i>Current liabilities</i>			
Liabilities to credit institutions	26	–	600.0
Accounts payable		41.9	40.1
Liabilities to Group companies		218.9	160.2
Current tax liabilities		30.6	–
Other liabilities	29	42.3	18.0
Accrued expenses and prepaid income	31	176.2	173.6
<b>Total current liabilities</b>		<b>509.9</b>	<b>991.9</b>
<b>Total liabilities</b>		<b>5,920.7</b>	<b>5,689.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,273.9</b>	<b>9,192.8</b>

SEK m	Note	31-12-2008	31-12-2007
<b>Pledged assets</b>	32	<b>1,710.0</b>	<b>1,710.5</b>
<b>Contingent liabilities</b>	32	<b>None</b>	<b>None</b>

## Changes in equity – Parent Company

SEK m	Share capital	Revaluation reserve	Statutory reserve	Profit brought forward, including profit for the year	Total
<b>Opening equity 1-1-2007</b>	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 the hedging reserve	–	–	–	-5.9	-5.9
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
Parent Company dividend	–	–	–	-2,392.7	-2,392.7
<b>Closing equity 31-12-2007</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,524.9</b>	<b>3,503.6</b>
<b>Opening equity 1-1-2008</b>	1,056.4	124.2	798.1	1 524.9	3,503.6
Change for the year in the hedging reserve	–	–	–	-73.1	-73.1
Tax attributable to the hedging reserve	–	–	–	19.9	19.9
Group contributions received	–	–	–	270.4	270.4
Tax effect, group contribution	–	–	–	-75.7	-75.7
Profit for the year	–	–	–	69.1	69.1
Parent Company dividend	–	–	–	-361.0	-361.0
<b>Closing equity 31-12-2008</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>1,374.5</b>	<b>3,353.2</b>

## Cash flow statements – Parent Company

SEK m	2008	2007
<b>Current operations</b>		
Profit after financial items	98.6	209.3
Depreciation and impairment of assets	54.6	45.1
Capital gain on sales of fixed assets	–	-6.6
Changes in value, interest derivatives	126.6	-16.5
Change, other provisions	-0.6	0.2
Income tax paid	-74.6	-108.5
<b>Cash flow from current operations before changes in working capital</b>	<b>204.6</b>	<b>123.0</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (–) in operating receivables	-2.8	394.5
Increase (+) / Decrease (–) in operating liabilities	357.4	-557.3
<b>Cash flow from current operations</b>	<b>559.2</b>	<b>-39.8</b>
<b>Investments</b>		
Sale of subsidiary	–	3,011.7
Investment in investment properties	-45.3	-365.4
Investment in equipment	-2.3	-2.8
Investment in financial assets	2.6	-0.2
<b>Cash flow from investments</b>	<b>-45.0</b>	<b>2,643.3</b>
<b>Financing</b>		
Loans raised	–	500.0
Amortization of loan liability	–	-465.0
Dividend paid	-361.0	-2,392.7
<b>Cash flow from financing</b>	<b>-361.0</b>	<b>-2,357.7</b>
<b>Cash flow for the year</b>	<b>153.2</b>	<b>245.8</b>
<b>Liquid funds at the beginning of the year</b>	<b>285.5</b>	<b>39.7</b>
<b>Liquid funds at the year-end</b>	<b>438.7</b>	<b>285.5</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	10.4	11.8
Interest paid	163.0	129.4

# 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 NASDAQ OMX Stockholm. The Group's principal area of business is the ownership, development and management of commercial properties. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Annual Consolidated Accounts for Hufvudstaden AB (publ) for 2008 have been approved for publication according to a decision reached by the Board on February 12, 2009. It is proposed that the Annual Report and consolidated accounts be adopted at the Annual General Meeting on March 26, 2009.

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 Council recommendation RFR 1.1, Supplementary Rules for Consolidated Financial Statements, has been applied. Hufvudstaden's Income Statements are classified according to function and are adapted to the Company's operations.

The Parent Company applies the same accounting principles as the Group except in those cases stated below under the 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 is 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 makes use of a number of material accounting estimates. In addition, it is required that the executive management makes certain assessments in conjunction with the application of the Group's accounting principles.

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

### Investment properties

The value of a property can only be determined with certainty when payment has been received following its sale. In the final accounts an estimate is made of the market value, which in accounting terms is known as the fair value. The fair value is determined based on a direct 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 +/- 2-7 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 in Note 18.

### Deferred tax in conjunction with calculation of net asset value

When calculating the net asset value estimated deferred tax has been used. This has been set at 10 per cent of the difference between the assessed fair value and the fiscal residual value of the properties and has been assessed in the light of current tax legislation, which means that properties can be sold through a limited company without tax implications. The purchaser, however, loses the basis for depreciation, which could justify a certain degree of compensation. This has been set at 10 per cent.

### Amended accounting principles

No new standards or interpretations have been applied in the preparation of the 2008 financial statements.

### New IFRS and interpretations

A number of new standards, amendments to the standards as well as interpretation statements will come into force from the 2009 financial year and have not been applied in the preparation of these financial statements.

IAS1 Presentation of financial statements. The presentation of the financial statements could be changed.

IAS23. Loan costs. This means that interest must be capitalized on investments, which is a change compared with the principles applied at present.

IFRS 8 Operating Segments, will 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 estimated 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 an earlier point in time than the completion point and if this has happened the property sale is recognized as revenue at this earlier 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.

Note 1 continued on page 65.



#### 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. 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 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 2008 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 or loss or Other financial liabilities. Classification depends on the purpose for which the financial asset or liability was acquired.

A financial instrument is valued initially at 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 to pay exists even if an invoice has not yet been received. A financial asset (or part thereof) is removed from the Balance Sheet when the rights in the agreement are realized, 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 a 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 annualized percentage 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 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 raised 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 be made 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 values and the estimated useful life. The estimated useful life for equipment is 3-5 years.

#### **Investment properties**

Investment properties are properties that are held for the 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 at least once a year. The external valuations normally cover 20-30 per cent of the internally assessed market value of the property holdings and the selection of properties represents different property categories, locations, positions, technical standards and construction standards. There is a continuous update during the year of the internal valuation of the properties to take account of purchases, sales and investments. Hufvudstaden also investigates on an ongoing basis if there are 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 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 above for impairment of financial assets.

#### **Share capital**

Acquisition of Company shares is reported as a reduction in equity. The sum received from the disposal of Company shares is reported as an increase in equity.

#### **Profit per share**

Calculation of the profit per share is based on the consolidated profit for the year and on the weighted average number of shares during the year.

#### **Fixed assets 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 a 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 Reporting Board recommendation RFR 2.1 Accounting for Legal Entities. The statements issued by the Swedish Financial Reporting Board for listed companies have also been applied. RFR 2.1 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, the Safeguarding of Pension Commitments Act and with consideration given to 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 decrease or an increase in non-restricted equity with consideration given to tax according to UFR 2.

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.

## 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 an 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 low risk. Information regarding borrowing, loan frameworks and terms and conditions is to be found in Note 26.

### Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. 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 borrowings amounted to SEK 3,400.0 million at the year-end. The average fixed interest period was 43 months (40), the average capital tie-up period was 51 months (53) and the average interest cost 4.0 per cent (4.6). Net debt totalled SEK 3,112.0 million compared to SEK 3,069.3 million at the end of 2007. As of December 31, 2008, the Group had non-current loan assurances of SEK 2 billion, of which SEK 0 billion was unutilized.

### Capital tie-up structure, December 31, 2008

Year due	Volume, SEK m	Proportion, %
2009	–	–
2010	500.0	15
2011	950.0	28
2012	250.0	8
2013	950.0	27
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 change 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, 2008, the Group's fixed interest period was 43 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 2009 to the amount of +/- SEK 5 million. The change in interest would at the same time mean a change in value in interest derivatives to the amount of SEK 85 million in the result and SEK 30 million in equity.

## Fixed interest structure: December 31, 2008

Year due	Volume, SEK m	Of which hedged	Proportion, %	Average APR, %
2009 <sup>1)</sup>	700.0	–	19	3.3
2010	500.0	500.0	15	4.1
2011	600.0	350.0	18	3.6
2012	250.0	–	8	4.9
2013	600.0	350.0	18	3.9
2014	–	–	–	–
2015	–	–	–	–
2016	–	–	–	–
2017	750.0	–	22	4.8
Total	3,400.0	1,200.0	100	4.0

1) SEK 200 million of which was fixed in December 2009 for 5 years at 3.2 per cent

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 they 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 9 per cent of the total contracted rent. The Group's ten largest tenants represent 21 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 with whom 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, 2008 <sup>1) 2) 3)</sup>

Annual rent, KSEK	Number of agreements	Annual rent, KSEK	Proportion, %
0 – 99	786	21,614	1.8
100 – 499	210	53,206	4.4
500 – 999	209	146,758	12.2
1,000 – 2,499	194	286,663	23.7
2,500 – 4,999	92	310,896	25.7
5,000 – 9,999	32	209,313	17.3
10,000 –	11	179,866	14.9
Total	1,534	1,208,316	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, 2008.

### 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.



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
<b>GROUP 2008</b>							
<i>Financial instruments included in financial net debt</i>							
<i>Non-current financial receivables</i>							
Non-current receivables			3.8			3.8	3.8
			3.8			3.8	3.8
<i>Current financial receivables</i>							
Other receivables					6.4	6.4	6.4
Prepaid expenses			6.1		24.1	30.2	30.2
			6.1		30.5	36.6	36.6
<i>Liquid funds</i>							
Current investments			425.0			425.0	425.0
Liquid funds			13.9			13.9	13.9
			438.9			438.9	438.9
<i>Non-current liabilities</i>							
Interest-bearing liabilities to credit institutions				3,400.0		3,400.0	3,400.0
Other non-current liabilities	110.2	34.6				144.8	144.8
Other allocations				5.0		5.0	5.0
	110.2	34.6		3,405.0		3,549.8	3,549.8
<i>Current liabilities</i>							
Interest-bearing liabilities to credit institutions							
Accrued expenses				11.0	224.9	235.9	235.9
				11.0	224.9	235.9	235.9
<i>Financial instruments not included in financial net debt</i>							
Accounts receivable			13.7			13.7	13.7
Accounts payable				73.6		73.6	73.6
<b>GROUP 2007</b>							
<i>Financial instruments included in 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 not included in financial net debt</i>							
Accounts receivable			16.4			16.4	16.4
Accounts payable				73.0		73.0	73.0

Note 2 continued on page 69.

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
<b>PARENT COMPANY 2008</b>							
<i>Financial instruments included in financial net debt</i>							
<i>Non-current financial receivables</i>							
Other non-current receivables			3.8			3.8	3.8
			3.8			3.8	3.8
<i>Current financial receivables</i>							
Other receivables					5.5	5.5	5.5
Prepaid expenses			6.1		14.5	20.6	20.6
			6.1		20.0	26.1	26.1
<i>Liquid funds</i>							
Other current investments			425.0			425.0	425.0
Cash and bank			13.7			13.7	13.7
			438.7			438.7	438.7
<i>Non-current liabilities</i>							
Liabilities to credit institutions				3,400.0		3,400.0	3,400.0
Other non-current liabilities	110.2	34.6				144.8	144.8
Pension provisions				4.8		4.8	4.8
	110.2	34.6		3,404.8		3,549.6	3,549.6
<i>Current liabilities</i>							
Liabilities to credit institutions							
Accrued expenses				11.0	165.2	176.2	176.2
				11.0	165.2	176.2	176.2
<i>Financial instruments not included in financial net debt</i>							
Accounts receivable			2.3			2.3	2.3
Accounts payable				41.9		41.9	41.9
<b>PARENT COMPANY 2007</b>							
<i>Financial instruments included in 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 liabilities		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 not included in financial net debt</i>							
Accounts receivable			2.0			2.0	2.0
Accounts payable				40.1		40.1	40.1

### Note 3. Segment information

#### Property management

The Group's operations are divided into two segments, property management and parking operations. The property management segment is divided into business areas that follow the operative control of the Company's business, which mainly follows the geographical division of the rental market into sub-markets. In the Parent Company there is only the property management segment.

SEK m	Stockholm City East Business Area	Stockholm City West Business Area	Göteborg Business Area	Total
<b>GROUP 2008</b>				
<i>Income and costs</i>				
Net revenue	579.2	536.0	167.0	1,282.2
(of which turnover-based rent supplement)	(–)	(10.1)	(–)	(10.1)
Maintenance	-17.8	-24.1	-1.9	-43.8
Operations and administration	-66.2	-119.6	-30.2	-216.0
Ground rent	-0.2	-15.9	–	-16.1
Property tax	-58.4	-42.6	-18.0	-119.0
Gross profit	436.6	333.8	116.9	887.3
<i>Assets</i>				
Investment properties	9,673.0	7,364.5	2,045.7	19,083.2
Tangible fixed assets <sup>1)</sup>	3.7	3.1	1.0	7.8
Total	9,676.7	7,367.6	2,046.7	19,091.0
Financial assets <sup>1)</sup>	2.2	1.6	–	3.8
Current receivables <sup>1)</sup>	23.9	20.1	6.3	50.3
<i>Liabilities</i>				
Current liabilities <sup>1)</sup>	189.6	159.0	49.6	398.2
<i>Investments</i>				
Tangible investments for the period	137.4	34.9	12.5	184.8
<b>GROUP 2007</b>				
<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 <sup>1)</sup>	4.0	3.4	1.1	8.5
Total	10,474.5	8,024.9	2,039.6	20,539.0
Financial assets <sup>1)</sup>	30.0	23.3	7.3	60.6
Current receivables <sup>1)</sup>	30.2	25.5	8.0	63.7
<i>Liabilities</i>				
Current liabilities <sup>1)</sup>	178.4	150.4	46.9	375.7
<i>Investments</i>				
Tangible investments for the period	457.5	49.9	20.3	527.7

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.

Note 3 continued on page 71.



Note 3 cont'd.

#### Parking operations

The Parking operations segment includes parking operations at Parkaden AB.

SEK m	2008	2007
<b>GROUP</b>		
Net revenue	65.4	63.0
Rental costs	-37.7	-36.7
Operations and administration	-7.5	-8.1
Depreciation	-0.6	-0.6
Gross profit	19.6	17.6

Total assets amounted to SEK 5.4 million (6.6).

#### 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/run 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 a purchase sum.

#### Profit on discontinued operations

SEK m	2008	2007
<b>GROUP</b>		
Profit on discontinued operations, net after tax	-	6.6
Profit per share from discontinued operations before and after dissolution, SEK	-	0.03
<i>Net cash flow from discontinued operations</i>		
Cash flow from current operations	-	10.7
Cash flow from investments	-	-10.7

#### Note 5. Profit trend – summary

SEK m	January–March		April–June		July–September		October–December		January–December	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>GROUP</b>										
<i>Property management</i>										
Net revenue	317.6	288.4	316.1	293.0	320.1	308.9	328.4	322.9	1,282.2	1,213.2
Maintenance	-4.9	-6.1	-20.4	-2.8	-5.7	-5.1	-12.8	-12.4	-43.8	-26.4
Operations and administration	-53.5	-52.6	-52.6	-49.9	-49.2	-46.2	-60.7	-59.6	-216.0	-208.3
Other costs	-33.8	-27.3	-33.8	-27.4	-33.9	-46.2	-33.6	-30.1	-135.1	-131.0
Property management costs	-92.2	-86.0	-106.8	-80.1	-88.8	-97.5	-107.1	-102.1	-394.9	-365.7
Other operations, net	4.5	4.2	4.8	3.5	3.5	2.8	6.8	7.1	19.6	17.6
Gross profit	229.9	206.6	214.1	216.4	234.8	214.2	228.1	227.9	906.9	865.1
Central administration	-7.7	-6.9	-6.7	-8.1	-7.0	-6.6	-10.6	-9.2	-32.0	-30.8
<i>Changes in value</i>										
Investment properties	-	-	-497.1	1,208.4	-586.7	-	-545.6	1,389.3	-1,629.4	2,597.7
Interest derivatives	-17.9	-	43.9	17.1	-44.4	-4.0	-108.2	3.4	-126.6	16.5
Net financial income/expense	-35.8	-21.5	-38.8	-33.4	-39.0	-35.7	-30.7	-36.0	-144.3	-126.6
Tax	-48.5	-53.4	78.5	-388.2	122.5	-47.7	423.7	-438.3	576.2	-927.6
Profit from continuing operations	120.0	124.8	-206.1	1,012.2	-319.8	120.2	-43.3	1,137.1	-449.2	2,394.3
Profit from discontinued operations	-	6.6	-	-	-	-	-	-	-	6.6
Profit for the period	120.0	131.4	-206.1	1,012.2	-319.8	120.2	-43.3	1,137.1	-449.2	2,400.9

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

	2009	2010	2011	2012	2013	2014-	Total
<i>Number of agreements</i>							
Offices	83	93	85	41	8	9	319
Stores	105	86	98	33	11	8	341
Other	412	187	179	38	9	24	849
Total	600	366	362	112	28	41	1,509
Proportion, %	39.8	24.2	24.0	7.4	1.9	2.7	100.0
<i>Annual rent, SEK m</i>							
Offices	103.8	161.7	130.0	86.3	11.3	79.8	572.9
Stores	135.6	111.2	150.6	56.9	16.3	34.0	504.6
Other	57.9	28.7	27.6	7.8	0.4	3.4	125.8
Total	297.3	301.6	308.2	151.0	28.0	117.2	1,203.3
Proportion, %	24.7	25.1	25.6	12.6	2.3	9.7	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	
	2008	2007	2008	2007
<i>Depreciation per type of asset</i>				
Investment properties	– <sup>1)</sup>	– <sup>1)</sup>	51.6	42.0
Tangible assets	3.4	3.7	2.5	2.8
Total	3.4	3.7	54.1	44.8
<i>Depreciation per function/ operating area</i>				
Property management	0.3	0.2	51.6	42.0
Administration	2.5	2.9	2.5	2.8
Other operations	0.6	0.6	–	–
Total	3.4	3.7	54.1	44.8

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**

	2008	2008	2007	2007
Average number of employees calculated on an annual basis		Of which men, %		Of which men, %
Parent Company	82	50	83	48
of which senior executives	7	86	6	100
<i>Wholly owned subsidiaries</i>				
Parkaden AB	5	40	3	60
WTC Stockholm AB	–	–	2	36
Total, Group	87	50	88	48
of which senior executives	7	86	6	100

Of the Group's 23 managers (23), 8 are women (7) or 35 per cent (30). The Board of the Parent Company comprised 7 men (7) and 2 women (2). 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**

	2008	2008	2007	2007
%	Total absenteeism due to sickness	Of which long-term absenteeism due to sickness	Total absenteeism due to sickness	Of which long-term absenteeism due to sickness
<b>GROUP</b>				
Men, total	3	25	2	27
of which 20–29 years <sup>1)</sup>	–	–	–	–
30–49 years	2	–	2	–
50 years –	5	61	4	67
Women, total	2	20	3	19
of which 20–29 years	–	–	1	–
30–49 years	2	–	3	27
50 years –	2	50	3	–
Group total	2	23	2	12
<b>PARENT COMPANY</b>				
Men, total	3	26	2	28
of which 20–29 years <sup>1)</sup>	–	–	–	–
30–49 years	2	–	2	–
50 years –	5	61	4	67
Women, total	2	20	3	21
of which 20–29 years <sup>1)</sup>	–	–	–	–
30–49 years	2	–	3	31
50 years –	3	50	3	–
Parent Company, total	2	24	2	24

1) 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			
	2008	of which bonus	2007	of which bonus	2008	of which bonus	2007	of which bonus
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	350		337		350		337	
Fee to other Board members	1,245		1,164		1,225		1,144	
Payment and benefits, President	3,396	257	3,563	406	3,396	257	3,563	406
Payment and benefits, other senior executives	7,092	764	6,730	1,116	7,092	764	6,730	1,116
Payment and benefits, other employees	34,063	1,463	34,394	1,339	32,850	1,429	32,547	1,304
Total	46,146	2,484	46,188	2,861	44,913	2,450	44,321	2,826
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	113		109		113		109	
Other Board members	365		340		358		333	
President	1,267		1,292		1,267		1,292	
Other senior executives	2,563		2,460		2,563		2,460	
Other employees	12,069		12,317		11,919		11,736	
Total	16,377		16,518		16,220		15,930	
<i>Pension expenses</i>								
President	685		830		685		830	
Other senior executives	1,137		1,562		1,137		1,562	
Other employees	5,281		4,227		5,225		4,536	
Total	7,103		6,619		7,047		6,928	

A director's fee was paid to the Chairman of the Board Fredrik Lundberg to the amount of SEK 350,000 and to Board members Claes Boustedt, Bengt Braun, Peter Egardt, Hans Mertzig, Sten Peterson, Anna-Greta Sjöberg and Louise Lindh to the amount of SEK 175,000 each. 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 employees, including the President, are covered by the ITP plan, which provides 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. There are no pension commitments for the Board of Directors.

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 2008, 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.

Other 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 2008 has been charged with a cost for 2007 amounting to KSEK 25.

**Note 10. Fees and costs reimbursements to auditors**

SEK m	Group		Parent Company	
	2008	2007	2008	2007
Audit assignments, KPMG	0.8	1.0	0.8	1.0
Other assignments, KPMG	0.4	0.5	0.4	0.5
Total	1.2	1.5	1.2	1.5



**Note 11. Operational lease agreements – Group as the Lessee**

Annual rent, SEK m	2008	Group	Parent Company	
		2007	2008	2007
– 1 year	20.0	19.9	8.4	8.4
1 year – 5 year	20.0	19.9	8.4	8.4
5 year –	13.8	14.0	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	2008	Group	Parent Company	
		2007	2008	2007
Maintenance	43.8	26.4	134.2	144.3
– of which special projects	1.5	1.1	36.6	3.2
Operation and administration	220.9	210.2	166.4	84.4
Ground rent	16.1	16.1	8.0	8.0
Property tax	119.0	114.9	83.4	77.8
Depreciation	3.4	3.7	51.6	44.8
Personnel costs	70.3	71.1	68.7	69.8
Total	473.5	442.4	512.3	429.1

**Note 13. Changes in value, investment properties**

SEK m	Group	
	2008	2007
Unrealized	-1,629.4	2,597.7
Total	-1,629.4	2,597.7

**Note 14. Financial income**

SEK m	2008	Group	Parent Company	
		2007	2008	2007
Capital gain on disposal of a subsidiary	–	–	–	6.6
Interest income on bank holdings	1.0	0.7	0.5	0.2
Interest income on current investments	12.5	11.3	12.5	11.3
Interest income, other	3.8	0.3	3.7	0.3
Total	17.3	12.3	16.7	18.4

**Note 15. Financial expense**

SEK m	2008	Group	Parent Company	
		2007	2008	2007
Interest expense to credit institutions	180.6	131.8	180.6	131.7
Interest expense, swaps	-20.5	2.8	-20.5	2.8
Interest expense, other	1.5	4.3	0.9	2.4
Total	161.6	138.9	161.0	136.9

**Note 16. Appropriations**

SEK m	Parent Company	
	2008	2007
Change in accumulated additional depreciation	-7.7	-5.9
Change in tax allocation reserve	-88.0	-95.0
Total	-95.7	-100.9

**Note 17. Income taxes**

SEK m	Group		Parent Company	
	2008	2007	2008	2007
<i>Actual tax expense</i>				
Tax expense for the year	-116.4	-103.8	-40.4	-27.1
Tax attributable to previous years	0.6	–	0.6	–
<i>Deferred tax expense/ tax income</i>				
Difference between fiscal and accounting depreciation:				
Revaluation/reversal/impairment	–	–	-1.1	9.0
Original acquisition values	-61.3	-59.6	–	–
Unrealized change in value, investment properties	456.2	-727.4	–	–
Unrealized change in value, securities	35.4	-4.6	35.4	-4.6
Effect, allocation to untaxed reserves	-32.2	-32.2	–	–
Recalculation, deferred tax 26.3%	293.9	–	71.7	–
Total tax	576.2	-927.6	66.2	-22.7
<i>Reported profit before tax</i>	-1,025.5	3,321.9	3.0	108.4
Tax at the current tax rate of 28%	287.1	-930.1	-0.8	-30.4
Tax attributable to previous years	0.6	4.3	0.6	9.6
Non-taxable income in conjunction with the sale of a subsidiary (property)	–	1.8	–	1.8
Non-taxable income	0.3	0.1	0.2	0.1
Non-deductible expense	-0.7	-0.5	-0.6	-0.4
Utilization of previously uncanceled deficit deductions	–	0.1	–	–
Standard income, tax allocation reserve	-5.0	-3.5	-4.9	-3.5
Other	–	0.2	–	0.1
Recalculation, deferred tax 26.3%	293.9	–	71.7	–
	576.2	-927.6	66.2	-22.7
<i>Tax items reported directly against equity</i>				
Deferred tax in respect of hedge reserve	19.9	-5.9	19.9	-5.9
Actual tax in group contributions received	–	–	-75.7	-53.8
	19.9	-5.9	-55.8	-59.7

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 was appealed in the County Administrative Court. During the year the County Administrative Court found in favour of the Company. The National Tax Agency has appealed the decision to the Administrative Court of Appeal. 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 and is only a shift between actual and deferred tax.

Hufvudstaden AB is involved in a dispute with the National Tax Agency regarding how much should be capitalized as a building as well as the right to make a deduction for VAT on consulting costs in conjunction with the sale of a subsidiary. The decision will be appealed. The amount of taxes and charges is approximately SEK 15 million and does not have any impact on the total reported tax expense for the Group and is only a shift between actual and deferred tax.

**Note 18. Investment properties****GROUP**

Investment properties are reported according to the fair value method.

SEK m	2008	2007
Investment properties, Group	19,083.2	20,530.5

Information regarding changes in carrying values for investment properties

SEK m	Investment properties purchased	Investment properties sold	Investment properties owned for the full year
31-12-2008			
Opening fair value	–	–	20,530.5
Investment in properties	–	–	182.1
Unrealized change in value	–	–	-1,629.4
Closing fair value	–	–	19,083.2
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

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 and 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	Net operating profit, SEK m	Direct yield requirement, % <sup>1)</sup>
Stockholm, commercial			4.75–5.50
Göteborg, commercial			5.25–6.00
Property holdings, Group	1,355.7	979.3	5.1 <sup>2)</sup>

1) Office and retailing properties

2) Average

**External valuation**

To assure the valuations, external valuations have been made by two valuation companies, DTZ Sverige AB and Forum Fastighetsekonomi AB. The external valuations cover 10 properties and are equivalent to 22 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 Rännilen 8, Rännilen 11, Hästhuvudet 13, Grönlandet Södra 11, Käkenhusen 39, Orgelpipan 7, Achilles 1, Kungliga Trädgården 5, Inom Vallgraven 12:10, Hästskon 10.

The external valuation companies have set a market value of SEK 4.3 billion with a range of +/- 2-7 per cent. Hufvudstaden's internal valuation of the same

properties is SEK 4.2 billion. The internal valuation is thus SEK 0.1 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.

**Sensitivity analysis, property valuation**

	Change +/-	Impact on profit before tax, +/-
Rent revenue	SEK 100/m <sup>2</sup>	SEK 700 million
Property costs	SEK 50/m <sup>2</sup>	SEK 350 million
Rental vacancy level	1.0 percentage points	SEK 260 million
Yield requirement	0.5 percentage points	SEK 2,100 million

**Insurances**

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

**Tax values, investment properties, Group**

SEK m	2008	2007
Tax values, buildings	7,628.7	7,628.7
Tax values, land	4,318.6	4,318.6
	11,947.3	11,947.3

**PARENT COMPANY**

Investment properties are reported according to the acquisition method.

SEK m	2008	2007
Investment properties, Parent Company	5,966.6	5,972.9

**Investment properties, excluding land**

SEK m	2008	2007
Opening acquisition values	1,904.1	1,656.6
Investments for the year	45.3	247.5
Closing acquisition values	1,949.4	1,904.1
Opening depreciation	-569.9	-541.9
Depreciation for the year	-37.6	-28.0
Closing depreciation	-607.5	-569.9
Closing revaluations according to the adopted Balance Sheet for the preceding year	1,189.0	1,203.0
Depreciation for the year	-14.0	-14.0
Closing revaluations	1,175.0	1,189.0
Closing residual value according to plan	2,516.9	2,523.2

**Land**

SEK m	2008	2007
Opening acquisition value	408.1	290.2
Investment for the year	–	117.9
Closing acquisition value	408.1	408.1
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	3,449.7

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	2008	2007
Investment properties, Parent Company	11,942.8	12,562.9

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 cont'd.

The following information has been used in the valuation:

	Rent revenue, SEK m	Net operating profit, SEK m	Direct yield requirement, %
Stockholm, commercial			4.50–5.50
Göteborg, commercial			5.50–6.00
Property holdings, Parent Company	869.8	628.5	5.18 <sup>1)</sup>
1) Average			
Tax values, investment properties, Parent Company			
SEK m	2008	2007	
Tax values, buildings	5,044.0	5,044.0	
Tax values, land	3,189.0	3,189.0	
	8,233.0	8,233.0	

#### Note 19. Tangible fixed assets

SEK m	2008	Group 2007	Parent Company 2008	2007
Opening acquisition value	32.3	31.0	17.5	17.2
Investments for the year	2.7	3.7	2.3	2.7
Disposals	-0.4	-2.4	-0.3	-2.4
Closing acquisition value	34.6	32.3	19.5	17.5
Opening depreciation	-23.8	-22.5	-11.4	-11.0
Depreciation for the year	-3.4	-3.7	-2.5	-2.8
Disposals	0.4	2.4	0.3	2.4
Closing accumulated depreciation	-26.8	-23.8	-13.6	-11.4
Closing residual value according to plan	7.8	8.5	5.9	6.1

#### Note 20. Participation in Group Companies

	Company reg. no.	Reg. office	Capital (votes), %	Number	Carrying value 2008, SEK m
<b>PARENT COMPANY</b>					
<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 Hamngatgaraget	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	–
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	0.1
					0.3
Parent Company, Total					2,824.8
<b>OTHER GROUP COMPANIES</b>					
<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
No change compared to the previous year.					

Change in Parent Company's holdings in Group companies

SEK m	2008	Parent Company 2007
Opening carrying amount	2,824.8	2,824.8
Additional purchase sum	2,824.8	2,824.8

There are no foreign subsidiaries in the Group.

**Note 21. Non-current receivables**

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Opening carrying amount	60.6	22.5	60.6	22.5	
Change in value, interest derivatives	-54.2	37.9	-54.2	37.9	
Amortization for the year	-2.6	0.2	-2.6	0.2	
Closing carrying amount	3.8	60.6	3.8	60.6	

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

**Note 22. Accounts receivable**

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Accounts receivable	13.2	14.9	1.9	1.5	
Rent receivables	0.5	1.5	0.4	0.5	
Total	13.7	16.4	2.3	2.0	

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 1.4 million (1.0). Accounts receivable that have fallen due but which have not been impaired amounted to SEK 2.9 million (2.7).

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

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Accrued rent revenue	17.8	30.1	12.0	10.3	
Prepaid expenses	6.3	10.1	2.5	5.0	
Accrued interest income	6.1	5.0	6.1	5.0	
Total	30.2	45.2	20.6	20.3	

**Note 24. Liquid funds**

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Bank balances	13.9	130.8	13.7	130.5	
Total	13.9	130.8	13.7	130.5	

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	2008	2007
<i>Hedge reserve</i>		
Opening hedge reserve	27.7	12.6
<i>Cash flow hedges:</i>		
Reported directly against equity	-73.1	21.0
Tax attributable to hedges for the year	20.5	-5.9
Recalculation, deferred tax 26.3%	-0.6	-
Closing hedge reserve	-25.5	27.7
<i>Total reserves</i>		
Opening reserves	27.7	12.6
Hedge reserve	-53.2	15.1
Closing reserves	-25.5	27.7

**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.

**Dividend**

In 2008 the dividend was paid of SEK 1.75 per share or a total of SEK 360,965,383.

**Asset management**

The Company's capital is defined as the Group's reported equity. The Company's financial objective is to have a good dividend rate and an equity ratio of at least 40 per cent.

**Share capital**

SEK m	2008	2007
<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 NASDAQ OMX 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. The average number of outstanding shares was 206,265,933, which is unchanged compared with the preceding 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 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 Liabilities to credit institutions**

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Loans	3,400.0	3,400.0	3,400.0	3,400.0	3,400.0
Total	3,400.0	3,400.0	3,400.0	3,400.0	3,400.0
Credit facility granted	40.0	40.0	40.0	40.0	40.0
Loan assurances	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0

As of December 31, 2008, 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 maturity, loan terms and conditions and annualized percentage rate of interest.

**Bank loans 2008**

Year due	Group		Parent Company	
	Average APR % <sup>1)</sup>	Nominal amount	Average APR % <sup>1)</sup>	Nominal amount
2009	–	–	–	–
2010	3.0	500.0	3.0	500.0
2011	2.9	950.0	2.9	950.0
2012	2.7	250.0	2.7	250.0
2013	3.0	950.0	3.0	950.0
2014	–	–	–	–
2015	–	–	–	–
2016	–	–	–	–
2017	2.8	750.0	2.8	750.0
Total		3,400.0		3,400.0

1) Interest terms are three 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.

**Interest swaps 2008**
**Group and Parent Company**

Year due	Average APR		Nominal amount	Fair value
	Fixed interest, % <sup>2)</sup>	Variable interest, % <sup>3)</sup>		
2009	–	–	–	–
2010	3.7	2.5	500.0	-9.7
2011	3.3	2.5	600.0	-15.5
2012	4.8	2.5	250.0	-19.1
2013	3.5	2.5	600.0	-21.0
2014 <sup>4)</sup>	–	2.5	200.0	-0.8
2017	4.5	2.5	750.0	-78.7
Total			2,900.0	-144.8

2) Interest is paid annually

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

4) The swaps have a variable rate of interest up to and including December 2009, thereafter a fixed rate of interest of 3.2% for 5 years.

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 27. Deferred tax liability**

SEK m	2008	Group		Parent Company	
		2007	2008	2007	2008
Investment properties	4,405.5	5,085.1	1,138.4	1,210.8	
Untaxed reserves	239.5	222.8	–	–	
Hedge accounting	-38.1	15.4	-38.1	15.4	
Total	4,606.9	5,323.3	1,100.3	1,226.2	

No deficit deduction as of the year-end 2008

**Change in deferred tax**

SEK m	Balance as of January 1	Reported in profit and loss	Reported against equity	Balance as of December 31
<b>GROUP</b>				
<b>2008</b>				
Investment properties	5,085.1	-675.1	-4.5	4,405.5
Untaxed reserves	222.8	16.7	–	239.5
Hedge reserve	15.4	-33.6	-19.9	-38.1
	5,323.3	-692.0	-24.4	4,606.9
<b>2007</b>				
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

Note 27 continued on page 80.

SEK m	Balance as of January 1	Reported in profit and loss	Reported against equity	Balance as of December 31
<b>PARENT COMPANY</b>				
<b>2008</b>				
Investment properties	1,210.8	-72.4	–	1,138.4
Hedge reserve	15.4	-33.6	-19.9	-38.1
	1,226.2	-106.0	-19.9	1,100.3
<b>2007</b>				
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

#### Note 28. Pensions

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 1.4 million (2.0). Charges for the year for pension insurance taken out with Alecta total SEK 2.1 million (2.8). Alecta's surplus in the form of the collected consolidation level as of December had at the time of the signing of this annual report not been published and consequently this cannot be given. Alecta's most recent official consolidation level amounted as of September amounted to 126 per cent (December 2007: 152 per cent). 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 2008 was discounted by 40 per cent.

#### Note 29. Other liabilities

SEK m	2008	Group 2007	Parent Company 2008	Parent Company 2007
VAT settlement	42.8	30.5	26.2	15.1
Other	45.9	35.3	16.1	2.9
Total	88.7	65.8	42.3	18.0

#### Note 30. Untaxed reserves

SEK m	Parent Company	
	2008	2007
Accumulated depreciation in excess of plan		
Opening balance	74.0	68.1
Depreciation for the year	7.7	5.9
Closing balance	81.7	74.0
Tax allocation reserves	675.5	587.5
Total	675.5	587.5
Total untaxed reserves	757.2	661.5

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

SEK m	2008	Group 2007	Parent Company 2008	Parent Company 2007
Accrued interest	11.0	15.9	11.0	15.9
Prepaid rent	185.9	174.0	121.4	102.2
Other	39.0	47.0	43.8	55.5
Total	235.9	236.9	176.2	173.6

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

SEK m	2008	Group 2007	Parent Company 2008	Parent Company 2007
Property mortgages for liabilities at credit institutions	1,706.4	1,706.4	1,706.4	1,706.4
(of which mortgages on subsidiaries' properties)			(606.0)	(606.0)
Other non-current receivables	3.6	4.1	3.6	4.1
Total	1,710.0	1,710.5	1,710.0	1,710.5

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 2008 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.



*J Lindeberg store. Image: 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](http://www.hufvudstaden.se) or from the Company on request.

Profit brought forward	SEK	1,305,353,816
Profit for the year	SEK	69,146,077
	SEK	1,374,499,893
Dividend of SEK 1.90 per share	SEK	391,905,273 <sup>1)</sup>
To be carried forward	SEK	982,594,620
	SEK	1,374,499,893

*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 12, 2009

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 13, 2008

George Pettersson  
*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 the year 2008. 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 for 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 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 13, 2009

George Pettersson  
*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 LE Lundbergföretagen 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 2008 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. Deputy Chairman of NCC AB and Svenska Handelsbanken AB. Board member of L E Lundbergföretagen AB, AB Industrivärden 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, Bonnier Holding AB, TV4 and Dena A/S. 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**

**George Pettersson**, born 1964. Authorized Public Accountant, KPMG. Auditor since 2008.  
**Joakim Thilstedt**, born 1967. Authorized Public Accountant, KPMG. Deputy auditor since 2008.



**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 Ramsbury AB.*

*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,*

*including family, has no material shareholdings or partnership in companies with which the Company has significant business relations.*

#### **Secretary**

**Mattias Karlsson** *born 1965. Lawyer at Mannheimer Swartling Advokatbyrå AB. Secretary to the Board since 2008.*

## *President and Senior Executives*

### **Ivo Stopner**

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

### **Ki Hummelgren**

*Born 1968. Head of Human Resources,  
employed 2008. Holding in Hufvudstaden: –*

### **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: Anders Nygren, Ki Hummelgren, Ivo Stopner, Sverker Källgård, Magnus Jacobson, Eric Nihlmark and Bo Wikare.*

Property designation	Address	Site area, sq. m	Year of purchase	Year of construction/ redevelopment	Tax assessment 2008, SEK m
<b>Stockholm City East Business Area</b>					
<i>Kungsgatan Management Area</i>					
Hästhuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	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 <sup>1)</sup>	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 <sup>1)</sup>	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 <sup>2)</sup>	Norrmalmstorg, Café Palmhuset		1992	1993	8.0
Packarhuset 4 <sup>3)</sup> <sup>3)</sup>	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	810.0
Pumpstocken 10 <sup>3)</sup> <sup>4)</sup>	Birger Jarlsgatan 13–15, Mäster Samuelsgatan 2–4, Biblioteksgatan 10–12, Jakobsbergsgatan 1–3	2,886	1917/78 91/2000	1865/97/1901/29/84 96/97/2006	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 <sup>1)</sup>	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986	355.0
Rännilen 19	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 <sup>1)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	164.8
<i>Total</i>		17,663			3,794.7
<b>Total, Stockholm City East Business Area</b>		28,347			5,933.7
<b>Stockholm City West Business Area</b>					
<i>NK Management Area, Stockholm</i>					
Hästen 19 <sup>1)</sup> och 20, Spektern 14 <sup>5)</sup>	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 <sup>6)</sup>	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 <sup>7)</sup>	Regeringsgatan 49–53, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	322.0
<i>West Management Area</i>					
Achilles 1 <sup>8)</sup>	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 <sup>1)</sup> <sup>9)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	57.2
Orgelpipan 7 <sup>10)</sup>	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	723.0
Svärdfisken 2 <sup>1)</sup>	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	170.5
<i>Total</i>		12,075			1,370.7
<b>Total, Stockholm City West Business Area</b>		30,391			4,217.7
<b>Gothenburg Business Area</b>					
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
Nordstan 8:24	Postgatan 26–32, Nordstadstorget 6, Spannmålgatan 19, Nils Ericssonsgatan 17	8,404	1979	1972	1,215.0
Nordstan GA:5 <sup>11)</sup>	Nordstadstorget and others				284.2
<b>Total, Gothenburg Business Area</b>		13,941			1,795.9
<b>TOTAL</b>		72,679			11,947.3

	Rentable space, sq. m								Total
	Offices	Stores	Restaurants	Cinemas	Storage	Garage	Residential	Other	
	4,957	1,959			239				7,155
	6,624	1,588			1,027				9,239
	11,881	3,024	548		645				16,098
	21,404	4,665			1,982	1,892		5	29,948
	44,866	11,236	548		3,893	1,892		5	62,440
	2,858	765			287	792			4,702
	3,528	2,751	243		164	206			6,892
	2,469	534	192		254				3,449
		52	137						189
	10,850	3,269	704		406				15,229
	7,733	3,462	672		422		192	1	12,482
	2,031	438	158						2,627
	1,595	876	539						3,010
	5,393	564	915		386				7,258
	8,044	2,320			692	1,058			12,114
	7,710	1,642			395	1,139			10,886
	1,935	1,517			9		796	1	4,258
	54,146	18,190	3,560		3,015	3,195	988	2	83,096
	99,012	29,426	4,108		6,908	5,087	988	7	145,536
	11,291	22,207	1,828		3,494			15	38,835
	5,167	9,420	628		1,235			12	16,462
		2,696	512		8,659	24,482		1	36,350
	3,993	351			604				4,948
	7,562	377	263		853				9,055
	2,617								2,617
	1,282	242	259		101		298		2,182
	9,897	3,909	1,919		2,696	13,421		1	31,843
	3,893	175		1,893	389	1,132			7,482
	29,244	5,054	2,441	1,893	4,643	14,553	298	1	58,127
	45,702	39,377	5,409	1,893	18,031	39,035	298	29	149,774
	414	186			341				941
	10,269	3,218	404		1,014	1,250			16,155
	741	1,690							2,431
	20,388	15,951	740		2,267			62	39,408
	31,812	21,045	1,144		3,622	1,250		62	58,935
	176,526	89,848	10,661	1,893	28,561	45,372	1,286	98	354,244

## 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 Fastighets-aktiebolaget Stockholms City.
- 4) Following property adjustment the former properties Pumpstocken 11, 12 and 13 are included.
- 5) Owned by the subsidiary AB Nordiska Kompaniet. Håsten 20 och Spektern 14 are leaseholds.  
The ground rent for Håsten 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.
- 6) Owned by the subsidiary AB Nordiska Kompaniet.
- 7) Owned by the subsidiary AB Hamngatsgaraget. 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.
- 8) The property is a listed building.
- 9) Owned by the subsidiary Fastighets-aktiebolaget Medusa.
- 10) 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.
- 11) 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			
	2008		2007		2008		2007		2008		2007		2008		2007	
	SEKm/sq. m		SEKm/sq. m		SEKm/sq. m		SEKm/sq. m		SEKm/sq. m		SEKm/sq. m		SEKm/sq. m		SEKm/sq. m	
Gross rent including charge for consumables (of which property tax supplement)	598.1	4,207	573.9	4,049	552.2	3,687	528.4	3,532	169.2	2,871	161.3	2,735	1,319.5	3,760	1,263.6	3,607
Rent losses on vacant space	53.9	379	53.0	374	38.1	254	36.9	247	15.2	258	15.1	256	107.2	306	105.0	300
Bad debt losses	-34.3	-241	-35.4	-250	-15.8	-105	-20.6	-138	-1.8	-31	-3.3	-56	-51.9	-148	-59.3	-169
Net sales	-0.6	-4	-	-	-0.4	-3	-0.7	-5	-0.4	-7	-0.3	-5	-1.4	-4	-1.0	-3
Maintenance	<b>563.2</b>	<b>3,962</b>	<b>538.5</b>	<b>3,799</b>	<b>536.0</b>	<b>3,579</b>	<b>507.1</b>	<b>3,390</b>	<b>167.0</b>	<b>2,833</b>	<b>157.7</b>	<b>2,674</b>	<b>1,266.2</b>	<b>3,608</b>	<b>1,203.3</b>	<b>3,435</b>
Operating costs	-17.8	-125	-10.9	-77	-24.1	-161	-12.5	-84	-1.9	-32	-3.0	-51	-43.8	-125	-26.4	-75
Administration	-38.2	-269	-39.4	-278	-95.1	-635	-88.9	-594	-25.1	-426	-24.3	-412	-158.4	-451	-152.6	-436
Property tax	-26.7	-188	-25.9	-183	-24.5	-164	-22.7	-152	-5.1	-87	-6.2	-105	-56.3	-160	-54.8	-156
Ground rent	-56.8	-399	-55.8	-394	-42.6	-284	-40.5	-271	-18.0	-305	-18.0	-305	-117.4	-335	-114.3	-326
Total property expenses	-0.2	-1	-0.2	-1	-15.9	-106	-15.9	-106	-	-	-	-	-16.1	-46	-16.1	-46
Gross operating profit	<b>-139.7</b>	<b>-982</b>	<b>-132.2</b>	<b>-933</b>	<b>-202.2</b>	<b>-1,350</b>	<b>-180.5</b>	<b>-1,207</b>	<b>-50.1</b>	<b>-850</b>	<b>-51.5</b>	<b>-873</b>	<b>-392.0</b>	<b>-1,117</b>	<b>-364.2</b>	<b>-1,040</b>

Property data	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2008		2007		2008		2007		2008		2007		2008		2007	
Number of properties	16		16		9		9		4		4		29		29	
Floor space, sq. m	145,536		145,102		149,774		149,602		58,935		58,981		354,245		353,685	
Vacant rental space, %	8.7		3.8		2.7		3.3		1.0		1.7		5.3		3.3	
Vacant floor space, %	9.6		5.4		4.1		4.7		1.5		2.4		5.9		4.6	
Total rentable parking spaces	182		184		1,276		1,276		51		52		1,509		1,512	

Rentable space and annual rent	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	Area, Sq. m.		Annual rent SEK m		Area, Sq. m.		Annual rent SEK m		Area, Sq. m.		Annual rent SEK m		Area, Sq. m.		Annual rent SEK m	
	December 31, 2008															
Offices	99,012		414.0		45,702		154.4		31,812		57.8		176,526		626.2	
Stores and restaurants	33,534		182.0		44,786		312.5		22,189		88.2		100,509		582.7	
Cinemas	-		-		1,893		1.3		-		-		1,893		1.3	
Storage and miscellaneous	6,915		13.2		18,060		28.7		3,684		6.2		28,659		48.1	
Garages	5,087		6.0		39,035		38.5		1,250		1.3		45,372		45.8	
Residential	988		1.7		298		0.3		-		-		1,286		2.0	
Total	<b>145,536</b>		<b>616.9</b>		<b>149,774</b>		<b>535.7</b>		<b>58,935</b>		<b>153.5</b>		<b>354,245</b>		<b>1,306.1</b>	

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, 2008															
Offices	10,643		47.2		1,333		3.9		744		1.4		12,720		52.5	
Stores and restaurants	742		2.9		2,000		7.7		-		-		2,742		10.6	
Cinemas	-		-		-		-		-		-		-		-	
Storage and miscellaneous	1,287		2.0		2,620		2.6		150		0.2		4,057		4.8	
Garages	929		1.2		135		0.1		-		-		1,064		1.3	
Residential	359		0.6		-		-		-		-		359		0.6	
Total	<b>13,960</b>		<b>53.9</b>		<b>6,088</b>		<b>14.3</b>		<b>894</b>		<b>1.6</b>		<b>20,942</b>		<b>69.8</b>	

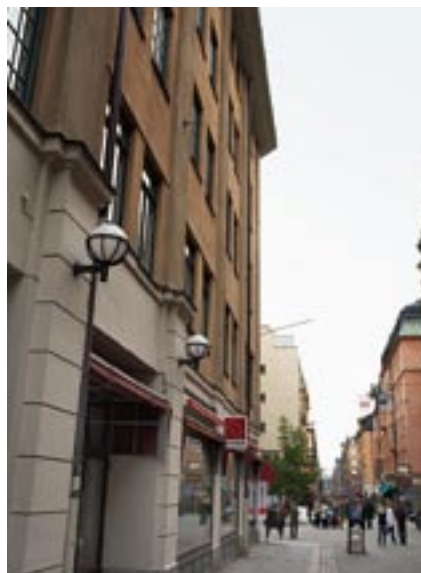
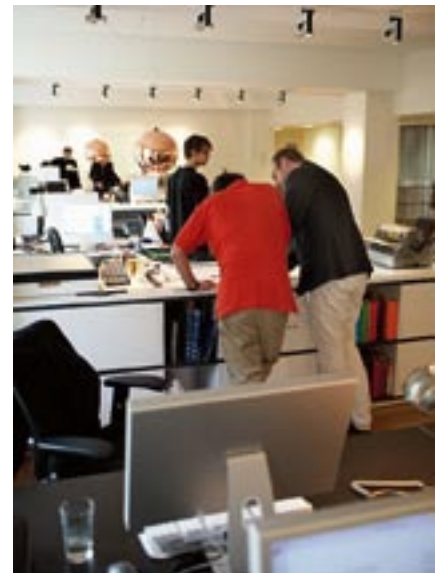
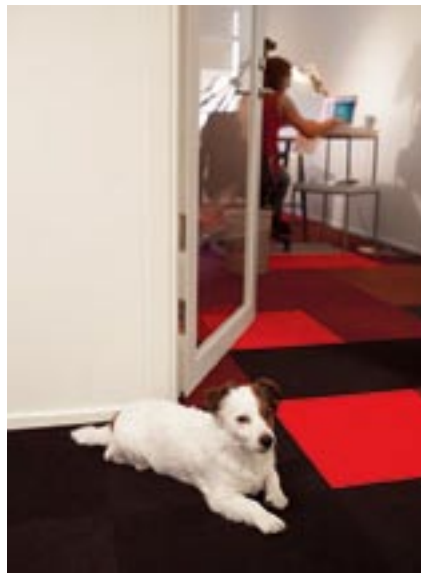


<b>Lease term structure</b> <sup>1) 2) 3)</sup> December 31, 2008							
<b>NUMBER OF CONTRACTS</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014–</b>	<b>Total</b>
<b>Stockholm City East Business Area</b>							
Offices	53	51	47	19	5	8	183
Stores	23	28	23	10	3	5	92
Miscellaneous	261	84	64	17	6	18	450
<b>Total</b>	<b>337</b>	<b>163</b>	<b>134</b>	<b>46</b>	<b>14</b>	<b>31</b>	<b>725</b>
Proportion, %	46.5	22.5	18.5	6.3	1.9	4.3	100.0
<b>Stockholm City West Business Area</b>							
Offices	22	20	24	13	2	1	82
Stores	67	38	59	8	4	2	178
Miscellaneous	137	61	66	11	2	6	283
<b>Total</b>	<b>226</b>	<b>119</b>	<b>149</b>	<b>32</b>	<b>8</b>	<b>9</b>	<b>543</b>
Proportion, %	41.6	21.9	27.4	5.9	1.5	1.7	100.0
<b>Göteborg Business Area</b>							
Offices	8	22	14	9	1	0	54
Stores	15	20	16	15	4	1	71
Miscellaneous	14	42	49	10	1	0	116
<b>Total</b>	<b>37</b>	<b>84</b>	<b>79</b>	<b>34</b>	<b>6</b>	<b>1</b>	<b>241</b>
Proportion, %	15.3	34.9	32.8	14.1	2.5	0.4	100.0
<b>Hufvudstaden, total</b>							
Offices	83	93	85	41	8	9	319
Stores	105	86	98	33	11	8	341
Miscellaneous	412	187	179	38	9	24	849
<b>Total</b>	<b>600</b>	<b>366</b>	<b>362</b>	<b>112</b>	<b>28</b>	<b>41</b>	<b>1,509</b>
Proportion, %	39.8	24.2	24.0	7.4	1.9	2.7	100.0
<b>ANNUAL RENT, SEK M</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014–</b>	<b>Totalt</b>
<b>Stockholm City East Business Area</b>							
Offices	79.1	87.2	81.6	45.4	5.6	75.8	374.7
Stores	33.8	41.9	34.7	23.2	6.8	22.0	162.4
Miscellaneous	14.4	3.6	8.8	2.3	0.0	1.8	30.9
<b>Total</b>	<b>127.3</b>	<b>132.7</b>	<b>125.1</b>	<b>70.9</b>	<b>12.4</b>	<b>99.6</b>	<b>568.0</b>
Proportion, %	22.4	23.4	22.0	12.5	2.2	17.5	100.0
<b>Stockholm City West Business Area</b>							
Offices	21.7	52.3	33.8	23.6	5.5	4.0	140.9
Stores	86.5	47.3	98.5	13.4	4.7	8.2	258.6
Miscellaneous	40.9	21.0	14.6	4.0	0.4	1.6	82.5
<b>Total</b>	<b>149.1</b>	<b>120.6</b>	<b>146.9</b>	<b>41.0</b>	<b>10.6</b>	<b>13.8</b>	<b>482.0</b>
Proportion, %	30.9	25.0	30.5	8.5	2.2	2.9	100.0
<b>Göteborg Business Area</b>							
Offices	3.0	22.2	14.6	17.3	0.2	0.0	57.3
Stores	15.3	22.0	17.4	20.3	4.8	3.8	83.6
Miscellaneous	2.6	4.1	4.2	1.5	0.0	0.0	12.4
<b>Total</b>	<b>20.9</b>	<b>48.3</b>	<b>36.2</b>	<b>39.1</b>	<b>5.0</b>	<b>3.8</b>	<b>153.3</b>
Proportion, %	13.6	31.5	23.6	25.5	3.3	2.5	100.0
<b>Hufvudstaden, total</b>							
Offices	103.8	161.7	130.0	86.3	11.3	79.8	572.9
Stores	135.6	111.2	150.6	56.9	16.3	34.0	504.6
Miscellaneous	57.9	28.7	27.6	7.8	0.4	3.4	125.8
<b>Total</b>	<b>297.3</b>	<b>301.6</b>	<b>308.2</b>	<b>151.0</b>	<b>28.0</b>	<b>117.2</b>	<b>1,203.3</b>
Proportion, %	24.7	25.1	25.6	12.6	2.3	9.7	100.0

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

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

3) Excluding residential leases.



*Along Drottninggatan, most of which is now pedestrianized, there are many shops, restaurants and offices. This is where Hufvudstaden has Skandia-Teatern as a tenant. It is the oldest cinema in Stockholm and is of considerable cultural value. Images: Drottninggatan, Stockholm.*

# 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.

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

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

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

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

*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.

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

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

*Dividend proportion.* Dividend per share divided by the profit per share for the year.

*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.

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

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

*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 Jarlsgratan, 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.

*Loan-to-value ratio, properties.* Interest-bearing liabilities in relation to the properties' carrying values.

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

*Net loan-to-value ratio, properties.* Interest-bearing liabilities minus current investments in relation to the fair value of the properties.

*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.

*In some cases there has been rounding off, which means that tables and calculations do not always tally.*

# Addresses

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Website: ..... www.hufvudstaden.se  
Company reg. no.: ..... 556012-8240  
Registered office:..... Stockholm

## **Gothenburg**

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## **NK Department stores**

*NK Stockholm*

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*Drottninggatan, Stockholm*

