

HUFVUDSTADEN

2006



English



Norrmalmstorg/Biblioteksgatan, Stockholm.

Contents

Annual General Meeting and reporting dates	4
Business concept, objectives and strategies.....	5
Statement by the President.....	6
Five-year summary.....	11
Organization and personnel.....	12
Share capital and ownership structure.....	14
Market description.....	16
Quality and the environment	20
Property development.....	21
Stockholm City East Business Area.....	22
Stockholm City West Business Area	26
NK Business Area	30
Gothenburg Business Area.....	34
Corporate governance	38
Administration Report	42
Income statements with comments	46
Balance sheets with comments.....	48
Summary of changes in equity.....	50
Cash flow statements with comments.....	52
Notes and supplementary information	54
Proposed distribution of unappropriated earnings	70
Auditors' Report	71
Board of Directors and Auditors.....	72
Senior Executives	74
Properties	76
Statistics..	78
Definitions.....	81
Addresses.....	82

The formal financial reports can be found on pages 42–70.

The year in brief

- Profit for the year after tax amounted to SEK 3,423.2 million (1,333.9). The increase can be attributed mainly to changes in the value of the property holdings and the sale of the World Trade Center Stockholm.
- The Board proposes an increase in the ordinary dividend to SEK 1.60 per share and an extra dividend of SEK 10.00 per share. The total proposed dividend is thus SEK 11.60 per share.
- The fair value of the property holdings, excluding WTC, was set at SEK 17.4 billion at the turn of the year, equivalent to a net asset value of SEK 71 per share (53).
- Group net sales for comparable holdings amounted to SEK 1,152.5 million (1,152.4).
- The rental vacancy level at the year-end was 6.5 per cent (7.1).
- Profit per share was SEK 16.60 (6.47).
- The sale of the World Trade Center Stockholm, including management profits, had an impact on profit after tax of SEK 1.1 billion.

Annual General Meeting

The Annual General Meeting will take place at 4pm on Thursday, March 22, 2007 at the Grand Hotel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual General Meeting is published in Dagens Nyheter and Svenska Dagbladet and on the Post- och Inrikes Tidningar website www.bolagsverket.se/poit.

Notification

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by VPC AB (Swedish Securities Register Centre) by Friday, March 16, 2007, whereupon shareholders who have their shares under management must have the shares re-registered temporarily in their own name at VPC to be entitled to attend the meeting. Registration must be completed by March 16, 2007.
- notify Hufvudstaden by 4pm on Friday March 16, 2007 at the latest. Notification, preferably in writing, should be sent to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

Notification can also be made by fax on +46-8-762 90 01, by e-mail at anm@hufvudstaden.se or by telephone on +46-8-762 90 00. Notification must include name, civic registration number or company registration number, daytime telephone number and the names of any assistants who will be attending.

Dividend

The Board of Directors proposes that a dividend of SEK 11.60 per share, of which SEK 10.00 per share is an extra dividend, totalling SEK 2,392.7 million, be paid for 2006. The record date is March 27, 2007 and payment is expected to be made on March 30, 2007.

Change of address

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

Financial information

Interim report, Jan–Mar 2007 May 10, 2007
Interim report, Jan–June 2007 August 20, 2007
Interim report, Jan–Sept 2007 November 1, 2007
Year-end report 2007 February 14, 2008
Annual Report 2007 March 2008

This information is also published on Hufvudstaden's website, www.hufvudstaden.se

Contacts

Ivo Stopner, *President*

Telephone: +46-8-762 90 00.

E-mail: ivo.stopner@hufvudstaden.se

Magnus Jacobson, *Head of Finance*

Telephone: +46-8-762 90 00.

E-mail: magnus.jacobson@hufvudstaden.se

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 will be, the most attractive property company in Sweden.

Business concept

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

Financial objectives

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

Operating objectives

Hufvudstaden will:

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

Strategies to achieve the objectives

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

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

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

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

Fulfilment of objectives

Financial objectives.

- According to a proposal by the Board, the total share dividend will be SEK 2,392.7 million, of which the ordinary dividend is SEK 330.0 million, equivalent to 65 per cent of the net profit from current operations.
- The equity ratio exceeded 40 per cent at the end of 2006 and amounted to 57.4 per cent.

Operating objectives.

- Profit on current operations remained generally unchanged.
- Hufvudstaden came second in the Fastighetsbarometern Customer Satisfaction Survey.
- Hufvudstaden is working steadfastly to develop its property holdings. Several projects were completed during the year, including the redevelopment of Röda Kvarn and Biblioteksgatan 12.
- Management seminars were run during the year. All employees are encouraged, and are given the opportunity, to acquire greater know-how by setting personal objectives, which are then followed up each year.

Statement by the President

We are at the centre of events

Hufvudstaden's properties are to be found in the very heart of our two largest cities. This is where we have our focus – at the centre of events and where commerce and communications, culture and the street life create a stimulating environment for encounters in business. Working in the city means being part of the strong pulse and potential of urban life.

An attractive city does not live a life of its own. It demands innovative thinking, will and commitment. Hufvudstaden enjoys the challenge of bringing our properties into the future. We are endeavouring to create stimulating marketplaces and attractive environments for the people of the future. Redevelopment of the former Röda Kvarn cinema on Biblioteksgatan in Stockholm is an example of how new store environments can be created whilst still retaining the historical environment. The major remodelling at both NK department stores in Stockholm and Gothenburg has now been completed and both stores have acquired a better structure and a whole range of new brand names. The customers are satisfied and this is reflected in the increase in sales.

A good year

2006 has been a successful year for Hufvudstaden. Our rental markets have been gradually reinforced with increased letting levels and rising rents as a result. We have completed a number of successful projects and the value of our property holdings has continued to increase. The price of Hufvudstaden A-shares rose by approximately 50 per cent during 2006. The share price also continued to rise after the year-end. In this year's Fastighetsbarometer customer satisfaction survey Hufvudstaden was once again among the forerunners.

Rising market values

The major interest in Swedish properties among both foreign and Swedish investors continued during the year and properties worth almost SEK 150 billion changed hands (123). The main reasons for this high level of interest are the continued relatively low interest rates, the transparency of the Swedish market – facilitating secure and easily implemented transactions – and the fact that at the present time there is an exceptional amount of money available throughout the world for investment in property. The fair value of Hufvudstaden's property holdings, excluding WTC, increased during the year and was estimated at SEK 17.4 billion at the year-end (14.6). The direct yield requirement for the Company's modern, well-situated

properties in both Stockholm and Gothenburg fell during the year by approximately one percentage point.

Successful divestment of World Trade Center Stockholm

In the light of the considerable interest in Swedish properties Hufvudstaden decided to put the World Trade Center up for sale. Hufvudstaden has been involved in the property for almost 20 years, first as a partner together with Lundbergs and SIAB in the consortium which during the period 1985–1989 built the property, and from 2000 as the sole owner. Considerable interest was shown in the property by both Swedish and foreign investors. The property was sold to the Swedish occupational pension company Alecta for a property value of approximately SEK 2.6 billion, which resulted in a capital gain, including management profits after tax, of approximately SEK 1.1 billion. The completion date was February 1, 2007. The sale reduced the risk exposure in the holdings as the property was on leasehold. At the same time, Hufvudstaden's potential to invest in new properties and commence projects within its own holdings will increase.

Hufvudstaden's markets reinforced

Both in Stockholm and Gothenburg the rental markets for commercial properties strengthened during the year. The strong business climate in Sweden has still not shown any sign of waning and unemployment is falling. Hufvudstaden's customers are doing well and the demand for Hufvudstaden's modern, well-situated premises has increased significantly. Vacant space is falling and rent levels have once again begun to rise for premises in prime locations. In Stockholm the market rents for offices in prime locations was SEK 3,500–4,000 per square metre per year, excluding the property tax supplement. The equivalent levels in Gothenburg were SEK 1,600–2,000 per square metre per year.

Positive trend for the retail trade

The retail trade grew substantially during 2006. The major changes which have taken place at the NK department stores in both Stockholm and Gothenburg over a number of years with the aim of creating even more attractive stores have proved positive and sales at both stores increased during the year.

The strong retail trade also benefits Hufvudstaden's other property holdings, facilitating the continued positive development of the rental market for retail premises.

Two genuine Hufvudstaden projects

Hufvudstaden has a long and strong tradition of increasing the value of the properties through projects that involve incorporating the latest in modern technology into the buildings and yet at the same time safeguarding cultural values. Two such projects were completed during the year in the Biblioteksgatan area in Stockholm.



Profit for the year and focus for 2007

The Group's profit after tax was SEK 3,423.2 million, an increase of 157 per cent compared with 2005. The increase can be explained mainly by the changes in value of the property holdings and the sale of the World Trade Center.

The Board proposes an ordinary dividend for 2006 of SEK 1.60 per share and an extra dividend of SEK

10.00 per share, making a total of SEK 11.60 per share.

In 2007, our focus will be on renegotiations and new leases. An important task is to further reduce our level of vacant office space and at the same time continue to develop the property holdings through carefully selected projects. The purchase or sale of properties at the right time could be a good opportunity for the Company to develop the holdings, strengthen profits and reduce risk exposure. Consequently, carefully considered property transactions aimed at developing the holdings and creating greater added value for the shareholders cannot be excluded.

The future

The prevailing strong business climate in Sweden brings good hope of continued development for both Hufvudstaden and our customers in the next few years. The rental market for both offices and retailing premises will in all probability continue to strengthen for a few years to come.

At Hufvudstaden we will continue to offer our tenants modern premises of the very highest class, a pleasant environment which contributes to reinforcing their brand name, a level of service beyond the norm and a long-term relationship. Our knowledge of the city regions is second to none, we work with our own personnel, we live in close proximity to the reality of the customer's day-to-day life and we are large enough to be able to offer alternative solutions as needs change.

Hufvudstaden puts the customer in focus. We create marketplaces where the urban environment, communications, our functional buildings and our commitment contribute to successful business for our customers. We bring together urban winners. This is something we intend to continue for many years to come.

Biblioteksgatan 12.

The building, constructed in 1865, was redeveloped internally during the year from the very foundations and has been adapted to the demands of the 21st century in terms of efficiency and the latest technology. At the same time we have endeavoured to preserve to the greatest possible extent the atmosphere and architectural qualities of the building. The result is a much sought-after commercial property in the very best commercial location. In February 2007, the international firm of lawyers White & Case moved in and they now occupy the whole of the office part of the building.

Röda Kvarn cinema.

After a number of years of very poor profitability for single-screen cinemas, SF decided in 2005 to close down Röda Kvarn and instead focus on the Skandia cinema on Drottninggatan, which was much more worthy of preserving. This enabled Hufvudstaden to co-operate with the international retailing chain Urban Outfitters in the renovation of this historical cinema building and to recreate to the greatest possible extent the original environment from 1915. The layout has been preserved and original details, such as the ceiling painting in the cinema, have been restored. For Hufvudstaden the property has not only increased in value through increased income but the attractiveness of the whole retailing area around Biblioteksgatan has also been reinforced by the retailing space in the area being expanded and developed.

Satisfied customers

This year's survey among 10 or so property companies to determine the level of satisfaction of office tenants put Hufvudstaden in second place with an increase of two points, compared with the average of one point for the industry. It is heartening that the will and commitment of our employees on all levels in the Company is appreciated by our tenants. This is a major and important source of encouragement for us to further increase our service to our tenants.

Stockholm, February 2007

A handwritten signature in blue ink, which appears to be 'Ivo Stopner'. The signature is fluid and cursive, written over a white background.

Ivo Stopner
President



Swedes in general, and Swedish city-dwellers in particular, have in just a couple of years become considerably more continental in their habits. They willingly take the time to eat and drink well – often several times a day. This is noticeable in particular in the street environment, where there is a wide range of places to eat and drink, both new and old.

Picture: the old-established Restaurang Prinsen, Mäster Samuelsgatan.



*As in other European capitals, Stockholm has a city area where the stores are dominated almost exclusively by the foremost leaders in fashion and other strong brand categories. This is an area where the most fashion-conscious target group is very definitely in its element.
Picture: Biblioteksgatan.*



The latest additions at NK Stockholm include the jewellery salon champagne bar, where you can enjoy a glass of bubbly whilst looking at beautiful jewellery. NK has also invested in developing its women's footwear department.

Pictures: NK Stockholm.

Five-year summary

Income statements					
SEK m	2006¹⁾	2005	2004	2003²⁾	2002²⁾
Net sales					
Property management	1,097	1,259	1,273	1,286	1,236
Other operations	56	86	85	83	112
	1,153	1,345	1,358	1,369	1,348
Operating expenses					
Maintenance, operation and administration	-254	-317	-289	-384	-338
Ground rents	-16	-30	-36	-34	-33
Property tax	-93	-109	-106	-129	-129
Depreciation	-	-1	-1	-101	-98
Property management	-363	-458	-431	-648	-598
Other operations	-45	-72	-74	-74	-97
	-408	-530	-506	-722	-695
Gross profit	745	815	853	647	653
– of which Property management	734	801	842	638	638
– of which Other operations	11	14	11	9	15
Central administration	-32	-31	-29	-29	-36
Items affecting comparability	-	-	-	-	24
Changes in value, investment properties	2,648	1,200	298	-	-
Operating profit	3,361	1,984	1,121	618	641
Financial income and expense	-140	-132	-225	-187	-188
Profit before tax	3,221	1,852	896	431	453
Tax	-904	-518	-125	-61	-116
Profit from discontinued operations, net after tax	1,106	-	-	-	-
Profit for the year	3,423	1,334	771	370	337
Balance sheets					
Assets					
Investment properties	17,409	16,276	15,000	10,612	10,566
Other fixed assets	15	69	84	97	111
Current assets	3,096	144	59	223	275
Total assets	20,520	16,489	15,142	10,932	10,952
Equity and liabilities					
Equity	11,785	8,615	8,140	4,792	4,791
Interest-bearing liabilities	3,365	3,525	3,135	3,751	3,766
Other liabilities and allocations	5,370	4,349	3,867	2,389	2,395
Total equity and liabilities	20,520	16,489	15,142	10,932	10,952
Property holdings					
Fair value, SEK billion	17.4	16.3	15.0	15.1	-
Tax assessment value, SEK billion	9.0	10.6	10.9	13.5	13.0
Rentable floor space, 1,000 sq. m	351	408	407	438	436
Rental vacancy level, %	6.5	7.1	8.2	8.1	9.3
Floor space vacancy level, %	8.1	8.7	9.5	8.7	9.2
Investments in properties, SEK m	181	76	69	135	101
Property sales, SEK m	1,106	-	18	-	-
Net operating income, SEK per sq. m ³⁾	2,091	1,964	2,071	1,687	1,687
Financial key ratios					
Gross margin, %	64.7	60.6	62.8	47.3	48.4
Return on equity, %	33.6	15.9	9.8	7.7	7.1
Return on capital employed, %	23.9	16.5	9.7	7.4	7.6
Equity ratio, %	57.4	52.2	53.8	43.8	43.7
Interest coverage, multiple	5.1	5.7	3.5	3.2	3.2
Debt/equity, multiple	0.3	0.4	0.4	0.7	0.8
Loan to value ratio, properties, %	19.3	21.7	20.9	35.3	35.6
Cash flow from current operations, SEK m	608	579	313	537	540
Cash flow for the year, SEK m	-52.4	78.5	-148	26	-2
Average number of employees in the Group	119	122	122	123	133
Share data					
Profit for the year, SEK	16.60	6.47	3.74	1.78	1.60
Ordinary dividend, SEK	1.60 ⁴⁾	1.45	1.30	1.20	1.10
Extra dividend, SEK	10.00 ⁴⁾	-	2.70	-	-
Dividend proportion (ordinary), %	9.6	22.4	34.8	67.4	68.9
Equity, SEK	57.14	41.77	39.46	23.23	22.68
Fair value of properties, SEK	84.40	78.91	72.72	73.21	-
Cash flow from current operations, SEK	2.95	2.81	1.52	2.58	2.56
Cash flow for the year, SEK	-0.25	0.38	-0.72	0.12	-0.01
Net asset value, SEK	71.00	53.00	50.00	-	-
Share price, Series A, at the year-end, SEK	77.50	52.00	47.60	34.70	27.00
P/E ratio, multiple	4.7	8.0	12.7	19.5	16.9
Share price/equity, %	135.6	124.5	123.5	153.0	120.4
Direct yield (ordinary), %	2.1	2.8	2.7	3.5	4.1
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	211,271,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	208,268,933	211,271,933
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) WTC is reported in the Income Statement under the item Profit from discontinued operations and in the Balance Sheet as a receivable in respect of a purchase sum as yet unpaid.

2) No recalculation according to IFRS has taken place for 2002–2003, which would mainly affect the items Depreciation and Changes in value in the Income Statement as well as Investment properties and Deferred taxes in the Balance Sheet.

3) The calculation was based on the number of square metres at the year-end.

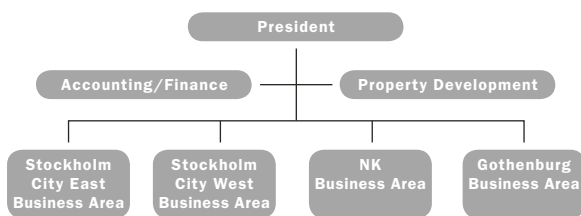
4) In accordance with a proposal by the Board.

For Definitions, see page 81.

Organization and employees

Organization

The Company's operations are organized into four business areas: Stockholm City East, Stockholm City West, NK and Gothenburg. The Property Development, Accounting/Finance and Human Resources staff functions support the work in the operative organization. In addition, parking operations are run through the subsidiary Parkaden AB. The conference and restaurant operations run during the year through the subsidiary World Trade Center AB were taken over by the occupational pension company Alecta on February 1, 2007.



Value-controlled corporate culture

A clear, common, broadly accepted set of values is a vital prerequisite in maintaining the high level of quality in the day-to-day work as well as leading and controlling operations towards achieving the Company's vision and objectives. Hufvudstaden's values reflect the way in which the employees act, both internally and externally, and form

an active tool in the day-to-day work. The core values are attentiveness, honesty, commitment and quality.

Employees

Committed, expert, service-oriented, satisfied employees throughout the Company are a prerequisite for achieving the Company's vision and objectives. Hufvudstaden is therefore working on:

- the Company's values as a platform for attitudes and working methods,
- reinforcing and developing our managers in such a way that they exercise exemplary, bold, inspirational, forward-thinking management,
- individual development plans within the framework of Hufvudstaden's objectives and vision,
- encouraging internal movement and the opportunity for further development within the Company,
- promoting equality between men and women and counteracting unfounded salary differences,
- counteracting all forms of discrimination or harassment as a result of gender, ethnic affiliation or sexual disposition,
- promoting good work attendance based on good health through preventive measures such as regular health checks, health insurance and various health-promoting activities as well as systematic, long-term work on matters related to the working environment.



Kungsgatan/Sveavägen, Stockholm.



Kungsträdgården, Stockholm.



Hamngatan, Stockholm.

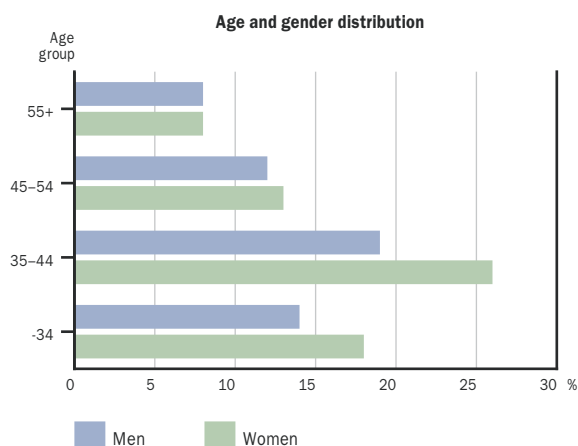
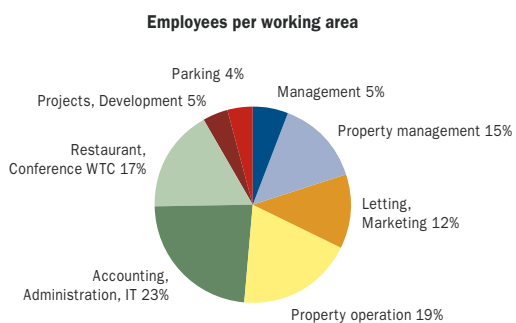
The employees' view of Hufvudstaden is measured each year through an employee survey where questions regarding satisfaction, leadership and attitudes are put forward. The results should be an active instrument in the continuing process of developing operations towards the objectives that have been established.

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

At the end of 2006, 118 (131) persons worked in the Group, including WTC, of whom 91 (101) were in the Parent Company and 27 (30) in the two subsidiaries. At the year-end, the division was 45 (45) per cent men and 55 (55) per cent women. Of the Group's 28 (25) managers, 9 (9)

were women, or 32 (36) per cent. The average age was 41 (40) years for women and 43 (42) years for men. The average period of employment was 8 (8) years. Absenteeism due to sickness in the Group during the year totalled 3 (6) per cent.

World Trade Center Stockholm AB was taken over during the first quarter of 2007 by Alecta. At the end of 2006, 22 (25) persons worked at WTC Stockholm AB. At the year-end the division was 36 (40) per cent men and 64 (60) per cent women. Of the company's 4(4) managers 1(1) was a woman or 25 (25) per cent. The average age was 34 (34) years for women and 38 (35) years for men. The average period of employment was 5 (4.5) years. Absenteeism due to sickness in the Company during the year was 3 (6) per cent.



Kungsgatan/Sveavägen, Stockholm.



Biblioteksgatan, Stockholm.



Hamngatan/ Norrlandsgatan, Stockholm.

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 2006, the share capital amounted to SEK 1,056.4 million.

Share series

Hufvudstaden has two share series, Series A and Series C. Both series are listed on the Stockholm Stock Exchange A-list. Series A shares carry one vote per share and the trading lot is 500 shares. Series C shares carry 100 votes per share and the trading lot is 500 shares.

Series A shares were first listed in 1938 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 A shares are entitled, if they wish, to request conversion of their Series C shares into Series A shares. During the year, 480 Series C shares were converted in this way.

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 2006 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 the year.

Ownership structure

The number of shareholders at the year-end was 19,677. The largest shareholder was L E Lundberg Holding AB with 45.2 per cent of the total number of outstanding shares and 88.0 per cent of the votes. The second largest

was SEB Trygg Liv with 11.5 per cent of the total number of outstanding shares and 2.3 per cent of the votes.

As of December 31, 2006 institutions and companies with holdings of over 100,000 shares held a total of 185,700,708 shares, equivalent to 90.0 per cent of the total number of outstanding shares and 97.1 per cent of the votes. Of these, 47 were Swedish institutions and companies, which together held a total of 147,709,202 shares, equivalent to 71.6 per cent of the total number of outstanding shares and 93.3 per cent of the votes. There were 42 foreign institutions and companies with holdings over 100,000 shares. Their holdings amounted to 37,991,506 shares, equivalent to 18.4 per cent of the outstanding shares and 3.7 per cent of the votes. In addition, three Swedish private individuals each held more than 100,000 shares. The number of shareholders fell during the year by 1,693. The proportion of foreign ownership rose during the year from 15.6 to 20.1 per cent of the total number of outstanding shares. As of the year-end, 16,969 shareholders, i.e. 86.2 per cent of the total number of shareholders, held 1,000 shares or less. Ninety-two shareholders, each of whom held more than 100,000 shares, held 91.0 per cent of the outstanding shares.

Market capitalization

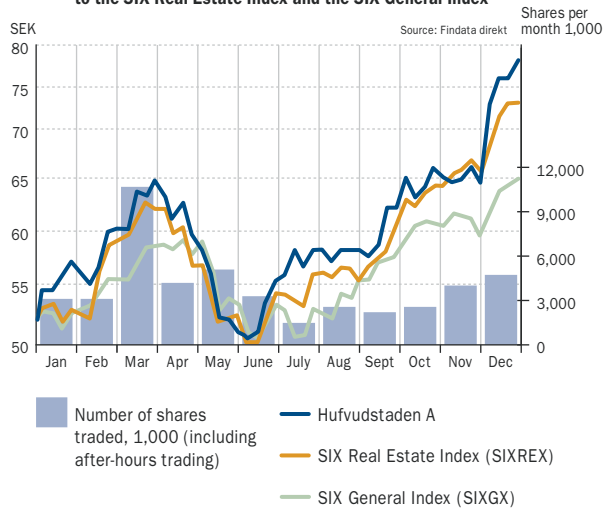
At the end of 2006, Hufvudstaden's total market value was SEK 16,374 million. The graph on the opposite page shows the price trend and trading in Hufvudstaden's Series A shares during the year.

Dividend policy

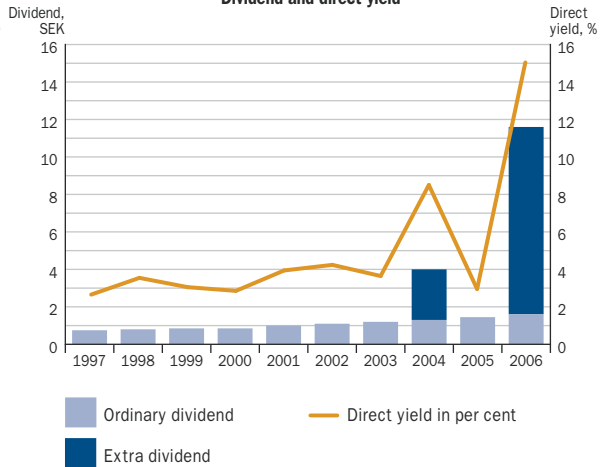
Hufvudstaden shares shall have good dividend growth over time and the dividend shall be more than half the net profit from current operations unless investments or the Company's financial position generally justify a deviation. A dividend of SEK 1.60 per share and an extra dividend of SEK 10.00 per share are proposed for 2006. The ordinary dividend is equivalent to 10 per cent of the profit for the year or 65 per cent of the net profit on current operations.¹⁾

1) See Definitions, page 81, Dividend amount.

The share price trend and trading from January 1, 2006 in relation to the SIX Real Estate Index and the SIX General Index



Dividend and direct yield



The ten largest focused property companies

December 31, 2006	Market value, SEK m
Fabege	18,460
Hufvudstaden	16,374
Castellum	15,696
Kungsleden	14,333
LjungbergGruppen	11,241
Wallenstam	9,024
Wihlborgs	5,486
Klövern	4,996
Brinova	3,119
Heba	2,942

Source: SIX

Ownership structure as of December 31, 2006

	Number of share-holders	Proportion of share-holders, %	Number of shares	Proportion of shares, %	
1-	500	14,644	74.4	2,024,510	1.0
501-	1,000	2,325	11.8	1,755,626	0.8
1,001-	2,000	1,330	6.8	1,973,955	0.9
2,001-	5,000	761	3.9	2,476,007	1.2
5,001-	10,000	253	1.3	1,925,635	0.9
10,001-	20,000	126	0.6	1,866,194	0.9
20,001-	50,000	105	0.5	3,374,678	1.6
50,001-	100,000	41	0.2	3,084,158	1.4
100,001-		92	0.5	187,785,170	88.9
		19,677	100.0	206,265,933	97.6
Hufvudstaden				5,006,000	2.4
Total				211,271,933	100.0

Source: VPC

The largest shareholder groups as of December 31, 2006

	Series A, shares	Series C, shares	Total number of shares	Outstanding shares, %		Issued shares, %	
				Capital	Votes	Capital	Votes
L E Lundbergföretagen	85,141,229	8,177,680	93,318,909	45.2	88.0	44.2	87.6
SEB Trygg Liv	23,724,107		23,724,107	11.5	2.3	11.2	2.3
Mellon	7,422,206		7,422,206	3.6	0.7	3.5	0.7
JP Morgan	6,198,043		6,198,043	3.0	0.6	2.9	0.6
Skandia Liv	5,072,176		5,072,176	2.5	0.5	2.4	0.5
Robur Fonder	4,741,898		4,741,898	2.3	0.5	2.2	0.5
Northern Trust	4,083,385		4,083,385	2.0	0.4	1.9	0.4
State Street Bank & Trust	3,789,539		3,789,539	1.8	0.4	1.8	0.4
KAS Depository Trust	3,016,153		3,016,153	1.5	0.3	1.4	0.3
Fortis Bank	2,725,963		2,725,963	1.3	0.3	1.3	0.3
Försäkringsbolaget Pensionsgaranti	2,637,875		2,637,875	1.3	0.3	1.2	0.3
Citibank	2,018,171		2,018,171	1.0	0.2	1.0	0.2
KK-Stiftelsen	2,000,000		2,000,000	1.0	0.2	0.9	0.2
Other shareholders	45,420,124	97,384	45,517,508	22.1	5.3	21.5	5.3
Outstanding shares	197,990,869	8,275,064	206,265,933	100.0	100.0	97.6	99.5
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
Total number of issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0

Source: VPC

Market description

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 2006, Stockholm had a strong rate of economic growth. Gothenburg in Western Sweden has also developed extremely well.

Expanding regions

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

The Stockholm area has for long time been the driving force in the country's economy and is one of the most expansive regions in Europe. Growth in the economy during the year has resulted in positive development in the Stockholm area, due mainly to the region's industrial structure and a high proportion of IT, telecom, biotechnology, finance and service companies. Stockholm has developed into the leading financial centre in Northern Europe. The banking and finance sector employs more than 34,000 persons at 1,400 companies. The gross regional product (GRP) for Stockholm revealed good growth in 2006.

The size of a region is of major significance to its economic growth and Stockholm must be regarded as the only European city in Sweden. Stockholm normally accounts for a large proportion of the growth in Sweden and it has 20 per cent of the country's population. The region also accounts for over a quarter of Sweden's gross national product. The number of foreign-owned companies is increasing and in the county there are now over 160,000 persons working at 4,000 foreign-owned companies. The Gothenburg region is of increasing importance in the development of Western Sweden. Some 50 per cent of the industrial capacity of Scandinavia is to be found within a radius of 300 km. There is a tangible international presence. The number of foreign-owned companies has increased to almost 1,800 in just a few years. The Gothenburg region has a well-developed infrastructure and a stable increase in population and employment. The increase in the GRP of the Gothenburg region has been the highest in the country over the past 10 years.

The property market

The properties' net operating income trend and direct yield requirements are important to the property market. Property acquisitions made during the year in the more central parts of Stockholm and Gothenburg demonstrated that direct yield requirements are subject to a downward adjustment. The direct yield requirements for modern office and retailing properties in these locations was 4.5–5.5 per cent in Stockholm and in Gothenburg 5.0–6.25 per cent. The availability of commercial property was high during the year. Foreign purchasers showed increasing interest in the Swedish property market and Swedish and foreign investors invested almost SEK 150 billion in Swedish properties during the year. The liquidity, lower transaction costs and a transparent market make the Swedish property market attractive, quite apart from the expected positive economic development in Sweden.

Investments in office and retailing premises

Within the "Tull" areas in Stockholm there are commercial property holdings comprising approximately 5 million square metres of office space, of which 1.7 million square metres is within the CBD. Investment in new office projects was low during the year and amounted to approximately 50,000 square metres. The availability of premises during 2006 exceeded the demand for modern, well-situated offices.

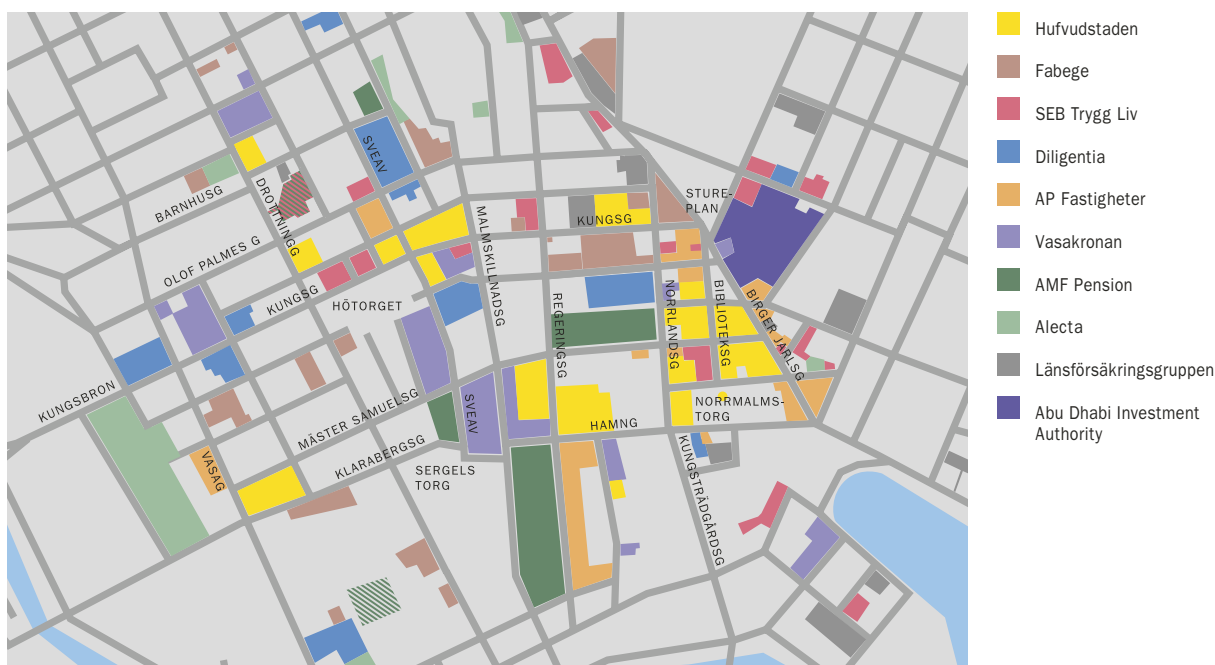
Major projects in the city include Jericho on Regeringsgatan, the Ramsbury building on Drottninggatan, Clara City at Klarabergsviadukten, a new office building at Kungsbron and Sturegallerian at Stureplan. Several major projects in central Stockholm and directly outside the Tull areas are still awaiting tenants.

In Gothenburg, there are 1.5 million square metres of office premises, of which 0.9 million square metres are within the central business district. New office construction continued to be low during 2006 and there are few new projects in central Gothenburg.

Reconstruction of the former Hasselblad building will create 13,000 square metres of office space. A Court Centre comprising 15,000 square metres will be built at Gårda. A project that can commence is a building right at Gårda, which is expected to result in 15–20,000 square metres of office space. At Norra Älvstranden extensive expansion is planned in the next few years.

Rental market in Stockholm

The level of vacant office space in Stockholm stabilized



Larger property owners in central Stockholm.

Source: Leimdörfer.

during the year, mainly due to an increase in demand for office space in both peripheral and central areas. The demand for prime location retailing premises continued to be stable, although the transfer sums for store premises have fallen. The result was a slightly stronger rental market with a levelling out of store rents and slightly more stable office rent levels than during 2005.

Offices

The demand for office space was primarily for central locations in the Tull areas and the immediately surrounding suburbs, close to the Tull areas and public transport. The demand is switching more and more from traditional cell offices to efficient combi-offices or open landscapes, where the cost per employee can be reduced and in-house contact improved. Market rents for modern offices stabilized during the year. Rents of between SEK 3,500 and 4,000 per square metre per year, excluding the property tax supplement, were noted within the Golden Triangle. In bordering areas – at Stureplan, Hötorget, Drottninggatan, Hamngatan, Regeringssgatan, Vasagatan and the World Trade Center – offices were leased for between SEK 2,500 and 3,800 per square metre per year, excluding the property tax supplement.

The level of vacant space during the year was between 11 and 12 per cent (10–12 per cent the previous year) in the inner city and between 11 and 20 per cent (12–25 per cent the previous year) in the “Malm” areas and in neigh-

bouring suburbs such as Kista, Liljeholmen, Alvik, Värthamnen and Nacka Strand.

Stores

The demand for store premises in prime locations was good although such premises were generally not available. The good level of demand can be attributed to the increased purchasing power of households. The most sought-after retailing areas are in the area around Biblioteksgatan and at Norrmalms-torg, 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 10,000 and 13,000 per square metre per year, excluding the property tax supplement.

Rental market in Gothenburg

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

Offices

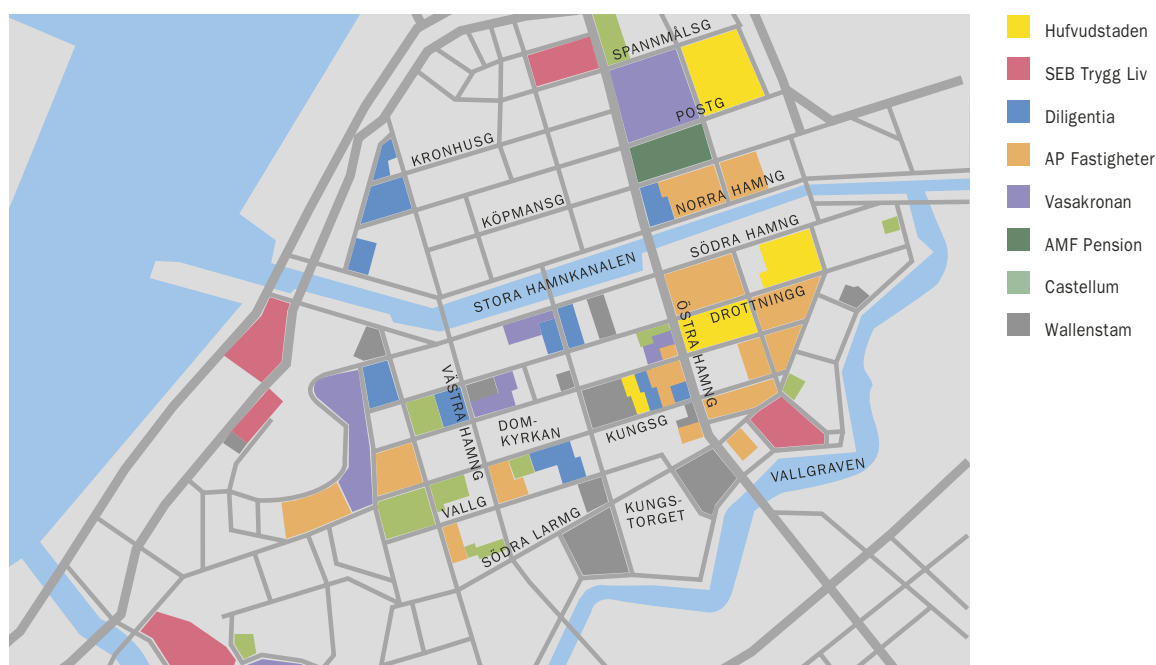
The rent levels in the central part of Gothenburg revealed a stable rate of growth during 2006. The trend, however, is slightly uncertain, due largely to the fact that vacant space is in excess of 10 per cent and major new construction projects can be implemented in the central areas of the city. Further 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 two years at a cost of SEK 5 billion. It is uncertain, however, whether this will materialize. In the most attractive locations, market rents are between SEK 1,600 and 2,000 per square metre per year, excluding the property tax supplement. The best positions for offices in central Gothenburg are considered to be the Inom Vallgraven areas, particularly areas near the Hamngatans, Nordstaden, Kungsporsavenyn, Svenska Mässan, Lilla, Bommen, Gårda and Gullbergsvass. Vacant space in the central areas of Gothenburg during the year was between 11 and 12 per cent (12–14 per cent in 2005).

Stores

Rents for stores in prime locations remained relatively stable during the year. In A-locations rents were noted between SEK 5,000 and 9,000 per square metre per year, excluding the property tax supplement. The growth in trade was good during the year. The availability of vacant retailing space was very limited – the estimate is less than 1 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 positions for stores in central Gothenburg are considered to be Östra Nordstaden, Fredsgatan, Arkaden, Kungsgatan between Fredsgatan and Korsgatan as well as part of Korsgatan.

Market rents in December 2006, Stockholm and Gothenburg
(excluding the property tax supplement)

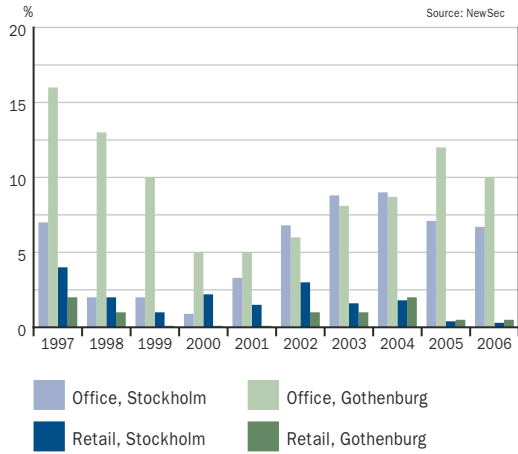
Sub-market	Offices, SEK/sq. m/year	Stores, SEK/sq. m/year
<i>Stockholm</i>		
Golden Triangle	3,500–4,000	7,500–13,000
Other city areas	2,500–3,800	3,500–10,000
Östermalm	2,000–3,000	3,000–8,500
Gamla Stan	1,800–2,500	2,500–5,000
Slussen/Södermalm	1,600–2,700	2,500–5,000
Kungsholmen	1,500–2,500	2,000–5,000
Liljeholmen	1,400–2,000	1,200–2,500
Globen	1,400–1,800	3,500–4,500
Kista	1,100–1,900	3,500–5,500
<i>Gothenburg</i>		
Central Gothenburg	1,600–2,000	5,000–9,000



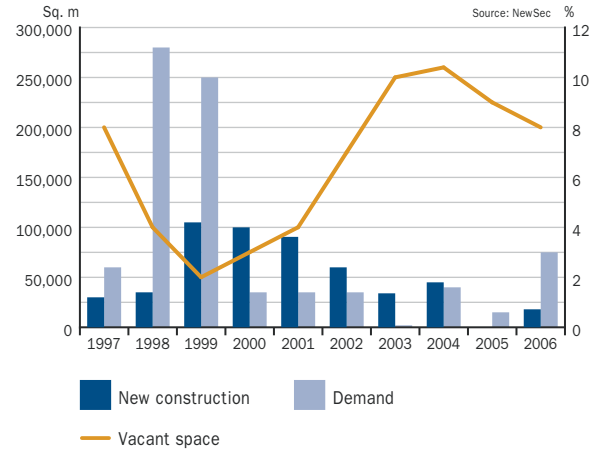
Larger property owners in central Gothenburg.

Source: Forum Fastighetsekonomi.

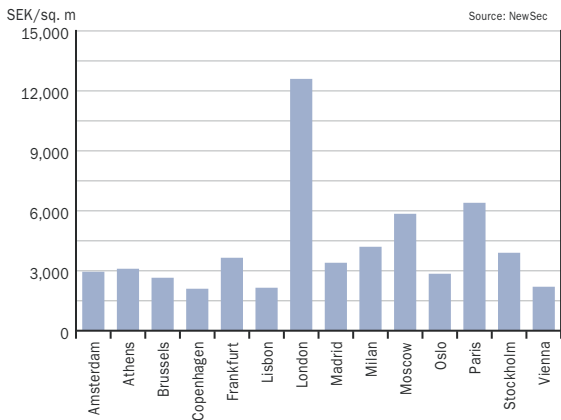
Vacant office and retailing space, Central Stockholm and Central Gothenburg



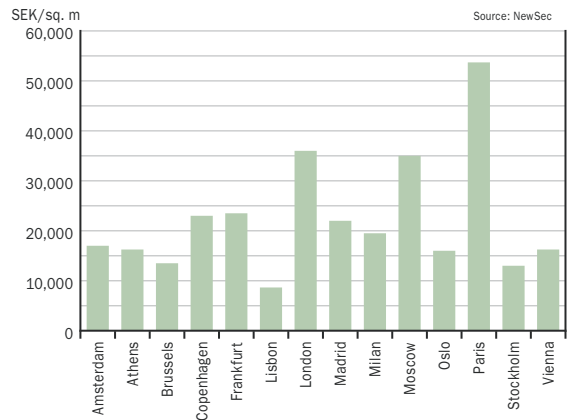
New construction, demand and vacant space, office premises in Central Stockholm



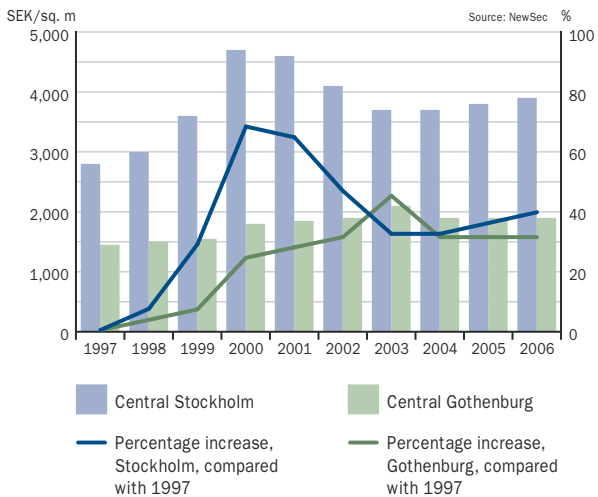
Office rents in European cities, December 2006
Prime location premises



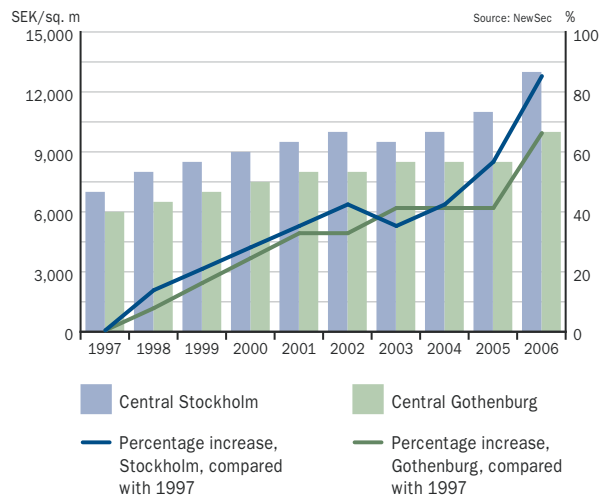
Store rents in European cities, December 2006
Prime location premises



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



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



Quality and the environment

Hufvudstaden's vision is to be at the forefront in development in the property industry with the aim of creating an environmentally sustainable society.

Hufvudstaden shall have a quality and environmental system that ensures the highest level of quality possible in the Company's products and services, where the aim is to prevent environmental problems and to pre-empt environmental legislation. A considerable emphasis will be placed on selecting the best technology and products and to lay down clear environmental demands in conjunction with procurement in order to ensure that environmentally hazardous substances are avoided. The task of reducing energy consumption in our properties is ongoing as is the improvement in waste management efficiency.

Alongside the work of minimizing the negative environmental impact of our properties, a process is under way to review in a clear, structured and systematic way the Company's routines and working methods. This operational management system means a clear allocation of responsibility with the aim of assuring quality.

No operations for which permits or notification were required under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899) were conducted during 2006.

Hufvudstaden's environmental work was analysed and approved during the year for investment in the Robur Environmental Fund.

Quality and environmental objectives and their fulfilment during 2006

Continued development of the quality and environmental work.

The rental and floor space adaptation processes were reviewed during the year and a review of the management routines proceeded according to plan. Within the management process the occupation routines were confirmed.

Continued development of environmentally adapted redevelopment and co-operation within MilaB.

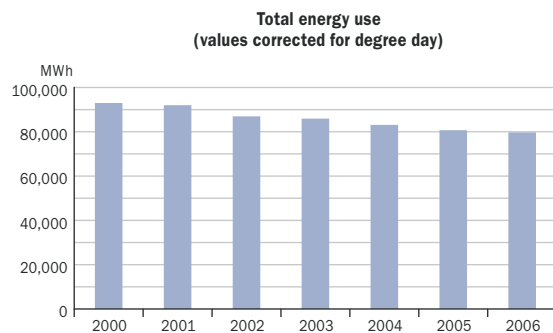
The MilaB database for the environmental assessment of construction materials is the result of active collaboration between a large number of major developers, who together account for a large proportion of construction in Sweden. During the year an agreement was reached on the merger of MilaB and Byggd Miljö (Built Environment). This means that a joint assessment system for construction materials would be created with the property owners, who together own and manage 47 million square metres of non-residential and residential floor space. The aim is that it should become a common tool for the industry.

Continued improvement in the handling of waste.

The handling of waste has been made even more efficient in co-operation with the tenants through further construction of environmental stations in the properties.

More effective use of energy.

The total energy consumption has been reduced by 1.3 per cent through development and improvement in the level of efficiency in the properties. Since 2001, the use of energy has fallen by a total of 13 per cent.

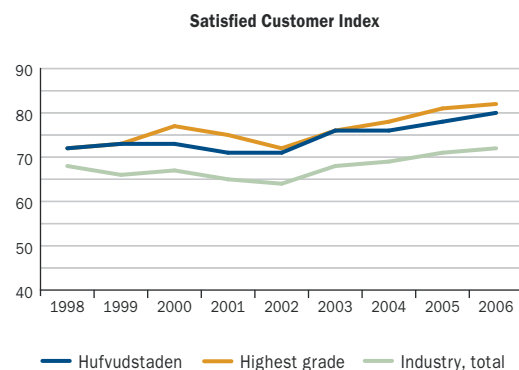


Quality and environmental objectives 2007.

- Continued development of the quality and environmental work.
- Continued development of environmentally adapted redevelopment.
- Continued improvement in waste handling efficiency.
- Reduction in the consumption of energy by 3 per cent.
- Preparation of energy returns commenced.

Satisfied Customer Index

Hufvudstaden, like the majority of other leading property companies, takes part in the Fastighetsbarometern Customer Satisfaction Survey. This is an annual survey of the level of satisfaction among randomly selected office tenants. In the survey for 2006, Hufvudstaden improved its result by two points compared with the previous year and came second overall.



Property development

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

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

During the year several major projects were in progress in Hufvudstaden's properties in the Golden Triangle in Stockholm. A further 2,500 square metres of retailing space were added in the form of two new brand-name stores on Biblioteksgatan following the conversion of floor space from a cinema and restaurant. In addition, an office property has been totally refurbished and the foundations of a number of properties have been reinforced. From a logistical point of view the projects were complicated as Biblioteksgatan is one of Stockholm's busiest commercial districts and it was vital that disruptions were kept to a minimum. The major redevelopment of the NK department store in Stockholm, which commenced in 2005, was completed during the year.

Röda Kvarn

The former Röda Kvarn cinema underwent careful and extensive renovation during the year. Adaptation has taken place with considerable care given to conservation with the aim of restoring the premises to the way they were when the building was first built back in 1915. The layout of the cinema has been retained and the original qualities have been highlighted, including the exposure and renovation of a ceiling painting which had been hidden by acoustic panels. The premises have also acquired more light in the entrance as well as a new atrium in the inner entrance hall. In November Urban Outfitters opened its first Swedish store in the building.

Vildmannen 7

On the Vildmannen block a former restaurant and nightclub have been converted into retailing premises for the fashion brand Diesel, which opened a flagship store on Biblioteksgatan.

Pumpstocken block

The property at Biblioteksgatan 12 in Stockholm underwent total refurbishment during the year. This 19th century building has been redeveloped into flexible, efficient offices with modern technology. Large cohesive floor space had been created by rearranging the walls and the floors have been adapted to cope with an open setting. The loft area has been transformed into attractive office premises by raising the roof to create more volume. There has been a considerable emphasis on preserving the original character of the building as far as possible. The law firm White & Case, which has leased the whole of the office part of the building, took up occupancy in February 2007.

Adaptation of premises

Most redevelopment that is taking place in the Hufvudstaden property holdings comprises adaptation of premises to new or existing tenants. New tenants added during the year include Avanza, Know IT and EnterCard in the Orgelpipan 7 property on Klarabergsgatan.

Stockholm City East Business Area

Property holdings

The Stockholm City East Business Area covers 14 properties in the area east of Regeringsgatan and two properties in Gamla Stan. The holdings are entirely commercial and comprise offices and retailing properties. The majority of the properties are located around Biblioteksgatan, Norrmalmstorg and adjacent streets, the so-called Golden Triangle, which has been the core of Hufvudstaden's property holdings since the foundation of the Company in 1915.

Development of holdings

The task of creating a more attractive eastern part of the city has continued. The idea behind the Biblioteksgatan area is to create an exciting mixture of small, unique stores in combination with first-class international brand names representing a high level of fashion. Both the stores and the street environment will build on an atmosphere that goes beyond the norm. During the year, seven stores were adapted to the new concept: Urban Outfitters, Diesel, Whyred, Kiehl's, Buff, Rizzo (menswear) and Design House Stockholm.

In collaboration with our new tenant Urban Outfitters we carried out a total renovation of the former cinema Röda Kvarn on Biblioteksgatan during the year. The renovation was done with considerable attention given to conservation to bring the premises back to their former glory from 1915.

A former restaurant and nightclub on Biblioteksgatan was also transformed during the year into a flagship store for the fashion brand Diesel. With Urban Outfitters and Diesel, Biblioteksgatan has acquired approximately 2,500 square metres more retailing space, specializing in fashion.

During the year office premises at Biblioteksgatan 12 were totally renovated. The building, which dates from the 1860s, has acquired completely new technology and supporting walls have to a large extent been removed to facilitate the adaptation of office solutions to present-day efficiency requirements. The law firm White & Case moved into the whole office part of the property in February 2007.

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 3,500 and 4,000 per square metre per year, excluding the property tax supplement.

The rental market for retailing premises showed positive growth and the market rents for prime locations were approximately SEK 13,000 per square metre per year, excluding the property tax supplement.

Tenants

The tenant structure for office space within the Stockholm City East Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are banks, finance companies, law firms and consultants within recruitment, management and the media. In total, there are 249 tenants in the Business Area. The ten largest tenants lease 36,400 square metres (36,500), representing annual rent revenue of SEK 170 million (171).

The majority of store tenants are smaller operators although tenants also include a number of larger retailing groups such as Urban Outfitters, RnB, GANT, Orrefors/Kosta Boda and Inditex with its brand names Massimo Dutti and Zara.

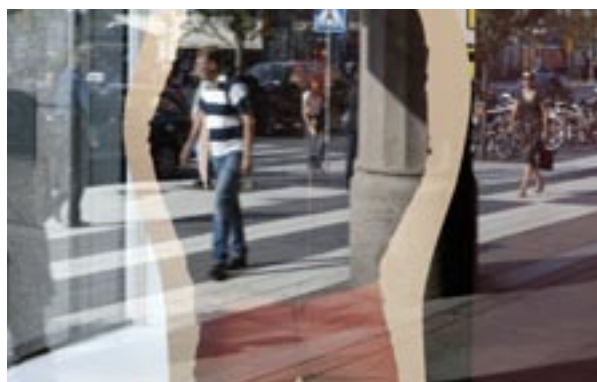
Strong brand names within the Business Area

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. The property reinforces the retailing thoroughfare between Biblioteksgatan and Hamngatan/NK.

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

norrmalmstorg 1

BJP
BIRGER JARLSPASSAGEN



Property holdings

	Dec 31, 2006	Dec 31, 2005
Number of properties	16	16
Rentable space, sq. m	105,817	105,596
– of which office space	71,781	71,517
– of which stores and restaurants	25,369	23,557
Annual rent, SEK m	422	419
Rental vacancy level, %	5.1	7.6
Floor space vacancy level, %	7.0	12.1

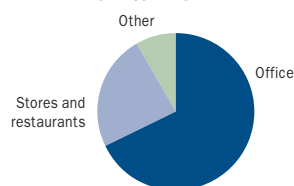
Renegotiations and new leases

	2006	2005
New leases, sq. m	9,300	10,000
New leases, annual rent, SEK m	33	33
Renegotiated leases, sq. m	8,000	12,700
Renegotiated annual rent, SEK m	30	49

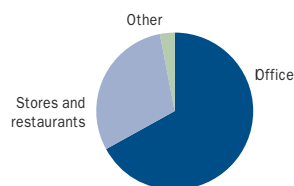
Financial results, property management – comparable holdings

SEK m	2006	2005
Net revenue	397.3	385.6
– of which turnover supplement	0.2	–
Special projects	-0.1	-4.4
Maintenance	-24.2	-48.4
Operation and administration	-48.9	-49.2
Other costs	-39.4	-42.6
Total costs	-112.6	-144.6
Gross profit	284.7	241.0
Gross profit, excluding special projects	284.8	245.4

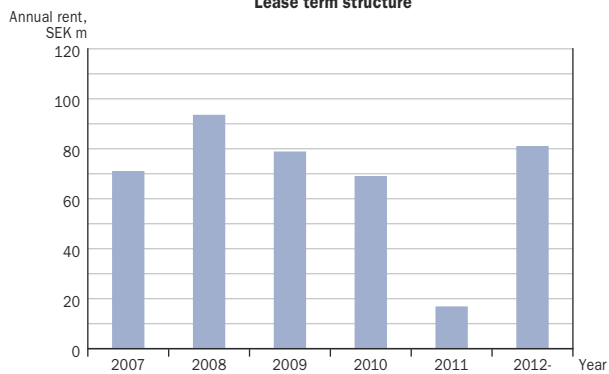
Rentable floor space per type of premises



Annual rent per type of premises



Lease term structure





*A city has several important hubs where people often pass. Norrmalmstorg is such a place. Here you have access southwards towards Kungsträdgården and Gamla Stan, westwards towards NK and Sergels Torg, northwards towards Biblioteksgatan and Stureplan and eastwards towards Östermalm and Djurgården.
Pictures: Norrmalmstorg and Norrmalmstorg 1.*



Stockholm City West Business Area

Property holdings

The Stockholm City West Business Area covers properties in the area around Sveavägen and to the west towards the Central Station. At the year-end the Business Area included seven properties. 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 the corner of Kungsgatan/Sveavägen and on Drottninggatan, Klarabergsgatan and Regeringsgatan.

During the year holdings included the World Trade Center property. The property was put up for sale in the autumn and in December an agreement was reached on the sale of shares in Vasaterminalen AB, which owns and runs the property as well as the two subsidiaries World Trade Center Stockholm AB and WTC Parkering AB. The purchaser is the occupational pension company Alec-ta and the sale of the shares and the property was completed on February 1, 2007. WTC is reported in the Income Statement under the item Profit from discontinued operations for 2005 and 2006.

Development of holdings

Refurbishment and adaptation of the premises totalling just over 14,000 square metres of office space was completed during the year on behalf of new and existing tenants. This included around 7,000 square metres that was developed and adapted to new tenants in the Orgelpipan 7 property. The new tenants at Orgelpipan 7 include Know IT, Avanza and EnterCard, who moved in during the year.

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. Alewalds Outdoor & Sports opened a completely new concept store on Kungsgatan and in doing so further reinforced the sport and leisure profile of Kungsgatan.

Rental market

The rental market for office space within the Business Area stabilized during the year. At the beginning of the year a major tenant vacated 10,000 square metres in the Orgelpipan 7 property, which increased the level of vacant space in the Business Area during the first quarter to 18.6 per cent, excluding WTC.

Since then the new lease trend has been positive and Orgelpipan 7 was in effect fully let during the first quarter of 2007.

The market rents for office premises in prime locations during the year were between SEK 2,500 and 3,500 per square metre per year, excluding the property tax supplement.

The rental market for retailing premises was stable. The market rents for prime retailing space in prime locations were between SEK 6,000 and 8,000 per square metre per year, excluding the property tax supplement.

Tenants

The tenant structure within the Stockholm City West Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are organizations, law firms, advertising agencies, computer and media companies and international companies. In total, there are 158 tenants in the Business Area. The ten largest tenants lease 21,100 square metres (39,700), which represents annual rent revenue of SEK 73 million (155).

Other operations

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





Property holdings

	Dec 31, 2006	Dec 31, 2005 ¹⁾
Number of properties	7	8
Rentable space, sq. m	131,132	189,086
– of which office space	54,516	94,284
– of which stores and restaurants	17,798	20,882
Annual rent, SEK m	309	497
Rental vacancy level, %	11.9	7.7
Floor space vacancy level, %	11.2	8.0

1) Including WTC

Renegotiations and new leases

	2006	2005 ¹⁾
New leases, sq. m	8,900	7,100
New leases, annual rent, SEK m	26	20
Renegotiated leases, sq. m	11,300	7,800
Renegotiated annual rent, SEK m	30	25

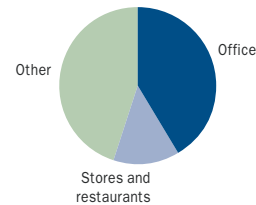
1) Including WTC

Financial results, property management – comparable holdings

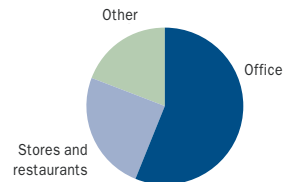
SEK m	2006	2005 ²⁾
Net revenue	257.5	307.0
Special projects	–	–
Maintenance	-22.7	-11.7
Operation and administration	-33.3	-34.8
Other costs	-37.4	-34.0
Total costs	-93.4	-80.5
Gross profit	164.1	226.5
Gross profit, excluding special projects	164.1	226.5
Other operations		
Income	56.0	56.5
Costs	-45.0	-43.7
Operating profit	11.0	12.8

2) Excluding WTC

Rentable floor space
per type of premises



Annual rent
per type of premises



Lease term structure





Hamngatan, Stockholm.



Regeringsgatan, Stockholm.



Smålandsgatan, Stockholm.



Hamngatan, Stockholm.



Norrmalmstorg, Stockholm.



Hamngatan, Stockholm.



Palmhuset, Stockholm.



Hamngatan, Stockholm.



Smålandsgatan, Stockholm.



Sveavägen/Kungsgatan, Stockholm.



Birger Jarlsgatan, Stockholm.



Kungsgatan/Sveavägen, Stockholm.

NK Business Area

Property holdings

At the year-end, the NK Business area consisted of the NK department stores in Stockholm and Gothenburg.

Development of holdings

The extensive renewal work aimed at creating an even more attractive department store that has taken place in Stockholm and Gothenburg has now been completed and the result has been extremely successful. There is now a much better overview of the available range and with the new structure clarity for the customer has increased.

In autumn 2006, Hermès opened a new full-range department at NK Stockholm. Other departments which have been rebuilt or been added include NK Menswear, NK Men's Fashion, Eton and NK Boutique Man in Stockholm. At NK Gothenburg a new mezzanine floor has been added, creating more area for the new cosmetics department, which now has space for beauty treatment.

New office tenants in the NK building in Stockholm include the law firm Törngren Magnell and Occam Associates, who moved in during January 2007.

Rental and retailing markets

The rental market for store premises continued to be good during the year. The NK department stores are in the very best locations in both Stockholm and Gothenburg. In conjunction with renegotiation and new leases, agreements were signed with rent levels for prime retailing space of between SEK 10,000 and 13,000 per square metre per year, excluding the property tax supplement.

The retail trade in Sweden reported a good year. According to the Retail Survey Index (DHI), sales at current prices increased within the non-daily products sector by 8 per cent. Ready-to-wear clothing sales increased by 8 per cent. Sales at NK Stockholm increased by 10 per cent and at NK Gothenburg by 11 per cent.

Tenants

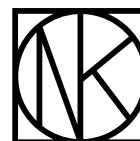
The Business Area's tenants represent strong, well-known brands that place considerable emphasis on establishing operations in attractive marketplaces. Many of the strongest international and Swedish brands are represented at the NK department stores. The office tenants include advertising agencies, banks, management consultants and law firms. In total, there are 117 tenants in the Business Area. The 10 largest tenants lease 23,600 square metres (21,750), representing annual rent revenue of SEK 167 million (140).

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

The NK brand name

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

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



NORDISKA KOMPANIET



Property holdings

	Dec 31, 2006	Dec 31, 2005
Number of properties	2	2
Rentable space, sq. m	54,925	54,082
– of which office space	16,697	16,896
– of which stores and restaurants	33,353	32,681
Annual rent, SEK m	285	263
Annual vacancy level, %	4.1	7.4
Floor space vacancy level, %	6.4	9.9

Renegotiations and new leases

	2006	2005
New leases, sq. m	3,600	4,600
New leases, annual rent, SEK m	20	27
Renegotiated leases, sq. m	6,500	10,700
Renegotiated annual rent, SEK m	34	62

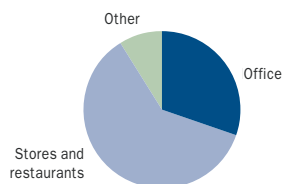
Financial results, property management – comparable holdings

SEK m	2006	2005
Net revenue	297.2	262.2
– of which turnover supplement	10.3	6.7
Special projects	-0.1	-0.1
Maintenance	-11.2	-18.1
Operation and administration	-81.8	-83.5
Other costs	-21.2	-16.8
Total costs	-114.3	-118.5
Gross profit	182.9	143.7
Gross profit, excluding special projects	183.0	143.8

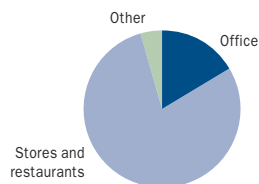
NK department stores

	2006	2005
<i>NK Stockholm</i>		
Rentable retailing space, sq. m	26,936	26,073
Number of departments	106	104
Number of restaurants	6	7
Sales, including VAT, SEK m	1,916	1,736
<i>NK Gothenburg</i>		
Rentable retailing space, sq. m	11,276	11,113
Number of departments	48	48
Number of restaurants	4	3
Sales, including VAT, SEK m	518	466

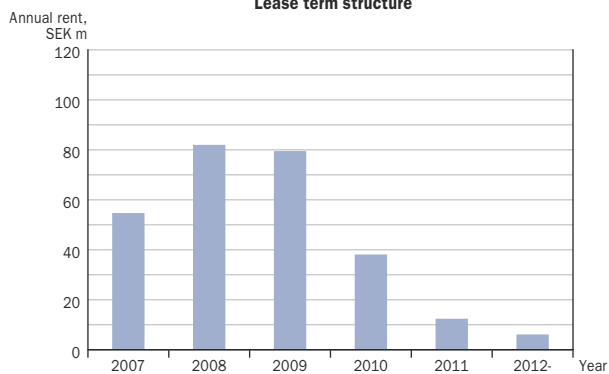
Rentable floor space per type of premises



Annual rent per type of premises



Lease term structure





Traffic in the centre of Stockholm has become a topic of debate. Many people have changed and only use their cars when it is really necessary. On such occasions it is of course extremely convenient that they have good parking facilities in the city centre.

Picture: Parkaden reflected in one of NK's display windows, Regeringsgatan entrance.



Shopping, strolling, taking a break, shopping, strolling... Shopping is a way of socialising with friends and many areas of the city have become something of an extension of one's own living room. A good example of this is NK Gothenburg, which has successfully mixed shopping with the opportunity for a double latte macchiato. Picture: The NK Gothenburg entrance on Östra Hamngatan.

Gothenburg Business Area

Property holdings

At the year-end, the Gothenburg Business Area covered four properties, located in the very heart of the Gothenburg central business district. The holdings are entirely commercial and comprise office and retailing properties. The largest building houses the Femman shopping precinct, which is in turn part of the Nordstan shopping centre. Nordstan receives more than 33 million visitors each year, more than 12.5 million of whom visit Femman. Annual revenue is approximately SEK 3 billion, of which Femman accounts for almost SEK 800 million. Hufvudstaden is the largest individual partner in the Östra Nordstaden Co-operative Association, which owns or manages the Nordstan Car Park as well as the square and pedestrianized streets.

The Femman shopping precinct has 63 stores, cafes and restaurants on three floors. The largest retailing tenants are H&M, Kapp-Ahl, JC, Din Sko, Indiska and Dressman.

Development of the holdings

Refurbishment of Mobil Oil AB's and Intrum Justitia Sverige AB's premises took place during the year. Four office premises were completed for four new tenants; Vizeum Sverige AB, Aftonbladet Hierta AB, Audiem AB and Viktoria Göteborg AB.

In the Femman building, a new shoe store was opened during the year: Nilsons skor. H&M and Bianco Footwear have redeveloped and refurbished their stores.

Rental market

The rental market for office premises during the year was marked by a slight fall in vacant space and stable rent levels. The market rent for office space in prime locations was between SEK 1,600 and SEK 2,000 per square metre

per year, excluding the property tax supplement. Odd top rents in excess of SEK 2,000 per square metre per year were obtained for newly produced properties. In the case of stores, the market rent trend continued to be good. Prime location premises attracted rents of between SEK 5,000 and SEK 9,000 per square metre per year, excluding the property tax supplement, depending on the size and location.

Tenants

The tenant structure within the Business Area consists principally of companies that require centrally located, high-quality premises. The dominant sectors are law firms, accountants, the media, telecommunications companies, public authorities and organisations. There are 132 tenants within the Business Area. The 10 largest tenants lease 27,400 square metres (28,700), representing annual rent revenue of SEK 52 million (51).

Brand names within the Business Area

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

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

Femman
MITT I NORDSTAN


Nordstan



Property holdings

	Dec 31, 2006	Dec 31, 2005
Number of properties	4	4
Rentable space, sq. m	59,021	58,930
– of which office space	32,016	31,703
– of which stores and restaurants	22,244	22,403
Annual rent, SEK m	137	133
Rental vacancy level, %	3.3	2.5
Floor space vacancy level, %	4.8	3.8

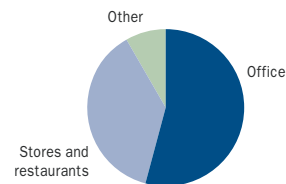
Renegotiations and new leases

	2006	2005
New leases, sq. m	2,200	1,400
New leases, annual rent, SEK m	4	3
Renegotiated leases, sq. m	9,100	14,500
Renegotiated annual rent, SEK m	20	25

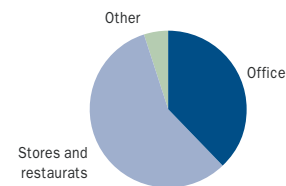
Financial results, property management – comparable holdings

SEK m	2006	2005
Net revenue	144.5	141.1
Special projects	–	–
Maintenance	-3.2	-3.4
Operation and administration	-28.3	-27.3
Other costs	-10.6	-10.6
Total costs	-42.1	-41.3
Gross profit	102.4	99.8
Gross profit, excluding special projects	102.4	99.8

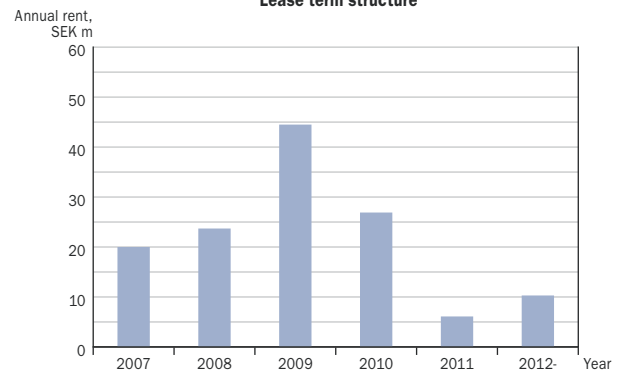
Rentable floor space per type of premises



Annual rent per type of premises



Lease term structure





The success of a shopping centre depends on a number of factors. Range, location and, above all, ongoing renewal are crucial to success. Consumers should feel comfortable and attracted to what is on offer. Over and over again.

Pictures: The Femman Shopping Centre, Gothenburg.



Corporate governance

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

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

- Nomination committee
- Remuneration to the President and the executive management

Deviations from the Code are explained in more detail under the respective section below.

Shareholders

At the end of the year, Hufvudstaden had 19,677 shareholders. The largest shareholder was L E Lundberg Holding AB with 45.2 per cent of the outstanding shares and 88.0 per cent of the votes. The second largest was SEB Trygg Liv with 11.5 per cent of the outstanding shares and 2.3 per cent of the votes. The proportion held by non-Swedish shareholders was 20.1 per cent of the outstanding shares and 4.1 per cent of the votes.

Share capital and voting rights

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

Annual General Meeting

The shareholders' 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 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 Statement and Balance Sheet, 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 and other important matters.

The 2006 Annual General Meeting was held on March 23. A total of 197 shareholders, representing 128,215,195 A-shares and 8,254,341 C-shares, were present and they represented a total of 953,649,295 votes, equivalent to 93.0 per cent of the total number of votes. The 2007 Annual General Meeting will be held in Stockholm on March 22.

Nomination and election of the Board of Directors and auditors

In the light of the concentrated ownership structure (see page 14) there is no formally appointed Nomination committee. The main shareholders are contacted by the Chairman of the Board well in advance of the Annual General Meeting, thus forming an informal Nomination committee, who together come up with 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 their 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 as a guide.

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

Board of Directors

According to the Companies Act, the Board of Directors is responsible for the Group's organization and management and also 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 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 are effective systems in place and to remain continuously informed about and evaluate the Company's internal control and risk management systems
- ensure that there is satisfactory control of the Company's compliance with laws and other rules
- ensure that the requisite ethical guidelines have been adopted for the Company

The work of the Board follows the rules of procedure adopted by the Board, 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 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 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 during 2006

During the 2006 financial year, the Board held seven meetings, of which one was a statutory meeting. Economic and financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key issues of principle or major economic significance are taken up at each ordinary meeting. Officials in the Company attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in

February when the Annual Report for 2005 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

Hufvudstaden's Board comprises eight members who are elected at the Annual General Meeting for a period of one year. With the exception of the President none of the members of the Board are members of the executive management. Fredrik Lundberg has been Chairman of the Board since 1998. Three of the members are in a position of dependence on the largest shareholder Lundbergs (Fredrik Lundberg, Claes Boustedt 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 72. An external lawyer is engaged to act as secretary to the Board.

Name	Function	Attendance 2006 ¹⁾	Independent in relation to the Company ²⁾	Independent in relation to the owners ²⁾
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		6	Yes	Yes
Peter Egardt		7	Yes	Yes
Hans Mertzig		7	Yes	No
Sten Peterson ³⁾		5	Yes	No
Anna-Greta Sjöberg ³⁾		5	Yes	Yes
Ivo Stopner	President	7	No (employee)	Yes

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

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

3) Elected to the Board at the Annual General Meeting in March 2006.

External audit

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

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. Examination and audit of the annual accounts and the Annual Report take place in January–February. The six-monthly report is examined on a general basis. The reporting of the fee to the auditors, including the fee for consultancy services, is given in Note 11.

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

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. This means that the whole Board, 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 and the President as well as the instructions issued by the Board of Directors. The President is responsible for ensuring that the Board receives information and a basis for making decisions that is as factual, complete and relevant as is required for the Board to reach well-informed decisions.

In addition to the President, the executive management comprises the four business area heads, the Head of Property Development and the Head of Finance. The executive management meets approximately once a month to discuss current issues. For information about individual members see page 74.

Remuneration to the Board of Directors

Remuneration to the Board is decided at the Annual General Meeting. At the Annual General Meeting in 2006 it was decided that remuneration for Board work for 2006, totalling SEK 1,200,000, 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 300,000 and the other six non-employed members received SEK 150,000 each.

Remuneration to the President and the executive management

The Board has examined the question of setting up a Remuneration committee but has opted not to appoint such a committee. Payments made by the Company comprise salaries which are in line with the market and a limited profit-related bonus programme, which is described below. The Company does not have any share-related incentive schemes. In the light of this and due to the fact that this is the responsibility of the Board, the Board has opted not to refer these matters to the 2006 Annual General Meeting for a decision.

During 2006, the Chairman of the Board was assigned the task by the Board of negotiating with the President regarding his remuneration, whereupon a decision was reached by the Board. The President was assigned the task by the Board of negotiating with the other leading executives regarding their remuneration, whereupon a report

was presented to the Chairman of the Board. With effect from the Annual General Meeting in spring 2007 it will be the Meeting that decides on guidelines for remuneration to the President and executive management.

For the President and the executive management there is a bonus programme, which is reviewed annually. The outcome depends on profit, customer satisfaction and personal objectives. The bonus for the President is maximized at SEK 500,000 and for the other leading executives SEK 250,000 per person.

Information regarding the remuneration principles was presented at the 2006 Annual General Meeting and an examination was made of the adopted remuneration levels. For further information about salaries and remuneration, see Note 10.

Hufvudstaden's decision-making procedure regarding remuneration to the Company management in 2006 was a deviation from the Swedish Corporate Governance Code.

Internal control

The Board has overall responsibility for ensuring that Hufvudstaden has a satisfactory internal control system. Responsibility for ensuring that an internal control system is in place which covers all material risks of errors in the financial reports has been delegated to the President. Hufvudstaden's systems for internal control cover the control environment, risk assessment, control measures, information, communication and follow-up.

Control environment.

The control environment is the basis for internal control regarding financial reporting. Hufvudstaden's internal control structure is based on, among other things, a clear allocation of responsibility and duties between the Board and the President and also within the Company's operations. The executive management and the Board continuously evaluate policies and guidelines. These controlling documents and carefully prepared process descriptions are communicated via established information and documentation channels and are also made available and known to the personnel concerned.

Risk assessment.

Hufvudstaden identifies, analyses and decides on the handling of risks regarding faults in the financial reports. The Board examines the outcome of the Company's risk assessment and risk management process to ensure that it covers all material areas and identifies necessary measures as required. Hufvudstaden's greatest operating 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 processes with carefully formulated control measures include repair, redevelopment and 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, both for the whole Company and for individual units. Another important channel of communication 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.

Follow-up.

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

The Board receives quarterly reports with financial outcomes, including comments from the executive management on operations. The financial situation is dealt with at each Board meeting. The Company's auditor attends Board meetings on two occasions each year and informs about his observations regarding the Company's internal routines and control systems. The members of the Board then have the opportunity to ask questions. Each year the Board adopts a position on material risk areas and evaluates the internal controls.

Statements

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

Stockholm, February 8, 2007

Board of Directors



Administration Report

The Board and the President hereby present the Annual Report and the consolidated accounts for Hufvudstaden AB (publ), company registration number 556012-8240, NK 100, SE-111 77 Stockholm, visiting address Regeringsgatan 38, Stockholm.

Hufvudstaden is listed on the Stockholm Stock Exchange A list. L E Lundberg Holding AB, company registration number 556563-2477, SE-601 85 Norrköping, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group.

It is proposed that the Income Statement and Balance Sheet included in the Annual Report be adopted at the Annual General Meeting held on March 22, 2007.

Operations

Hufvudstaden's business concept is, through its properties in central Stockholm and Gothenburg, to offer successful companies high-quality office and retailing premises in attractive marketplaces. Hufvudstaden's markets comprise the most central areas of Stockholm and Gothenburg, where the Company owns commercial office and retailing properties in the CBDs. Economic growth in Sweden has for a long time been concentrated in the city regions, where Stockholm has adopted a special position. During 2006, Stockholm has undergone strong economic development. Gothenburg and West Sweden have also reported very positive development.

Property holdings

At the end of the year Hufvudstaden owned 29 properties (30). The rentable floor space was 275,427 square metres in Stockholm and 75,468 square metres in Gothenburg and the total floor space was 350,895 square metres. The World Trade Center property (WTC), which was divested in December 2006, has been classified in the Income Statement as Discontinued operations during 2005 and 2006.

The total rental vacancy level in the Group as of December 31, 2006 was 6.5 per cent (7.1) and the floor space vacancy level was 8.1 per cent (8.7). In Stockholm, the rental vacancy level was 7.3 per cent and in Gothenburg 2.4 per cent.

A total of 24,044 square metres (23,177) were let on new leases and 34,943 square metres (45,820) were renegotiated at a total value of SEK 197 million.

Divestment of the World Trade Center.

In the light of the prevailing market situation for high-quality office properties in Stockholm, Hufvudstaden decided to put the World Trade Center Stockholm up for sale. The WTC property is held on leasehold by Vasaterminalen AB, which owns and runs the WTC property (Terminalen 1) and the two subsidiaries, World Trade Center Stockholm AB and WTC Parkering AB. The building has rentable floor space of almost 47,000 square metres, of which approximately 38,500 is office space and approximately 8,500 restaurant, hotel and conference premises. In addition, there is approximately 11,000 square metres of parking space.

Considerable interest was shown in the building by both Swedish and foreign investors. On December 12, 2006, an agreement was signed with the occupational pension company Alecta regarding the sale of the shares in Vasaterminalen AB and the completion date was February 1, 2007. The purchase sum for the shares was SEK 3.0 billion and the sale, including management profit, had an impact on profit after tax for the Group of SEK 1.1 billion.

Impact on profit, WTC

SEK bn		
Property value according to the share transfer agreement	2.6	
Fair value according to the period-end accounts as of 30-9-2006	-1.7	0.9
Dissolution of deferred tax		0.1
Management profit		0.1
Impact on profit after tax		1.1

The realized change in value, dissolution of deferred taxes and management profit, including an unrealized change in value and net financial income/expense for Vasaterminalen AB, including subsidiaries, is reported under the Income Statement item Profit from discontinued operations.

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, 2006. The valuation is made using the properties' earning capacity and the yield requirements of the market as a starting point.

The fair value of the property holdings as of December 31, 2006 was set at SEK 17.4 billion (14.6 for comparable holdings).

Valuation method.

Valuation of the property holdings was done by assessing each individual property's fair value. The assessment took place on the basis of the valuation according to the direct yield method. To assure the valuation, external valuations were commissioned from two valuation companies. A description of the valuation method and assumptions can be found in Note 20 Investment properties.

Sensitivity analysis, property valuation

	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq. m	SEK 730 million
Property costs	SEK 50/sq. m	SEK 365 million
Rental vacancy level	1.0 percentage points	SEK 240 million
Yield requirement	0.5 percentage points	SEK 2,000 million

Net asset value.

The assessed fair value of the property holdings as of December 31, 2006 was SEK 17.4 billion. Based on the property valuation reported above, the net asset value is SEK 14.5 billion or SEK 71 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 payment of certain compensation, which has been set at 10 per cent. If the tax rate according to the Balance Sheet (28 per cent) is used in the calculation, the net asset value would have been SEK 11.8 billion or SEK 57 per share.

Net asset value, December 31, 2006

SEK million	
Reported equity	11.8
Reversal of book deferred tax	4.3
Net asset value before tax	16.1
Calculated deferred tax of 10 per cent	1.6
Net asset value after tax	14.5
Net asset value per share	SEK 71

Opportunities and risks

Hufvudstaden's potential to influence profits in current operations in the short-term is limited. Revenue is governed by relatively long leases – normally three to five years – and operating costs are difficult to change in the short term without sacrificing service and quality. Hufvudstaden's profitability and operations are affected mainly by macro-economic factors, such as the business climate, interest rates, developments in Stockholm and Gothenburg as well as political decisions. Forward planning and clear strategies are vital if a property company is to handle opportunities and risks successfully.

Rent trend.

The rent trend involves both risks and opportunities. The risk, however, is limited by Hufvudstaden's focus on properties in the most attractive commercial locations. The rent levels for vacant office premises are affected quickly in the event of a strengthening or weakening of the economy. The rent level for occupied premises with lease terms of three years or longer is tied to the consumer price index. Rent changes take place when the leases are renewed.

Property tax.

Property tax increases constitute a risk although this risk is limited as a significant proportion of the property tax is passed on to Hufvudstaden's tenants.

Rent losses on vacant premises.

In the event of a downturn in the economy, the risk of an increase in vacant space is greater for Hufvudstaden's office premises than for the Group's retail premises. There should always be some vacant space 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 terms.

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

Financial risks.

Apart from its own funds, the Company's operations are financed to a large extent 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 3.

Insurance.

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

Sensitivity analysis

The effects on pre-tax profit 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 2006 financial year if the changes had occurred at the beginning of 2006.

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 ¹⁾	1 percentage point	11
Operation and maintenance	10 per cent	17
Property tax ²⁾	1 percentage point	13
Interest level ³⁾	1 percentage point	34

1) Vacant floor space is estimated at SEK 3,000 per square metre.

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

3) Without consideration being given to the fixing of interest through derivatives.

Environmental impact

No operations were carried on during 2006 that required a permit or were subject to a reporting obligation under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899).

Buy-back of Company shares

No shares were bought back during the year or after the reporting period (up to and including February 7, 2007). The total holding as of December 31, 2006 was 5,006,000 A-shares, equivalent to 2.4 per cent of all shares. At the 2006 Annual General Meeting the Board was given a renewed mandate to repurchase 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.

Board

A description of the work of the Board, remuneration to executive managers etc. can be found under Corporate Governance on page 38 and in Note 10.

Bonus

Permanent employees in the Group were included in a bonus system during the year. The bonus system is decided by the Board 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 of the property holdings. The bonus payment criteria are 'operating results' and 'tenant satisfaction'. In the case of managers with responsibility for personnel, there is also a personal assessment with individual objectives. In 2006, the bonus cost was SEK 3.0 million (3.2) or an average of SEK 16,000 per employee. For the executive management, including the President, the average was SEK 202,000 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 all shareholders and other parties who have indicated an interest.

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

Key events after the end of the year

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

Future prospects

Hufvudstaden will continue in 2007 to devote its efforts mainly to managing, refining and developing its property holdings to ensure the highest possible yield. Economic growth in Sweden is expected to increase slightly during 2007, which it is considered will in time lead to a fall in rental losses and more new leases. Strategic acquisitions and sales of individual properties cannot be excluded.

Proposed dividend and allocation of profits

The Board has proposed an ordinary dividend of SEK 1.60 per share and an extra dividend of SEK 10.00 per share or a total of SEK 2,392.7 million. The Board's proposed profit allocation is presented in full on page 70.

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

Income statements and comments

SEK m	Note	Group		Parent Company	
		2006	2005	2006	2005
<i>Net revenue</i>					
Property management		1,096.5	1,095.9	666.0	709.5
Other operations		56.0	56.5	–	–
	4	1,152.5	1,152.4	666.0	709.5
<i>Property management costs</i>					
– Maintenance		-61.5	-86.1	-149.0	-55.2
– Operations and administration	8	-192.3	-194.8	-95.3	-96.2
– Ground rents		-16.1	-10.4	-8.0	-7.4
– Property tax		-92.5	-93.3	-64.8	-62.2
– Depreciation	8	–	-0.3	-37.7	-36.7
Property management expenses		-362.4	-384.9	-354.8	-257.7
Other operations, costs	4,8	-45.0	-43.7	–	–
Cost of operations		-407.4	-428.6	-354.8	-257.7
Gross profit		745.1	723.8	311.2	451.8
– of which Property management	4,7	734.1	711.0	311.2	451.8
– of which Other operations	4	11.0	12.8	–	–
Central administration		-31.5	-30.6	-31.5	-30.6
Operating profit before changes in value		713.6	693.2	279.7	421.2
Changes in value, investment properties	15	2,647.5	995.6	–	–
Operating profit	9–14	3,361.1	1,688.8	279.7	421.2
<i>Financial income and expense</i>					
Financial income	16	0.7	0.2	1,614.7	0.2
Financial expense	17	-141.0	-139.7	-141.0	-140.1
		-140.3	-139.5	1,473.7	-139.9
Profit after financial items		3,220.8	1,549.3	1,753.4	281.3
Appropriations	18	–	–	-124.0	-116.6
Profit before tax		3,220.8	1,549.3	1,629.4	164.7
Tax	19	-903.9	-435.4	-7.0	-47.7
Profit for the year from continuing operations		2,316.9	1,113.9	1,622.4	117.0
Profit from discontinued operations, net after tax	5	1,106.3	220.0	–	–
PROFIT FOR THE YEAR		3,423.2	1,333.9	1,622.4	117.0
Average number of outstanding shares following buy-backs during the period					
		206,265,933	206,265,933		
Profit per share, continuing operations, before and after dissolution, SEK					
		11.23	5.40		
Profit for the year, per share, before and after dissolution, SEK					
		16.60	6.47		
Ordinary dividend per share, SEK (proposed)					
		1.60	1.45		
Extra dividend per share, SEK (proposed)					
		10.00	–		

Property Management

Property Management net rents during the year totalled SEK 1,096.5 million (1,095.9). During the year, Hufvudstaden renegotiated approximately 20 per cent of its leases, excluding WTC, equivalent to approximately SEK 114 million in annual rental income. The renegotiations in respect of office premises meant slightly lower rents on average, which was compensated by an increase in store rents. On average, the renegotiations meant no overall change in the rent level. The reduction in office rents can be explained by the fact that the lease stock still contains a number of agreements signed at the beginning of the century when market rents were at their peak.

The costs totalled SEK 362.4 million (384.9), of which SEK 0.2 million (4.5) refers to special projects. The decrease can be attributed to lower maintenance costs. Total maintenance expenditure increased, however, by SEK 88.7 million, which can be explained by the redevelopment of Röda Kvarn and Biblioteksgatan 12.

The gross profit during the year was SEK 734.1 million (711.0), which is equivalent to an increase of 3.2 per cent. WTC has been reported under the item Profit from discontinued operations for 2005 and 2006.

Other operations

Other operations include parking operations at Parkaden.

Revenue was SEK 56.0 million (56.5). Costs amounted to SEK 45.0 million (43.7) and the gross profit SEK 11.0 million (12.8).

Changes in value, investment properties

Changes in the value of investment properties amounted to SEK 2,647.5 million (995.6). The value has been assessed on the basis of an internal valuation of the property holdings. The unrealized change in value can be attributed mainly to an estimated lower direct yield requirement as a result of the considerable interest in commercial properties on the part of both Swedish and international investors and an historically low interest level. The average direct yield requirement in conjunction with the above valuation was 4.8 per cent (5.7).

Financial items

The financial items result for the year was SEK -140.3 million (-139.5). Interest income was SEK 0.7 million (0.2) and interest expense SEK -141.0 million (-139.7).

Tax

The Group's tax expense was SEK 903.9 million (435.4), of which SEK 98.2 million was actual tax and SEK 805.7 million deferred tax. The increase can be explained by deferred tax attributable to an unrealized change in value.

Profit on discontinued operations

Unrealized change in value, dissolution of deferred taxes and management profit for Vasaterminalen AB, including subsidiaries, is reported under the item Profit on discontinued operations. See also Administration Report page 42 and Note 5.

Profit for the year

The profit for the year was SEK 3,423.2 million (1,333.9), an increase of 157 per cent compared with 2005. The increase can be explained mainly by changes in value in the property holdings and the sale of the World Trade Center Stockholm.

Parent Company

Revenue in the Parent Company totalled SEK 666.0 million (709.5). Operating costs totalled SEK 354.8 million (257.7). The fall in revenue can be explained by the increased level of vacant space that arose when a large tenant vacated 10,000 square metres in the Orgelpipan 7 property during the first quarter. New leases have subsequently increased and the property was in effect fully let during the first quarter of 2007. This in turn meant higher maintenance costs in conjunction with adaptation of premises for new tenants. The gross profit was SEK 311.2 million (451.8). Central administration totalled SEK 31.5 million (30.6). The operating profit totalled SEK 279.7 million (421.2). The Parent Company reports as financial income a dividend from subsidiaries totalling SEK 170.8 million (0) and a profit on the sale of the subsidiary Vasaterminalen AB of SEK 1,443.6 million. Profit for the year after tax was SEK 1,622.4 million (117.0).

Balance sheets with comments

SEK m	Note	Group		Parent Company	
		31-12-2006	31-12-2005	31-12-2006	31-12-2005
ASSETS					
Fixed assets					
Tangible fixed assets	21	8.5	7.5	6.2	3.9
Investment properties	20	17,408.8	16,276.0	5,649.5	5,632.6
		17,417.3	16,283.5	5,655.7	5,636.5
<i>Financial fixed assets</i>					
Participations in Group companies	22	–	–	2,824.8	4,329.3
Other non-current receivables	23	6.2	61.6	6.2	5.9
<i>Total financial fixed assets</i>		6.2	61.6	2,831.0	4,335.2
Total fixed assets		17,423.5	16,345.1	8,486.7	9,971.7
Current assets					
<i>Current receivables</i>					
Accounts receivable	24	12.6	15.9	2.5	2.9
Receivables from Group companies		–	–	28.3	4.4
Other receivables		3,005.3	14.4	3,005.1	–
Prepaid expenses and accrued income	25	38.3	20.3	11.2	9.9
<i>Total current receivables</i>		3,056.2	50.6	3,047.1	17.2
Cash and bank balances	26	40.4	92.8	39.7	92.3
Total current assets		3,096.6	143.4	3,086.8	109.5
TOTAL ASSETS		20,520.1	16,488.5	11,573.5	10,081.2

Investment properties

The properties' reported value in the Group was SEK 17,408.8 million (16,276.0 or 14,580.2 for comparable holdings). The increase in the properties' unrealized change in value is explained in the comments on the Income Statement on page 47. Investment properties in the Group are reported at fair value according to IAS 40, which does not permit depreciation. The valuation method is described on page 43. The properties' fiscal residual value was SEK 1.9 billion. Investments for the year, excluding WTC, totalled SEK 187.3 million (70.3), of which SEK 6.3 million referred to equipment and SEK 181.0 million to investment properties.

Other receivables

Other receivables amounted to SEK 3,005.3 million (14.4). This item comprises mainly a receivable from Alecta regarding an as yet unpaid purchase sum.

Cash and bank balances

Cash and bank balances amounted to SEK 40.4 million (92.8). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This

surplus liquidity is used mainly for the amortization of loans. 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 3,365.0 million (3,525.0). The average fixed interest period was 23 months (30), the capital tie-up period was 33 months (32) and the average interest cost 4.0 per cent (3.9). Net debt totalled SEK 3,324.6 million (3,432.2).

Other liabilities

Other liabilities that are non-interest-bearing increased during the year by SEK 365.5 million to SEK 876.2 million (510.7). The increase can be attributed to a debt to a divested subsidiary.

Parent Company

Investment properties are valued at cost with a deduction for accumulated depreciation. For details of the properties' fair value, see Note 20.

SEK m	Note	Group		Parent Company	
		31-12-2006	31-12-2005	31-12-2006	31-12-2005
EQUITY AND LIABILITIES					
Equity, Group					
Share capital	27	1,056.4	1,056.4		
Other contributed capital		628.1	628.1		
Reserves	27	12.6	-34.0		
Profit brought forward, including profit for the year		10,088.2	6,964.2		
Total equity		11,785.3	8,614.7		
Equity, Parent Company					
<i>Restricted equity</i>					
Share capital	27			1,056.4	1,056.4
Share premium reserve				138.2	152.2
Statutory reserve				798.1	798.1
Total restricted equity				1,992.7	2,006.7
<i>Non-restricted equity</i>					
Profit brought forward				2,029.4	1,961.9
Profit for the year				1,622.4	117.0
Total non-restricted equity				3,651.8	2,078.9
Total equity				5,644.5	4,085.6
<i>Untaxed reserves</i>		-	-	560.6	436.6
<i>Non-current liabilities</i>					
Liabilities to credit institutions	31	2,400.0	2,590.0	2,400.0	2,590.0
Liabilities to Group companies		-	-	0.7	0.7
Other non-current liabilities		3.3	2.0	2.9	1.6
Provisions for pensions and similar obligations	28	6.0	5.6	5.2	4.9
Deferred tax liabilities	29	4,493.6	3,838.1	1,219.9	1,219.5
Total non-current liabilities		6,902.9	6,435.7	3,628.7	3,816.7
<i>Current liabilities</i>					
Liabilities to credit institutions	31	965.0	935.0	965.0	935.0
Accounts payable		79.0	68.0	40.2	28.2
Liabilities to Group companies		-	-	505.6	600.1
Tax liabilities		25.3	41.4	17.3	35.8
Other liabilities	32	501.2	51.6	28.9	20.3
Accrued expenses and prepaid income	33	261.4	272.0	182.7	122.9
Provisions	30	-	70.1	-	-
Total current liabilities		1,831.9	1,438.1	1,739.7	1,742.3
Total liabilities		8,734.8	7,873.8	5,929.0	5,995.6
TOTAL EQUITY AND LIABILITIES		20,520.1	16,488.5	11,573.5	10,081.2
Pledged assets	34	1,625.2	1,719.9	1,625.2	1,719.9
Contingent liabilities	34	None	None	None	None

Changes in equity, summary

SEK m	Share capital	Other contributed capital	Reserves	Profit brought for- ward, includ- ing profit for the year	Total
<i>Group</i>					
Opening balance 1-1-2005	1,056.4	628.1	–	6,455.3	8,139.8
Adjustment for change in accounting principle	–	–	-41.0	–	-41.0
Adjusted equity 1-1-2005	1,056.4	628.1	-41.0	6,455.3	8,098.8
Change for the year in the hedging reserve	–	–	9.8	–	9.8
Tax attributable to the hedging reserve	–	–	-2.8	–	-2.8
Total changes in wealth, reported directly against equity, excluding dividends	–	–	7.0	–	7.0
Profit for the year	–	–	–	1,333.9	1,333.9
Total changes in wealth	–	–	7.0	1,333.9	1,340.9
Dividends	–	–	–	-825.1	-825.1
Closing equity 31-12-2005	1,056.4	628.1	-34.0	6,964.2	8,614.7
Opening equity 1-1-2006	1,056.4	628.1	-34.0	6,964.2	8,614.7
Change for the year in the hedging reserve	–	–	64.7	–	64.7
Tax attributable to the hedging reserve	–	–	-18.1	–	-18.1
Total changes in wealth reported directly against equity, excluding dividends	–	–	46.6	–	46.6
Profit for the year	–	–	–	3,423.2	3,423.2
Total changes in wealth	–	–	46.6	3,423.2	3,469.8
Dividends	–	–	–	-299.1	-299.1
Closing equity 31-12-2006	1,056.4	628.1	12.6	10,088.2	11,785.3

SEK m	Share capital	Statutory reserve	Revaluation reserve	Share premium reserve	Non-restricted reserves	Total
<i>Parent Company</i>						
Opening equity 1-1-2005	1,056.4	170.0	166.2	628.1	2,615.9	4,636.6
Parent Company dividend					-825.1	-825.1
Group contributions received					218.2	218.2
Tax effect, group contribution					-61.1	-61.1
Transfer between restricted and non-restricted reserves			-14.0		14.0	0.0
Transfer of share premium reserve to statutory reserve		628.1		-628.1		0.0
Profit for the year					117.0	117.0
Closing equity 31-12-2005	1,056.4	798.1	152.2	0.0	2,078.9	4,085.6
Opening equity 1-1-2006	1,056.4	798.1	152.2	0.0	2,078.9	4,085.6
Parent Company dividend					-299.1	-299.1
Group contributions received					327.1	327.1
Tax effect, group contribution					-91.5	-91.5
Transfer between restricted and non-restricted reserves			-14.0		14.0	0.0
Profit for the year					1,622.4	1,622.4
Closing equity 31-12-2006	1,056.4	798.1	138.2	0.0	3,651.8	5,644.5

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 23, 2006, the Board was given a renewed mandate 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. No buy-backs took place during 2006.

The proposed dividend according to the allocation of unappropriated earnings is SEK 2,392.7 million.¹⁾

1) See Definitions, page 81, Dividend amount.

Cash flow statements and comments

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Current operations				
Profit after financial items	4,371.0	1,852.2	1,753.4	281.3
Depreciation and impairment of assets	4.4	3.9	39.9	38.1
Capital gain on sales of fixed assets	-986.2	–	-1,443.6	–
Change in other provisions	-46.8	–	0.3	0.8
Change in value, investment properties	-2,678.0	-1,200.0	–	–
Other changes	0.3	0.7	–	–
Tax paid	-113.9	-86.6	-116.6	-30.3
Cash flow from current operations before changes in working capital	550.8	570.2	233.4	289.9
Cash flow from changes in working capital:				
Decrease (+) / Increase (-) in operating receivables	-5.5	-6.1	210.0	154.5
Increase (+) / Decrease (-) in operating liabilities	62.7	15.0	45.9	99.6
Cash flow from current operations	608.0	579.1	489.3	544.0
Investments				
Additional purchase sum	-23.3	–	-23.3	–
Investment in investment properties	-185.4	-76.0	-54.7	-25.6
Investment in equipment	-8.0	-3.4	-4.6	-2.1
Investment in financial assets	–	–	-0.2	-0.6
Amortization, non-current receivable	15.4	13.9	–	–
Cash flow from investments	-201.3	-65.5	-82.8	-28.3
Financing				
Loans raised	260.0	740.0	260.0	740.0
Amortization of loan liability	-420.0	-350.0	-420.0	-350.0
Dividend paid	-299.1	-825.1	-299.1	-825.1
Cash flow from financing	-459.1	-435.1	-459.1	-435.1
Cash flow for the year	-52.4	78.5	-52.6	80.6
Liquid funds at the beginning of the year	92.8	14.3	92.3	11.7
Liquid funds at the year-end	40.4	92.8	39.7	92.3
Supplementary information, cash flow statements				
Interest received	18.7	8.2	0.3	0.2
Interest paid	141.0	140.1	141.0	140.1

The cash flow statements have been prepared in accordance with IAS 7. WTC is included under each item up to the share transfer date, December 12, 2006.

The result from property sales and/or disposal of shares in subsidiaries is reported under Cash flow from investments.

Cash flow from current operations

Cash flow from current operations before changes in operating capital decreased by SEK 19.4 million to SEK 550.8 million (570.2). Changes in working capital increased the cash flow by SEK 57.2 million (8.9). Cash flow from current operations thus totalled SEK 608.0 million (579.1).

Cash flow from investments

Cash flow from investments fell by SEK 135.8 million and amounted to SEK -201.3 million (-65.5). Investments in the property holdings, including WTC, increased by SEK 109.4 million compared with the preceding year.

Cash flow from financing

The cash flow from financing decreased by SEK 24.0 million and amounted to SEK -459.1 million (-435.1). Net changes in interest-bearing liabilities amounted to SEK -160 million (390.0). No buy-back of Company shares took place during the year (0)

The cash flow for the year was SEK -52.4 million (78.5).

Liquid funds

The Group's liquid funds, comprising cash and bank balances, as of December 31, 2006, totalled SEK 40.4 million (92.8). Including unutilized overdraft facilities, the liquidity was SEK 80.4 million (132.8). As of December 31, 2006, Hufvudstaden had loan assurances that fall due within 12 months of SEK 700 million. At the turn of the year SEK 175 million had been utilized.

The Parent Company's liquidity was SEK 79.7 million (132.3), including an unutilized overdraft facility of SEK 40 million (40).

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

Notes and supplementary information

Note 1. Accounting principles

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), which has been approved by the EU Commission for application within the EU. In addition, the Swedish Financial Accounting Standards Board recommendation RR 30:05, Supplementary Rules for Consolidated Financial Statements, has been applied. Hufvudstaden's Income Statements are classified according to function and are adapted to the Company's operations.

The Parent Company applies RR 32:05, which means the same accounting principles as the Group except in those cases stated below under the section "Parent Company accounting principles". The deviations that occur between the Parent Company's and the Group's principles are attributable to limits on the potential to apply IFRS in the Parent Company as a result of the Annual Accounts Act, the Safeguarding of Pension Commitments Act and in certain cases for tax reasons.

CONSOLIDATED ACCOUNTING PRINCIPLES

Prerequisites in conjunction with the drawing up of the financial reports 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 derivative instruments or assets classified as financial assets valued at the fair value in profit and loss.

The accounting principles stated below for the Group have been applied to all periods which are presented in the Group's financial reports 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.

New IFRS and interpretations

A number of new standards, amendments to the standards as well as interpretation statements will come into force from the 2007 financial year and have not been applied in the preparation of these financial reports.

IFRS 7 Financial Instruments will be applied from the 2007 financial year. This mainly entails information requirements regarding financial instruments.

Classification etc.

Fixed assets and non-current liabilities in the Parent Company and Group comprise amounts which are expected to be recovered or paid after more than twelve months, calculated from the period-end. Current assets and current liabilities in the Parent Company and the Group comprise amounts which are expected to be recovered or paid within twelve months, calculated from the period-end. Fixed assets, the carrying value of which is calculated to be recovered through sale within one year, are classified as assets held for sale and are reported according to IFRS 5.

Consolidated accounts

The consolidated accounts cover the Parent Company and those companies in which the Parent Company, directly or indirectly, has a controlling interest. 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. The Income Statement has been translated at the average exchange rate. There are no foreign subsidiaries in the Group. 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. Common accounting principles are applied in all companies in the Group. 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

Rental income is allocated to a specific period on a linear basis in accordance with the lease terms. Rent paid in advance is thus reported as prepaid rental income. Discounts granted, for example as compensation for gradual moving in, are reported for the period in which they are granted. Other discounts are allocated to a specific period during the term of the lease. Gross rent includes costs passed on, e.g. property tax and media costs.

Income from property sales.

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

Intra-Group rents and costs.

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

Administration costs.

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

Interest income and expense.

Interest income and interest expense on financial instruments are reported in the Income Statement for the period to which the amounts are attributable. Interest payments on interest swaps which were entered into in order to hedge future interest payments at a fixed rate of interest are reported net in the period to which the amounts are attributable. Loan costs are charged to profit in the period to which they are attributable, regardless of how the funds raised were used. This means that interest during the construction period is expensed.

Pensions

White-collar workers employed in the Group are covered by the so-called ITP plan.

The ITP plan mainly includes the following benefits:

- Retirement pension
- ITPK (supplementary retirement pension)
- Sickness pension
- Collective family pension

Undertakings for retirement pensions and family pensions for white-collar workers in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Accounting Standards Council Emerging Issues Task Force, URA 42, this is a defined benefit plan covering several employers. During the 2006 financial year, the Company did not have access to information that made it possible to report this plan as a defined benefit plan. The pension plan according to ITP, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan. 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.

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

Continuation Note 1, see page 55.

Continuation Note 1.

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

Financial instruments are valued and reported in the consolidated accounts in accordance with the rules in IAS 39 from January 1, 2005.

A financial instrument is valued initially at the fair value with a supplement for transaction costs, with an exception for the 'financial asset or financial liability' categories valued at the fair value in profit or loss. 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 the contractual terms and conditions of the instrument. A liability is taken up when the counter-party has performed and a contractual obligation exists to pay even if an invoice has not yet been received. A financial asset (or part thereof) is removed from the Balance Sheet when the rights in the agreement are realized, fall due or the Company transfers in all material respects the risks and benefits that are linked to ownership. A financial liability (or part thereof) is removed from the Balance Sheet when the obligation in the agreement is performed or is in some other manner extinguished.

A financial asset and a financial liability are set off and reported as a net amount in the Balance Sheet only when there is a legal right to set off the amounts and when there is an intention to settle the items with a net amount or at the same time realize the asset and settle the liability.

Financial instruments are classified in accordance with IAS 39 in the following categories: Financial assets valued at fair value in profit or loss, Loan receivables and accounts receivable and Other liabilities.

Financial assets valued at fair value in profit and loss

This group includes the Group's derivatives with a positive fair value with the exception of derivatives which are identified and effective hedging instruments.

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.

Loan receivables and accounts receivable

Rental receivables, accounts receivable, loans receivables and other receivables. Receivables are valued at the accrued acquisition value, i.e. the amount at which they are expected to be paid following a deduction for doubtful receivables, which are assessed individually. The expected duration of accounts receivable is short and consequently the value is reported at the nominal amount without discounting.

Other non-current receivables.

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

Other liabilities

Loans and other financial liabilities are included in this category. The liabilities and valued at the accrued acquisition value.

Interest-bearing loans and borrowing.

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

Accounts payable and other liabilities.

Liabilities are reported at the accrued acquisition value, which is decided based on the annualized percentage rate of interest calculated at the time of acquisition.

Derivative instruments and hedge accounting.

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 and the Group has designated all interest swap contracts entered into as cash flow hedging as protection against changes in future cash flows regarding interest payments on liabilities to credit institutions. Through these hedging transactions the desired fixed interest structure is achieved, which can be seen in the table in Note 32.

Derivative instruments are reported at the fair value. The derivative instruments 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. If a derivative instrument no longer satisfies the requirements for hedge accounting or if hedging instruments run out, are sold or are concluded, the possible profit or loss that has arisen is reported as an adjustment of interest costs at the same time that the hedged future interest payments are reported in the Income Statement. If the hedged future interest payments are not expected to take place any accumulated losses are reported directly against profit and loss and any profits are reported as income when the derivative runs out, is sold or is concluded.

Tangible fixed assets

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

Depreciation of fixed assets

Property management.

Depreciation of tangible fixed assets used in administration is included in property management administration. Other depreciation is reported under Depreciation.

Other operations.

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

Depreciation principles.

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

Investment properties

Investment properties are properties that are held for the purpose of securing rental income and/or an increase in value. Initially, investment properties are reported at cost, which includes expenses directly attributable to the acquisition. 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 value, external valuations are made by external valuation companies. The external valuations normally cover 20-30 per cent of the internally assessed market value and the selection of properties should represent different property categories, locations, positions and the technical and construction standard. There is a continuous update during the year of the internal valuation of the properties to take account of purchases, sales and investments. Hufvudstaden also investigates on an ongoing basis if there are indications of changes in the properties' fair value. 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.

Additional expenses are added to the carrying amount only if 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. All other additional expenses are reported as a cost in the period in which they arise. Crucial to the assessment when an additional charge is added to the carrying value is whether the expense refers to the replacement of identified components, or parts thereof, whereupon such expenses are capitalized. Even in the case of a new component that has been created the expense is added to the carrying value.

Continuation Note 1.

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 of an impairment requirement. If there is such an indication the recovery value of the asset is calculated.

Provisions

Provisions are reported in the Balance Sheet when there is an obligation (legal or informal) 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 value for 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. The gradual increase in the amount of the provision the current value calculation entails is reported as an interest cost in the Income Statement.

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 probable that an outflow of resources will be required.

Cash Flow Statements

The Cash Flow Statements show the Company's payment flows for the period. The Cash Flow Statements have been prepared according to the indirect method.

Segment reporting

A segment is, from an accounting point of view, an identifiable part of the Group, which provides services that are exposed to risks and opportunities that are different from other segments. The Group's operations are divided into two segments, Property Management and Other operations.

PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company has prepared its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Board recommendation RR 32:05 Accounting for Legal Entities. RR 32:05 means that the Parent Company shall in the annual report for the legal entity apply all the EU-approved IFRS and statements as far as this is possible within the framework of the Annual Accounts Act and in the light of the link between the accounts and taxation. Recommendations state the exceptions and additions 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 for tax equalization purposes, the group contributions are reported as a reduction or an increase in non-restricted equity with consideration given to tax according to URA 7.

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 value, 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 by 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 when the recovery value once again exceeds the previous carrying amount. Reported write-ups of 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 20.

Depreciation – investment properties

The Parent Company's depreciation according to plan is based on the original acquisition values, adjusted where applicable for write-ups 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. Revaluation is depreciated on the underlying asset's remaining depreciation period. Percentages for depreciation are reported in Note 20.

Note 2. Company information

The Annual Report and Annual Consolidated Accounts for Hufvudstaden AB (publ) for 2006 have been approved for publication according to a decision reached by the Board on February 8, 2007. The Parent Company is a limited liability company with its registered office in Sweden. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm.

The Group's principle area of business is the ownership, development and management of commercial properties. See also Administration Report, page 42.

Note 3. Financial risks

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, 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.

The Group is mainly exposed to financing risks and interest risks. Hufvudstaden endeavours to have a credit portfolio with a diverse credit due date which facilitates possible amortizations. Borrowing normally takes place with short fixed interest periods and to achieve the desired fixed interest structure interest swaps are used. Derivative instruments are only used for the purpose of minimizing the risk and should be linked to the underlying exposure. At present the Group only has derivative instruments that comply with the requirements for hedge accounting. Hufvudstaden has not identified any embedded derivatives that should be separated from their host contract and reported separately.

Hufvudstaden's aim is to use surplus liquidity to amortize existing loans. Surplus liquidity not used for amortization may only be invested in instruments with high liquidity and a low risk. Information regarding borrowing, loan frameworks and terms and conditions are to be found in Note 31.

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 finance function must have loan assurances that cover the Group's operating loan requirements. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis.

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.

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 due date structure in the leases should be taken into account when determining the fixed interest period and that a balance is struck between the assessed current cost of borrowing and the risk of a significant negative impact on profit in the event of a sudden, major increase in the interest rate. Derivative instruments are used to achieve the desired fixed interest period. 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 2007 to the amount of +/- SEK 14 million. Changes in value in contracted derivative agreements have not been taken into account as all the interest swaps are reported as hedges via equity and do not affect profit or loss.

Credit risk.

A credit risk refers mainly to accounts receivable/rent receivables as well as financial derivative agreements with positive values. The Group is exposed to credit risks to a limited extent.

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. As a rule, Hufvudstaden demands a bank guarantee or guarantee undertaking in conjunction with new leases. Rent receivables are invoiced in advance.

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. In addition, there are general agreements with these institutions regarding the setting off of different derivative agreements, which further reduces the credit risk exposure.

Financing structure.

Hufvudstaden's borrowing at the turn of the year was SEK 3,365.0 million compared with SEK 3,525.0 million at the end of 2005. The average fixed interest period was 23 months (30), the average capital tie-up period 33 months (32) and the average interest cost 4.0 per cent (3.9). Net liabilities were SEK 3,324.6 million compared with SEK 3,432.2 million at the end of 2005.

Capital tie-up structure, December 31, 2006

Due date	Volume, SEK m	Proportion, %
2007	965.0	29
2008	600.0	18
2009	-	-
2010	500.0	15
2011	950.0	28
2012	-	-
2013	350.0	10
Total	3,365.0	100

Fixed interest structure, December 31, 2006

Due date	Volume, SEK m	Proportion, %	Average APR, %
2007	1,565.0	47	3.6
2008	600.0	18	4.8
2009	-	-	-
2010	500.0	15	4.1
2011	350.0	10	3.9
2012	-	-	-
2013	350.0	10	4.1
Total	3,365.0	100	4.0

Information regarding fair values, financial instruments

SEK m	Group				Parent Company			
	Carrying value		Fair value		Carrying value		Fair value	
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Other non-current receivables	6.2	61.6	6.2	63.0	6.2	5.9	6.2	5.9
Accounts receivable	12.6	15.9	12.6	15.9	2.5	2.9	2.5	2.9
Other receivables	3,005.3	14.4	3,005.3	14.4	3,005.1	-	3,005.1	-
Cash and bank balances	40.4	92.8	40.4	92.8	39.7	92.3	39.7	92.3
Interest swaps with a positive value	17.5 ¹⁾	-	17.5 ¹⁾	-	-	-	-	-
	3,082.0	184.7	3,082.0	186.1	3,053.5	101.1	3,053.5	101.1
Liabilities								
Liabilities to credit institutions (non-current)	2,400.0	2,590.0	2,400.0	2,590.0	2,400.0	2,590.0	2,400.0	2,590.0
Liabilities to credit institutions (current)	965.0	935.0	965.0	935.0	965.0	935.0	965.0	935.0
Accounts payable	79.0	68.0	79.0	68.0	40.2	28.2	40.2	28.2
Other interest-free liabilities	504.5	53.6	504.5	53.6	31.8	21.9	31.8	21.9
Interest swaps with a negative value	-	47.2 ¹⁾	-	47.2 ¹⁾	-	-	-	-
	3,948.5	3,693.8	3,948.5	3,693.8	3,437.0	3,575.1	3,437.0	3,575.1

1) Reported in the hedging reserve in Equity with a deduction for deferred tax.

Fair values of other non-current liabilities, liabilities to credit institutions as well as interest swaps are calculated with the aid of discounted cash flows. Liabilities to credit institutions are subject to a three-month fixed interest period, whereupon the fair value is regarded as essentially complying with its carrying value. The other financial instruments, such as accounts receivable and accounts payable, concur with their carrying values.

Note 4. Segment information**Property management**

The Group's operations are divided into two segments, property management and other operations. The property management segment is divided into business areas that follow the operative control of the Company's business, which mainly follows the geographical division of the rental market into submarkets. In the Parent Company there is only one operating area, property management. The following table shows the income and costs, assets, liabilities and investments for the different business areas in 2006 and the comparison year 2005. In the Parent Company there is only the property management segment.

SEK m	Stockholm City East Business Area	Stockholm City West Business Area	NK Business Area	Gothenburg Business Area	Total
GROUP					
2006					
<i>Income and costs</i>					
Net revenue	397.3	257.5	297.2	144.5	1,096.5
(of which turnover-based rent supplement)	(0.2)	(-)	(10.3)	(-)	(10.5)
Special projects	-0.1	-	-0.1	-	-0.2
Maintenance	-24.2	-22.7	-11.2	-3.2	-61.3
Operations and administration	-48.9	-33.3	-81.8	-28.3	-192.3
Ground rent	-0.2	-12.2	-3.7	-	-16.1
Property tax	-39.2	-25.2	-17.5	-10.6	-92.5
Depreciation	-	-	-	-	-
Gross profit	284.7	164.1	182.9	102.4	734.1
<i>Assets</i>					
Tangible fixed assets ¹⁾	2.7	3.1	1.8	0.9	8.5
Investment properties	6,942.6	4,121.4	4,388.3	1,956.5	17,408.8
Total	6,945.3	4,124.5	4,390.1	1,957.4	17,417.3
Financial assets	4.1	2.1	-	-	6.2
Current receivables ^{1) 2)}	16.3	18.6	10.8	5.4	51.1
<i>Liabilities</i>					
Current liabilities ^{1) 2)}	127.6	145.3	84.5	42.6	400.0
<i>Investments</i>					
Tangible investments for the period	135.7	19.8	25.5	6.3	187.3
GROUP					
2005					
<i>Income and costs</i>					
Net revenue	385.6	307.0	262.2	141.1	1,095.9
(of which turnover-based rent supplement)	(-)	(-)	(6.7)	(-)	(6.7)
Special projects	-4.4	-	-0.1	-	-4.5
Maintenance	-48.4	-11.7	-18.1	-3.4	-81.6
Operations and administration	-49.2	-34.8	-83.5	-27.3	-194.8
Ground rent	-0.2	-11.1	0.9	-	-10.4
Property tax	-42.4	-22.8	-17.5	-10.6	-93.3
Depreciation	-	-0.1	-0.2	-	-0.3
Gross profit	241.0	226.5	143.7	99.8	711.0
<i>Assets</i>					
Tangible fixed assets ¹⁾	2.4	2.9	1.4	0.8	7.5
Investment properties	5,777.2	5,419.5	3,384.3	1,695.0	16,276.0
Total	5,779.6	5,422.4	3,385.7	1,695.8	16,283.5
Financial assets	5.9	55.7	-	-	61.6
Current receivables ¹⁾	16.1	19.3	9.9	5.3	50.6
<i>Liabilities</i>					
Current liabilities ¹⁾	124.6	149.7	76.4	40.9	391.6
<i>Investments</i>					
Tangible investments for the period	27.9	13.9	29.3	8.3	79.4

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

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

Continuation Note 4, see page 59.

Continuation Note 4.

Other operations

The Other operations segment includes parking operations at Parkaden AB.

SEK m	Parking operations
GROUP	
2006	
Net revenue	56.0
Rental costs	-36.1
Operations and administration	-8.2
Depreciation	-0.7
Gross profit	11.0
GROUP	
2005	
Net revenue	56.5
Rental costs	-35.6
Operations and administration	-7.5
Depreciation	-0.6
Gross profit	12.8

Note 5. Discontinued operations

On December 12, 2006 an agreement was signed with the occupational pension company Alecta regarding the sale of shares in Vasaterminalen AB, including the two subsidiaries, World Trade Center Stockholm AB and WTC Parkering AB, with completion on February 1, 2007. The companies sold hold the leaseholds Terminalen 1 and Kortbyrån 18, restaurant and conference operations at WTC as well as parking operations. During 2006, these operations had an average of 21 employees.

Profit on discontinued operations

SEK m	2006	2005
GROUP		
<i>Net revenue</i>		
Property management	168.3	162.6
Other operations	31.7	29.5
	200.0	192.1
<i>Property management, costs</i>		
– Maintenance	-5.7	-10.7
– Operation and administration	-26.5	-25.7
– Ground rents	-20.0	-20.0
– Property tax	-3.2	-16.0
– Depreciation	-0.3	-0.2
Property management, costs	-55.7	-72.6
Other operations, costs	-28.8	-28.6
Operating costs	-84.5	-101.2
Gross profit	115.5	90.9
Change in value, investment properties	30.5	204.4
Operating profit	146.0	295.3
Financial income/expense	18.0	7.6
Profit before tax	164.0	302.9
Tax	-43.9	-82.9
Profit after tax but before divestment of discontinued operations	120.1	220.0
Profit from divestment of discontinued operations	986.2	–
Profit from discontinued operations, net after tax	1,106.3	220.0
Profit per share from discontinued operations before and after dissolution, SEK	5.36	1.07
Net cash flow from discontinued operations		
Cash flow from current operations	6.1	8.5
Cash flow from investments	-6.1	-8.5
Cash flow from financing	–	–
Net cash flow from discontinued operations	–	–

Note 6. Profit trend – summary

SEK m	Jan–Mar		Apr–June		July–Sept		Oct–Dec		Minus WTC		Jan–Dec	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<i>Property management</i>												
Net revenue	311.5	313.6	312.8	313.3	311.4	310.9	329.1	320.7	168.3	162.6	1,096.5	1,095.9
Special projects	-0.1	-1.4	-0.1	-0.4	-0.2	-0.1	0.2	-2.6	–	–	-0.2	-4.5
Maintenance	-26.0	-8.0	-9.8	-29.7	-10.7	-21.2	-20.5	-33.4	-5.7	-10.7	-61.3	-81.6
Operations and administration	-55.8	-62.7	-50.2	-47.0	-48.8	-54.6	-64.0	-56.2	-26.5	-25.7	-192.3	-194.8
Other costs	-36.4	-37.7	-23.2	-37.0	-37.0	-30.3	-35.5	-35.2	-23.5	-36.2	-108.6	-104.0
Property management costs	-118.3	-109.8	-83.3	-114.1	-96.7	-106.2	-119.8	-127.4	-55.7	-72.6	-362.4	-384.9
Other operations, net	2.3	2.2	2.4	2.6	1.9	2.0	7.3	6.9	2.9	0.9	11.0	12.8
Gross profit	195.5	206.0	231.9	201.8	216.6	206.7	216.6	200.2	115.5	90.9	745.1	723.8
Central administration	-6.9	-6.4	-6.9	-7.3	-6.6	-5.1	-11.1	-11.8	–	–	-31.5	-30.6
Changes in value, investment properties	–	–	570.0	500.0	–	–	2,108.0	700.0	30.5	204.4	2,647.5	995.6
Net financial income/expense	-32.4	-27.6	-23.7	-37.0	-34.3	-33.9	-31.9	-33.4	18.0	7.6	-140.3	-139.5
Tax	-46.5	-49.2	-217.0	-184.4	-54.4	-47.4	-629.9	-237.3	-43.9	-82.9	-903.9	-435.4
Profit from continuing operations	109.7	122.8	554.3	473.1	121.3	120.3	1,651.7	617.7	-120.1	-220.0	2,316.9	1,113.9
Profit from discontinued operations	–	–	–	–	–	–	986.2	–	120.1	220.0	1,106.3	220.0
Profit for the period	109.7	122.8	554.3	473.1	121.3	120.3	2,637.9	617.7	0.0	0.0	3,423.2	1,333.9

Note 7. 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 13 years.

Annual rent according to size category (according to agreements valid on December 31, 2006) ^{1) 2) 3)}

	Number of agreements	Annual rent, SEK k	Proportion, %
0 – 99	718	19,683	1.8
100 – 499	238	66,561	6.2
500 – 999	210	149,967	14.0
1 000 – 2 499	170	263,000	24.5
2 500 – 4 999	70	244,804	22.8
5 000 – 9 999	24	161,322	15.0
10 000 –	9	167,542	15.6
Total	1,439	1,072,879	100.0

Renewal structure ^{4) 5) 6)}

	2007	2008	2009	2010	2011	2012–	Total
<i>Number of agreements</i>							
Offices	61	83	91	47	8	5	295
Stores	100	101	105	23	9	11	349
Other	396	186	148	33	11	16	790
Total	557	370	344	103	28	32	1,434
Proportion, %	38.8	25.8	24.0	7.2	2.0	2.2	100.0
<i>Annual rent, SEK m</i>							
Offices	63.9	118.7	122.9	109.9	27.7	61.8	504.9
Stores	114.7	124.0	131.5	34.9	19.1	38.3	462.5
Other	33.9	21.3	46.5	6.4	5.7	3.2	117.0
Total	212.5	264.0	300.9	151.2	52.5	103.3	1,084.4
Proportion, %	19.6	24.4	27.8	13.9	4.8	9.5	100.0

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

2) Including residential contracts.

3) Contact with an annual rent as of 31.12.2006.

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

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

6) Excluding residential contracts.

Note 8. Depreciation, tangible assets and investment properties

SEK m	Group		Parent Company	
	2006	2005	2006	2005
<i>Depreciation per type of asset</i>				
Properties	1)	1)	37.7	36.7
Equipment	3.1	3.2	2.3	2.4
Total	3.1	3.2	40.0	39.1
<i>Depreciation per function/ operating area</i>				
Property management	0.2	0.1	37.7	36.7
Administration	2.2	2.5	2.3	2.4
Other operations	0.7	0.6	-	-
Total	3.1	3.2	40.0	39.1

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

Note 9. Average number of employees and sickness statistics

Average number of employees calculated on an annual basis	2006		2005	
	Of which men, %		Of which men, %	
Parent Company	93	48	95	48
<i>Wholly owned subsidiaries</i>				
Parkaden AB	4	57	4	50
WTC Stockholm AB ¹⁾	21	38	23	36
Total, Group	118	47	122	45

1) Discontinued operations

Of the Group's 28 managers (25), nine are women (8) or 32 per cent (36).

Absenteeism due to sickness in relation to normal working hours

Per cent	2006		2005	
	Total absenteeism due to sickness	Long-term absenteeism due to sickness	Total absenteeism due to sickness	Long-term absenteeism due to sickness
GROUP				
Men, total	5	68	6	68
of which:				
20–29 years ¹⁾			-	-
30–49 years	2	-	3	57
50 years–	16	93	14	76
Women, total	2	6	6	68
of which:				
20–29 years	2	-	7	65
30–49 years	2	9	5	60
50 years–	2	-	9	87
Group, total	3	51	6	68
PARENT COMPANY				
Men, total	6	68	7	71
of which:				
20–29 years ¹⁾			-	-
30–49 years	2	-	4	59
50 years–	15	92	14	78
Women, total	1	9	4	60
of which:				
20–29 years ¹⁾			1	-
30–49 years	1	13	3	35
50 years– ¹⁾			11	89
Parent Company, total	4	55	6	67

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 attributed to a single individual. The term 'group' refers both to age groups and gender distribution within an age group.

Note 10. Salaries and remuneration

KSEK	Group				Parent Company			
	2006	(of which bonus)	2005	(of which bonus)	2006	(of which bonus)	2005	(of which bonus)
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	300		288		300		288	
Fee to other Board members	958		1,026		938		1,006	
Payment and benefits, President	3,165	(471)	3,277	(527)	3,165	(471)	3,277	(527)
Payment and benefits, other senior executives	7,512	(739)	7,270	(1 384)	7,512	(739)	7,270	(1,384)
Payment and benefits, other employees	40,991	(1,795)	38,161	(1 334)	33,194	(1,453)	30,696	(1,169)
Total	52,926	(3,005)	50,022	(3 245)	45,109	(2,663)	42,537	(3,080)
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	97		93		97		93	
Other Board members	309		333		303		327	
President	1,183		1,130		1,183		1,130	
Other senior executives	2,796		2,801		2,796		2,801	
Other employees	14,421		13,638		11,837		11,120	
Total	18,806		17,995		16,216		15,471	
<i>Pension expenses</i>								
President	664		272		664		272	
Other senior executives	1,528		1,820		1,528		1,820	
Other employees	5,067		5,353		4,624		4,765	
Total	7,259		7,445		6,816		6,857	

The Board comprised 7 men (8) and 1 woman (1). The executive management (President and other senior executives) comprised 6 men (6) and 1 woman (1).

The Group's pensions, including the President, are covered by the ITP plan and are defined benefit pensions. According to the current pension plan the retirement age for the President is 65 years. In addition, there is a defined contribution pension to the President for the part of the salary not covered by the ITP plan.

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

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

The Chairman of the Board has been assigned the task by the Board of negotiating and reaching agreement with the President regarding the President's remuneration, followed by a decision by the Board. 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. From 2007, remuneration principles for senior executives will be put to the general meeting for a decision.

All permanent employees in the Group were covered by a bonus programme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers with personnel responsibility there was also a personal assessment. 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.

For the senior executives there was a bonus programme in place during the year based on result, customer satisfaction and personal objectives. The bonus is maximized to SEK 500,000 for the year for the President and a total of SEK 1,250,000 for other senior executives.

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 279). The bonus outcome for 2006 affected the provision made for 2005 to the amount of KSEK 382.

Both bonus programmes 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 changes in value in the property holdings. The bonus is not pensionable.

Note 11. Fees and other remuneration to auditors

SEK m	Group			Parent Company		
	2006	2005	2004	2006	2005	2004
Audit assignments, KPMG	1.0	0.9	0.8	1.0	0.9	0.8
Other assignments, KPMG	0.5	0.6	0.5	0.5	0.6	0.5
Total	1.5	1.5	1.3	1.5	1.5	1.3

Note 12. Intra-Group transactions

SEK m	Parent Company	
	2006	2005
Income	12.3	12.3
Costs	-8.3	-8.4
Total	4.0	3.9

Note 13. Operational lease agreements – Group as the Lessee

Annual rent, SEK m	Group		Parent Company	
	2006	2005	2006	2005
– 1 year	23.7	23.7	8.4	8.4
1 year – 5 years	23.7	23.7	8.4	8.4
5 years –	13.8	16.1	8.2	8.2

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

Note 14. Operating costs per cost category

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Maintenance	61.5	86.1	149.0	55.2
– of which special projects	0.2	4.5	35.9	5.1
Operation and administration	195.4	195.9	55.8	55.5
Ground rent	16.1	10.4	8.0	7.4
Property tax	92.5	93.3	64.8	62.2
Depreciation	3.1	3.2	40.0	39.1
Personnel costs	70.9	71.0	69.1	69.3
Total	439.5	459.9	386.7	288.7

Note 15. Changes in value, investment properties

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Realized	–	–	–	–
Unrealized	2,647.5	995.6	–	–
Total	2,647.5	995.6	–	–

An upward adjustment of the fair value of investment properties was made during the year to the amount of SEK 2,647.5 million.

Note 16. Financial income

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Dividend from subsidiaries	–	–	170.8	–
Interest income, other	0.7	0.2	0.3	0.2
Capital gain on disposal of subsidiary	–	–	1,443.6	–
Total	0.7	0.2	1,614.7	0.2

Note 17. Financial expense

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Interest expense, other	-141.0	-139.7	-141.0	-140.1
Total	-141.0	-139.7	-141.0	-140.1

Note 18. Appropriations

SEK m	Parent Company	
	2006	2005
Change in accumulated additional depreciation	-8.0	-14.1
Change in tax allocation reserve	-116.0	-102.5
Total	-124.0	-116.6

Note 19. Income taxes

SEK m	Group		Parent Company	
	2006	2005	2006	2005
<i>Actual tax expense</i>				
Tax expense for the year	-98.0	-109.6	-6.5	-48.2
Tax attributable to previous years	-0.2	0.8	-0.1	0.8
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation:				
Revaluation/reversal/impairment	–	–	3.9	3.9
Original acquisition values	-55.2	-23.2	-4.3	-4.2
Unrealized change in value, investment properties	-741.3	-278.8	–	–
Effect of company sold (property)	28.2	9.5	–	–
Effect, allocation to untaxed reserves	-37.4	-34.1	–	–
Total tax	-903.9	-435.4	-7.0	-47.7
<i>Reported profit before tax</i>				
	3,220.8	1,549.3	185.8	164.7
Tax at the current tax rate of 28%	-901.8	-433.8	-52.0	-46.1
Tax attributable to previous years	-0.2	0.8	-0.1	–
Non-taxable income in conjunction with the sale of a subsidiary (property)	–	–	47.8	–
Non-taxable income	0.1	0.4	0.1	1.2
Non-deductible expense	-0.3	-0.3	-0.3	-0.9
Utilization of previously uncapitalized deficit deductions	0.1	–	–	–
Standard income, tax allocation reserve	-2.6	-2.3	-2.5	-2.2
Other	0.8	-0.2	–	0.3
	-903.9	-435.4	-7.0	-47.7
<i>Tax items reported directly against equity</i>				
Deferred tax in respect of hedge reserve	-18.1	13.2	–	–
Actual tax in group contributions received	–	–	-91.5	61.1
	-18.1	13.2	-91.5	61.1

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

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

Note 20. Investment properties**GROUP**

Investment properties are reported according to the fair value method.

SEK m	2006	2005
Investment properties, Group	17,408.8	16,276.0

Information regarding changes in carrying values for investment properties

Mnkr	Investment properties sold	Investment properties owned for the full year
31-12-2006		
Opening fair value	1,695.8	14,580.2
Investments in properties	4.4	181.1
Disposed operations	-1,730.7	-
Unrealized change in value	30.5	2,647.5
Closing fair value	0.0	17,408.8
31-12-2005		
Closing fair value	-	15,000.0
Investments in properties	-	76.0
Unrealized change in value	-	1,200.0
Closing fair value	-	16,276.0

For income and costs attributable to investment properties reference can be made to Note 4.

All properties owned by the Group were classified as investment properties and cover the items Buildings, Building equipment, Land and Development in progress in the Balance Sheet. Fair value is based on an internal valuation.

Valuation method

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

The operating surplus is based on the market-adapted rental revenue. Income has been reduced for an assessed long-term rental vacancy level of 5–7 per cent.

A deduction has been made for standard costs for operation and maintenance.

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

The following information has been used in the valuation:

	Rental revenue, SEK m	Operating profit, SEK m	Direct yield requirement, %
Stockholm, commercial			4.25–5.5
Gothenburg, commercial			4.75–5.75
Property holdings, Group	1,174.3	835.3	4.80 ¹⁾

1) Average

External valuation

To guarantee the valuation, external valuations have been made by two valuation companies, DTZ Värderingshuset AB and FS Fastighetsstrategi AB. The external valuations cover six properties and are equivalent to 35 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 were valued externally are Hästen 19 and

20 (NK Building), Järnplåten 28, Medusa 1, Skären 9 and Vildmannen 7 in Stockholm and Inom Vallgraven 10:9 (NK Building) in Gothenburg.

The external valuation companies have set a market value of SEK 6.1 billion with a range of +/- 3–6 per cent. Hufvudstaden's internal valuation of the same properties is SEK 6.0 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 valuation is within the value range stated by the external valuation companies.

For a risk analysis, see Administration Report page 43 and Note 37.

Tax values, investment properties, Group

SEK m	2006	2005
Tax values, buildings	4,456.0	5,213.8
Tax values, land	4,558.3	5,401.3
	9,014.3	10,615.1

PARENT COMPANY

Investment properties are reported according to the acquisition method.

SEK m	2006	2005
Investment properties, Parent Company	5,649.5	5,632.6

Investment properties, excluding land

SEK m	2006	2005
Opening acquisition values	1,601.9	1,576.3
Investments for the year	54.7	25.6
Closing acquisition values	1,656.6	1,601.9
Opening depreciation	-518.2	-495.5
Depreciation for the year	-23.7	-22.7
Closing depreciation	-541.9	-518.2
Closing revaluation according to the adopted Balance Sheet for the preceding year	1,217.1	1,231.1
Depreciation for the year	-14.1	-14.0
Closing depreciation	1,203.0	1,217.1
Closing residual value according to plan	2,317.7	2,300.8

Land

SEK m	2006	2005
Opening acquisition value	290.2	290.2
Closing acquisition values	290.2	290.2
Opening value, revaluations	3,041.6	3,041.6
Closing revaluations	3,041.6	3,041.6
Closing residual value according to plan	3,331.8	3,331.8

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

- Buildings: offices 1 per cent
- Buildings: Department stores, multi-storey car parks, hotels, restaurants 2 per cent
- Building equipment: 5–10 per cent
- Land improvements: 3.75–5 per cent

Information about the fair value of investment properties

SEK m	2006	2005
Investment property, Parent Company	10,743	9,300

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

Continuation Note 20.

The following information has been used in the valuation:

	Rental revenue, SEK m	Operating profit, SEK m	Direct yield require- ment, %
Stockholm, commercial			4.25–5.5
Gothenburg, commercial			5.0–5.75
Property holdings, Parent Company	750.6	531.7	4.95 ¹⁾

1) Average

Tax values, investment properties, Parent Company

SEK m	2006	2005
Tax values, buildings	3,168.4	3,168.4
Tax values, land	3,385.3	3,385.3
	6,553.7	6,553.7

Note 21. Tangible fixed assets

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Opening acquisition value	36.7	34.2	16.6	15.4
Investments for the year	6.3	3.4	4.6	2.1
Discontinued operations	-28.3	0.0	0.0	0.0
Disposals	-4.0	-0.9	-4.0	-0.9
Closing acquisition value	10.7	36.7	17.2	16.6
Opening depreciation	-29.2	-26.1	-12.7	-11.2
Depreciation for the year	-3.1	-4.0	-2.3	-2.4
Discontinued operations	26.1	0.0	0.0	0.0
Disposals	4.0	0.9	4.0	0.9
Closing accumulated depreciation	-2.2	-29.2	-11.0	-12.7
Closing residual value according to plan	8.5	7.5	6.2	3.9

Note 22. Participations in Group companies

	Company reg. no.	Reg. office	Capital (votes), %	Number	Nominal value, 1,000	Carrying value 2006, SEK m
PARENT COMPANY						
<i>Shares and subsidiaries</i>						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget Hamngatsgaraget	556068-6601	Stockholm	100	3,000	300	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5,000	500	0.6
						2,824.5
<i>Shares in dormant companies</i>						
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	100	-
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	-
Förvaltnings AB Liljeholmstorget	556030-5251	Stockholm	100	1,000	100	-
Förvaltnings AB Norrmalmstorg nr 1	556019-5405	Stockholm	100	150	150	-
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, total						2,824.8
OTHER GROUP COMPANIES						
<i>Owned by AB Citypalatset</i>						
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7,776	239.5
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>						
Hotel Stockholm AB	556031-4303	Stockholm	100	10,000	1,000	3.4
<i>Owned by AB Nordiska Kompaniet</i>						
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	168	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	100	0.1
						0.5
Other Group companies, total						243.4
<i>Change in the Parent Company's holding in Group companies</i>						
SEK m			Parent Company			
			2006	2005		
Opening carrying amount			4,329.3	4,329.3		
Additional purchase sum			23.2	-		
Disposals for the year			-1,527.7	-		
Closing carrying amount			2,824.8	4,329.3		

Note 23. Other long-term receivables

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Opening carrying amount	61.6	75.5	5.9	5.3
Acquisitions for the year	0.3	0.6	0.3	0.6
Disposed operations	-55.7	-	-	-
Amortization for the year	-	-14.5	-	-
Closing carrying amount	6.2	61.6	6.2	5.9

SEK 0 million (53.7) of the Group's carrying amount is in respect of a promissory note. Other non-current receivables are non-interest-bearing. For information regarding capital tie-up and interest terms, see Note 3.

Note 24. Accounts receivable

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Accounts receivable	12.3	12.3	2.5	3.3
Rent receivables	0.3	3.6	-	-0.4
Total	12.6	15.9	2.5	2.9

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

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

Note 25. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Accrued rent revenue	18.3	15.1	8.7	8.0
Value, derivative agreements	17.5	-	-	0.0
Prepaid expenses	0.3	3.4	0.3	0.1
Accrued interest income	2.2	1.8	2.2	1.8
Total	38.3	20.3	11.2	9.9

Note 26. Cash and bank balances

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Bank balances	40.4	92.8	39.7	92.3
Total	40.4	92.8	39.7	92.3

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

Note 27. Equity

Specification of equity item, reserves

SEK m	2006	2005
<i>Hedge reserve</i>		
Opening hedge reserve	34.0	0.0
<i>Cash flow hedges:</i>		
Reported directly against equity	-64.7	47.2
Tax attributable to hedges for the year	18.1	-13.2
Closing hedge reserve	-12.6	34.0
<i>Total reserves</i>		
Opening reserves	34.0	0.0
Hedge reserve	-46.6	34.0
Closing reserves	-12.6	34.0

Other capital contributed

Refers to equity contributed by the owners. This includes share premium reserves which in the Parent Company had been transferred to the statutory reserve as of December 31, 2005. Allocations to the share premium reserve from January 1, 2006 onwards are also reported as contributed capital.

Reserves

Hedge reserve. The hedge reserve covers the effective proportion of the accumulated net change in the fair value of the cash flow hedging instrument attributable to hedging transactions that have not yet taken place.

Profit brought forward, including profit for the year

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

Share capital

SEK m	2006	2005
<i>Breakdown of share series</i>		
A 202 996 869 shares	1,015.0	
A 202 996 389 shares		1,015.0
C 8 275 064 shares	41.4	
C 8 275 544 shares		41.4
Total	1,056.4	1,056.4

Huvudstaden AB (publ) has two share classes, Series A and Series C. Both share classes are registered on the Stockholm Stock Exchange A-list. 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 convert Series C shares into Series A shares. A total of 480 C-shares were converted during the year.

Hufvudstaden's own holding is 5,006,000 A-shares. No buy-back of shares took place during the year.

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

Note 28. Pension provision

A provision has been made in the Balance Sheet for defined benefit pension plans for former employees.

The Group applies the ITP plan through insurance with Alecta and the total cost amounted to SEK 2.8 million.

Charges for the year for pension insurance taken out with Alecta total SEK 3.1 million (3.4). Alecta's surplus can be distributed to the policyholders and/or the insured. At the end of 2006 Alecta's surplus in the form of the collective consolidation level amounted to 143.1 per cent (128.5). 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.

Note 29. Deferred tax liability

SEK m	Deferred tax receivable	Deferred tax liability	Net
GROUP			
2006			
Investment properties	-	-4,298.1	-4,298.1
Hedge accounting	-	-4.9	-4.9
Untaxed reserves	-	-190.6	-190.6
Total	-	-4,493.6	-4,493.6
2005			
Investment properties	-	-3,674.4	-3,674.4
Hedge accounting	13.2	-	13.2
Untaxed reserves	-	-176.9	-176.9
Total	13.2	-3,851.3	-3,838.1
PARENT COMPANY			
2006			
Investment properties	-	-1,219.9	-1,219.9
2005			
Investment properties	-	-1,219.5	-1,219.5

There were no deficit deductions as of the year-end 2006.

Change in deferred tax

Mnkr	Balance as of January 1	Reported in profit and loss	Reported against equity	Discontinued operations	Balance as of December 31
GROUP					
2006					
Investment properties	-3,674.4	-796.7	-	173.0	-4,298.1
Untaxed reserves	-176.9	-37.4	-	23.7	-190.6
Hedge reserve	13.2	-	-18.1	-	-4.9
	-3,838.1	-834.1	-18.1	196.7	-4,493.6
2005					
Investment properties	-3,308.6	-365.8	-	-	-3,674.4
Untaxed reserves	-133.2	-43.7	-	-	-176.9
Hedge reserve	-	-	13.2	-	13.2
	-3,441.8	-409.5	13.2	-	-3,838.1
PARENT COMPANY					
2006					
Investment properties	-1,219.5	-0.4	-	-	-1,219.9
2005					
Investment properties	-1,219.2	-0.3	-	-	-1,219.5

Note 30. Property tax liability

SEK m	Group	
	2006	2005
Opening carrying value	70.1	70.1
Provision for the year	-	-
Dissolution for the year	-70.1	-
Closing carrying value	0.0	70.1

The provision referred to the property tax dispute which during 2006 was finally settled with the National Tax Agency. Dissolution of the remaining provision meant a positive impact on profit of SEK 25.2 million, which is reported within Profit from discontinued operations. The Company subsequently appealed against the Tax Agency's decision, which could mean that further repayment is possible.

Note 31. Liabilities to credit institutions

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Loans	3,365.0	3,525.0	3,365.0	3,525.0
Total	3,365.0	3,525.0	3,365.0	3,525.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	700.0	700.0	700.0	700.0

As of December 31, 2006, Hufvudstaden had loan assurances that fell due within 12 months of SEK 700 million. At the year-end, SEK 175 million had been utilized.

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

Bank loans 2006

Year due	Group		Parent Company	
	Average	Nominal amount	Average	Nominal amount
	APR, % ¹⁾		APR, % ¹⁾	
2007	3.7	965.0	3.7	965.0
2008	3.9	600.0	3.9	600.0
2009	-	-	-	-
2010	3.7	500.0	3.7	500.0
2011	3.6	950.0	3.8	950.0
2012	-	-	-	-
2013	3.7	350.0	3.7	350.0
Total		3,365.0		3,365.0

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

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 2006**Koncernen och moderbolaget**

Year due	Average APR		Nominal amount	Fair value
	Fixed interest, % ²⁾	Variable interest, % ³⁾		
	2007	3.0		
2008	4.3	3.3	600.0	-3.7
2009	-	-	-	-
2010	3.7	3.3	500.0	4.1
2011	3.5	3.3	350.0	7.9
2012	-	-	-	-
2013	3.7	3.3	350.0	8.0
2014	-	-	-	-
Total			2,000.0	17.5

2) Interest is payable annually.

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

The cash flow of the interest swaps concurs with the hedged item.

For a presentation of the finance policy, risks and interest exposure, see Note 3.

Note 32. Other liabilities

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Liability, Vasaterminalen AB	441.7	–	–	–
VAT settlement	40.5	36.5	26.2	17.2
Other	19.0	15.1	2.7	3.1
Total	501.2	51.6	28.9	20.3

Note 34. Pledged assets and contingent liabilities

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Property mortgages for liabilities at credit institutions	1,621.3	1,716.3	1,621.3	1,716.3
(of which mortgages on subsidiaries' properties)	(–)	(–)	(356.0)	(406.0)
Other non-current receivables	3.9	3.6	3.9	3.6
Total	1,625.2	1,719.9	1,625.2	1,719.9

Note 36. Events after the year-end

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

Note 33. Accrued expenses and prepaid income

SEK m	Group		Parent Company	
	2006	2005	2006	2005
Accrued interest	6.3	6.1	6.3	6.1
Value, derivative agreements	–	47.2	–	–
Prepaid rent	192.8	193.4	114.3	99.4
Other	62.3	25.3	62.1	17.4
Total	261.4	272.0	182.7	122.9

Note 35. 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. Fredrik Lundberg's board fee for 2006 was SEK 300,000. Details of payments to Board members and senior executives are to be found in Note 10.

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 22.

Note 37. Essential estimates and assessments

Application of the Group's accounting principles requires that the executive management make certain assessments and assumptions that are of significance to the Income Statement and Balance Sheet items in the final accounts. The most important assessments are presented below.

Investment properties.

The value of property can only be determined with certainty when payment has been received following its sale. In the final accounts an estimate is made of the market value, which in accounting terms is known as the fair value. The fair value is determined based on a yield valuation. This valuation includes estimates of future rent levels, levels of vacant space and property costs. In the calculation model, an estimate is also made of each individual property's direct yield requirement. Hufvudstaden's internal property valuation is checked with external valuation companies, where an uncertainty range of +/- 6–8 per cent of the assessed market value is given on the property level. If Hufvudstaden's valuation is outside the uncertainty range an explanation for the deviation is given.

External changes could mean that an assumption made by the executive management needs to be reviewed. This could result in a considerable variation in the value of the property holdings, which can be seen in the sensitivity analysis on page 43.

Proposed distribution of unappropriated earnings

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

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

Profit brought forward	SEK 2,029,350,040
Profit for the year	SEK 1,622,406,339
	<hr/>
	SEK 3,651,756,379
Dividend to the shareholders;	
– Ordinary dividend of SEK 1.60 per share	SEK 330,025,493 ¹⁾
– Extra dividend of SEK 10.00 per share	SEK 2,062,659,330 ¹⁾
To be carried forward	SEK 1,259,071,556
	<hr/>
	SEK 3,651,756,379

1) See Definitions, page 81, Dividend.

The undersigned 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 8, 2007

Fredrik Lundberg
Chairman

Claes Boustedt

Bengt Braun

Peter Egardt

Hans Mertzig

Sten Peterson

Anna-Greta Sjöberg

Ivo Stopner
President

My audit report was submitted on February 8, 2007

Bo Ribers
Authorized Public Accountant
KPMG

Auditors' Report

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

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Hufvudstaden AB (publ) for the financial year 2006. The Company's annual accounts and consolidated accounts are included in the printed version of this document on pages 42–70. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS, as adopted by the EU, and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

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

President. I also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles or 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 had been prepared in accordance with the international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual meeting of the shareholders that the Income Statement 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 8, 2007

Bo Ribers
Authorized Public Accountant
KPMG

Board of Directors and Auditors

The Board consists of eight members, without any deputies, all elected at the Annual General Meeting. The members include persons who have links with Hufvudstaden's largest shareholders Lundbergs and SEB Trygg Liv. The President is also a member of the Board. Other executives in the Company take part in Board meetings to present specific points. During the 2006

financial year, the Board held seven meetings, of which one was a statutory meeting. The work of the Board is in compliance with the rules of procedure adopted by the Board governing the undertakings of the President and the Board and the allocation of duties between the Board and the President.

Fredrik Lundberg

Born 1951. MSc, MBA Honorary PhD in Economics, Honorary PhD in Engineering. Chairman, board member since 1998. President and CEO of L E Lundbergföretagen AB. Chairman of Holmen AB and Cardo AB. Board member of L E Lundbergföretagen AB, Handelsbanken, AB Industrivärden, NCC AB and Sandvik AB. Holding in Hufvudstaden: 1,659,412 shares.

Bengt Braun

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

Hans Mertzig

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

Anna-Greta Sjöberg

Born 1967. MBA. Board member since 2006. Senior Director, Royal Bank of Scotland, Nordic Branch as well as Vice President of Nordisk Renting AB. Board member of LKAB. Holding in Hufvudstaden: –

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.

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 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.

Sten Peterson

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

Ivo Stopner

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

Secretary

Sten-Åke Stenshamn

Born 1944. Lawyer at Landahl Öhman Advokatbyrå KB. Secretary to the Board since 2001.

Auditors

Bo Ribers

Born 1942. Authorized Public Accountant, KPMG. Auditor to the Board since 1999.

Stefan Älgne

Born 1955. Authorized Public Accountant, KPMG. Deputy auditor to the Board since 2000.



*During 2006 the Hufvudstaden Board of Directors comprised:
Hans Mertzig, member. Ivo Stopner, President. Bengt Braun, member. Fredrik Lundberg, Chairman. Sten Peterson, member.
Anna-Greta Sjöberg, member. Peter Egardt, member. Claes Boustedt, member.*

*President and
Senior Executives*



Ivo Stopner

Born 1962. MSc.

*President,
employed 1990.*

*Holding in Hufvudstaden:
3,300 shares (including family).*

*Ivo Stopner has
no material shareholdings or
partnership in companies
with which the Company
has significant
business relations.*



Magnus Jacobson

Born 1958. MBA.

*Head of Finance,
employed 2002.*

Holding in Hufvudstaden: -



Sverker Källgården

Born 1968. MSc.

*Head of the NK Business Area,
employed 2005.*

Holding in Hufvudstaden: -



Ingela Lispers
Born 1958. MBA.
Head of the Stockholm City
West Business Area,
employed 2002.
Holding in Hufvudstaden: –



Eric Nihlmark
Born 1952. MSc.
Head of the Gothenburg
Business Area,
employed 1983.
Holding in Hufvudstaden:
700 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.

Property designations of 31-12-2006	Address	Site area, sq. m	Year of purchase	Year of construction/ redevelopment	Tax assessment value 2006, SEK m
Stockholm City East Business Area					
<i>Normalmstorg Management Area</i>					
Achilles 1 ¹⁾	Slussplan 5-9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th century/1974	110.0
Kungl Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	74.0
Kvasten 2	Norrandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	146.0
Kvasten 6 ²⁾	Biblioteksgatan 5, Mäster Samuelsgatan 6-8	2,075	1915	1917/90	217.2
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5-9	822	1955	1978/95	143.7
Kåkenhusen 39	Kungsgatan 4 A-B-10, Brunngatan 5-9, Norrandsgatan 29	3,788	1921	1926/28/30/84/85/89/91	531.0
Medusa 1 ^{2) 3)}	Kornhamnstorg 61, Slussplan 1-3, Järntorgsgatan 6	547	1980	1878/1991	54.6
Norrmalm 2:62 ⁴⁾	Norrmalmstorg, Café Palmhuset	0	1992	1993	5.8
Packarhuset 4 ^{2) 5)}	Norrmalmstorg 1, Hamngatan 8, Norrandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	417.0
Pumpstocken 10 ^{2) 6)}	Birger Jarlsgatan 13-15, Mäster Samuelsgatan 2-4, Biblioteksgatan 10-12, Jakobsbergsgatan 1-3	2,886	1917/78/ 1991/2000	1865/97/1901/29 1984/96/97/2006	545.8
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	108.0
Rännilen 11	Biblioteksgatan 6-8, Mäster Samuelsgatan 5	775	1958	1902/85	109.0
Rännilen 18 ²⁾	Birger Jarlsgatan 7-9, Smålandsgatan 8-10	1,677	1963	1888/1986	301.0
Rännilen 19	Norrmalmstorg 14, Biblioteksgatan 2-4, Mäster Samuelsgatan 3	1,544	1931/39	1902,1964/90	348.0
Skären 9	Smålandsgatan 20, Norrandsgatan 10	2,195	1917	1984/2001	428.0
Vildmannen 7 ²⁾	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	150.0
Total, Stockholm City East Business Area		23,092			3,689,1
Stockholm City West Business Area					
<i>Kungsgatan Management Area</i>					
Grönlandet Södra 11	Drottninggatan 92-94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	185.0
Hästhuvudet 13	Sveavägen 21-23, Kungsgatan 40-42, Apelbergsgatan 35-37, Olofsgatan 2-4	1,302	1929/99	1919/32/94/2001	239.0
Järnplåten 28	Sveavägen 24-26, Oxtorgsgatan 18-20, Kungsgatan 39	1,085	1928/54	1958/95	270.0
Oxhuvudet 18 ²⁾	Kungsgatan 32-38, Sveavägen 28-30, Apelbergsgatan 29-33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	865.0
Svärdfisken 2 ²⁾	Drottninggatan 82, Apelbergsgatan 50-52, Olof Palmes Gata 13	1,853	1921	1851/1987	158.0
<i>Total</i>		10,411			1,717.0
<i>Vasagatan Management Area</i>					
Orgelpipan 7 ⁷⁾	Klarabergsgatan 56-64, Vasagatan 24-26, Mäster Samuelsgatan 65-73, Klara Norra Kyrkogata 3-5	6,294	1979	1964/2001	563.0
<i>Parkaden Management Area</i>					
Hästsken 10 ⁸⁾	Regeringsgatan 49-53, Mäster Samuelsgatan 29-33	4,921	1977	1964/95	238.0
Total, Stockholm City West Business Area		21,626			2,518.0
NK Business Area					
<i>Stockholm</i>					
Hästen 19 ²⁾ och 20, Spektern 14 ⁹⁾	Hamngatan 18-20, 29-33, Regeringsgatan 26-32, 36-40	8,875	1998	1915/91	1,414.0
<i>Gothenburg</i>					
Inom Vallgraven 10:9 ¹⁰⁾	Östra Hamngatan 42, Kyrkogatan 54, Fredsgatan 5-7, Drottninggatan 39, 45	4,520	1998	1964/94	337.0
Total, NK Business Area		13,395			1,751.0
Gothenburg Business Area					
Inom Vallgraven 12:8	Drottninggatan 52	395	1967	1875	9.3
Inom Vallgraven 12:10	Södra Hamngatan 49-57, Östra Larmgatan 1, Drottninggatan 54-60	4,167	1967	1975	204.0
Inom Vallgraven 20:4	Kungsgatan 46	982	1974	1914	29.0
Nordstaden 8:24	Postgatan 26-32, Nordstadstorget 6, Spannmålgatan 19, Nils Ericssonsgatan 17	8,404	1979	1972	693.0
Nordstaden GA:5 ¹¹⁾	Nordstadstorget m fl				120.9
Total, Gothenburg Business Area		13,948			1,056.2
TOTAL		72,061			9,014.3
Property sold					
Terminalen 1, Kortbyrån 18	Klarabergsviadukten 70-72, Kungsbron 1	24,722	2000	1989	1,600.8

Rentable space, sq. m

Offices	Stores	Restaurants	Cinemas	Hotels	Storage	Garage	Residential	Other	Total
4,006	351				706				5,063
2,617									2,617
2,843	764				287	792			4,686
3,577	2,743	292			130	444			7,186
2,469	725				261				3,455
11,899	3,017	564			528				16,008
1,275	242	259			99		298		2,173
	61	124							185
10,850	3,269	704			412				15,235
7,744	3,695	423			413		192	1	12,468
2,001	529				85				2,615
1,586	1,387								2,973
5,393	694	774			388				7,249
5,876	1,632				133	1,033			8,674
7,710	1,603				381	1,173			10,867
1,935	643	874			10		900	1	4,363
71,781	21,355	4,014			3,833	3,442	1,390	2	105,817
7,516	377	263			820				8,976
4,957	1,594				242				6,793
6,621	1,588				1,026				9,235
21,505	4,772				1,921	1,953		5	30,156
3,896	175		1,893		383	1,158			7,505
44,495	8,506	263	1,893		4,392	3,111		5	62,665
10,021	3,551	2,270			2,835	13,421		1	32,099
	2,696	512			8,670	24,482		8	36,368
54,516	14,753	3,045	1,893		15,897	41,014		14	131,132
11,528	21,451	1,854			3,630			15	38,478
5,169	9,155	893			1,228			2	16,447
16,697	30,606	2,747			4,858			17	54,925
572	186				147				905
10,266	3,218	404			1,031	1,250			16,169
741	1,690								2,431
20,437	15,944	802			2,267			66	39,516
									0
32,016	21,038	1,206			3,445	1,250		66	59,021
175,010	87,752	11,012	1,893		28,033	45,706	1,390	99	350,895
38,741		3,343		3,467	957	10,934			57,442

Properties

- 1) The property is a listed building.
- 2) The property is classified as being of cultural and historical importance.
- 3) Owned by the subsidiary Fastighetsaktiebolaget Medusa.
- 4) The property is held on a lease.
- 5) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.
- 6) Following property regulation the former properties Pumpstocken 11, 12 and 13 are included.
- 7) 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 277.0.
- 8) 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 86.0 million.
- 9) Owned by the subsidiary AB Nordiska Kompaniet. Hästen 20 och Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 2.5 million and is fixed until May 1, 2010. The ground rent for Spektern 14 is SEK 0.2 million and is fixed until October 1, 2005. The ground rent after October 1, 2005 is the subject of negotiation. Both ground rents are regulated every 10 years. The tax assessment value of the land is included to the amount of SEK 33.0 million.
- 10) Owned by the subsidiary AB Nordiska Kompaniet.
- 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)

	Sthlm City East Business Area				Sthlm City West Business Area				NK Business Area				Gothenburg Business Area				Total			
	2006		2005		2006		2005		2006		2005		2006		2005		2006	2005		
	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m	SEK m	SEK/sq.m		
Gross rent including charge for consumables (of which property tax supplement)	425.9	4,025	422.1	3,997	311.7	2,377	333.1	2,524	312.0	5,680	286.0	5,288	148.8	2,521	144.8	2,457	1,198.4	3,415	1,186.0	3,383
Rent losses on vacant space	-28.2	-266	-36.5	-346	-54.2	-413	-26.1	-197	-14.6	-266	-24.1	-446	-4.3	-73	-3.6	-61	-101.3	-289	-90.3	-257
Bad debt losses	-0.4	-4	0.0	0	-	-	-	-	-0.2	-4	0.3	6	-	-	-0.1	-	-0.6	-2	0.2	0
Net sales	397.3	3,755	385.6	3,652	257.5	1,964	307.0	2,327	297.2	5,411	262.2	4,848	144.5	2,448	141.1	2,396	1,096.5	3,125	1,095.9	3,126
Special projects	-0.1	-1	-4.4	-42	-	-	-	-	-0.1	-2	-0.1	-2	-	-	-	-	-0.2	-1	-4.5	-13
Maintenance	-24.2	-229	-48.4	-458	-22.7	-173	-11.7	-89	-11.2	-204	-18.1	-335	-3.2	-54	-3.4	-58	-61.3	-175	-81.6	-233
Operating costs	-30.2	-285	-31.2	-295	-23.8	-181	-23.7	-180	-68.0	-1,238	-67.6	-1,250	-23.2	-393	-22.5	-382	-145.2	-414	-145.0	-414
Administration	-18.7	-177	-18.0	-170	-9.5	-72	-11.1	-84	-13.8	-251	-15.9	-294	-5.1	-86	-4.8	-81	-47.1	-134	-49.8	-142
Property tax	-39.2	-370	-42.4	-402	-25.2	-192	-22.8	-173	-17.5	-319	-17.5	-324	-10.6	-180	-10.6	-180	-92.5	-264	-93.3	-266
Ground rent	-0.2	-2	-0.2	-2	-12.2	-93	-11.1	-84	-3.7	-67	0.9	17	-	-	-	-	-16.1	-46	-10.4	-30
Depreciation	-	-	-	-	-	-	-0.1	-1	-	-	-0.2	-4	-	-	-	-	-	-	-0.3	-1
Total property expenses	-112.6	-1,064	-144.6	-1,369	-93.4	-712	-80.5	-610	-114.3	-2,081	-118.5	-2,191	-42.1	-713	-41.3	-701	-362.4	-1,033	-384.9	-1,098
Gross operating profit	284.7	2,690	241.0	2,282	164.1	1,251	226.5	1,717	182.9	3,330	143.7	2,657	102.4	1,735	99.8	1,695	734.1	2,092	711.0	2,028

Property data (comparable holdings)

	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Number of properties	16	16	7	8	2	2	4	4	29	30
Floor space, sq. m	105,817	105,596	131,132	189,086	54,925	54,082	59,021	58,930	350,895	407,694
Vacant floor space, %	7.0	12.1	11.2	8.0	6.4	9.9	4.8	3.8	8.1	8.7
Vacant rental space, %	5.1	7.6	11.9	7.7	4.1	7.4	3.3	2.5	6.5	7.1
Total rentable parking spaces	122	131	1,612	1,617	-	-	51	51	1,785	1,799

Rentable space and annual rent

	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		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	Area sq. m	Annual rent, SEK m
December 31, 2006										
Offices	71,781	283.5	54,516	174.0	16,697	46.5	32,016	51.9	175,010	555.9
Stores and restaurants	25,369	126.9	17,798	76.1	33,353	226.7	22,244	78.2	98,764	507.9
Cinemas	-	-	1,893	1.2	-	-	-	-	1,893	1.2
Hotels	-	-	-	-	-	-	-	-	-	-
Storage and miscellaneous	3,835	6.3	15,911	18.7	4,875	12.1	3,511	5.3	28,132	42.4
Garages	3,442	3.7	41,014	39.1	-	-	1,250	1.3	45,706	44.1
Residential	1,390	1.9	-	-	-	-	-	-	1,390	1.9
Total	105,817	422.3	131,132	309.1	54,925	285.3	59,021	136.7	350,895	1,153.4

Floor space vacancy level and vacant rental space

	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	Vacant floor space, sq. m	Vacant rental space, SEK m	Vacant floor space, sq. m	Vacant rental space, SEK m	Vacant floor space, sq. m	Vacant rental space, SEK m	Vacant floor space, sq. m	Vacant rental space, SEK m	Vacant floor space, sq. m	Vacant rental space, SEK m
December 31, 2006										
Offices	5,316	17.5	10,643	32.5	2,226	7.5	2,497	4.3	20,682	61.8
Stores and restaurants	344	1.9	436	1.5	988	3.7	-	-	1,768	7.1
Cinemas	-	-	-	-	-	-	-	-	-	-
Hotels	-	-	-	-	-	-	-	-	-	-
Storage and miscellaneous	932	0.9	2,911	2.3	316	0.6	262	0.2	4,421	4.0
Garages	320	0.4	641	0.6	-	-	75	0.1	1,036	1.1
Residential	501	0.9	-	-	-	-	-	-	501	0.9
Total	7,413	21.6	14,631	36.9	3,530	11.8	2,834	4.6	28,408	74.9

Lease term structure (1) (2) (3)

December 31, 2006

NUMBER OF CONTRACTS	2007	2008	2009	2010	2011	2012 –	Total
Stockholm City East Business Area							
Offices	30	48	40	19	2	4	143
Stores	32	21	22	5	5	5	90
Miscellaneous	165	55	38	5	5	10	278
Total	227	124	100	29	12	19	511
Proportion %	44.4	24.3	19.6	5.7	2.3	3.7	
Stockholm City West Business Area							
Offices	17	20	27	8	2	1	75
Stores	12	11	14	3	1	–	41
Miscellaneous	125	57	45	11	5	4	247
Total	154	88	86	22	8	5	363
Proportion %	42.3	24.3	23.7	6.1	2.2	1.4	
NK Business Area							
Offices	9	8	7	5	–	–	29
Stores	39	54	44	9	2	1	149
Miscellaneous	65	30	42	11	–	1	149
Total	113	92	93	25	2	2	327
Proportion %	34.6	28.2	28.4	7.6	0.6	0.6	
Gothenburg Business Area							
Offices	5	7	17	15	4	–	48
Stores	17	15	25	6	1	5	69
Miscellaneous	41	44	23	6	1	1	116
Total	63	66	65	27	6	6	233
Proportion %	27.0	28.3	27.9	11.6	2.6	2.6	
Hufvudstaden, total							
Offices	61	83	91	47	8	5	295
Stores	100	101	105	23	9	11	349
Miscellaneous	396	186	148	33	11	16	790
Total	557	370	344	103	28	32	1,434
Proportion %	38.8	25.8	24.0	7.2	2.0	2.2	
ANNUAL RENT, SEK m							
Stockholm City East Business Area							
Offices	28.8	67.9	48.9	61.9	9.6	58.3	275.4
Stores	36.3	19.0	24.4	7.1	2.8	22.2	111.8
Miscellaneous	6.1	6.7	5.6	–	4.5	0.6	23.5
Total	71.2	93.6	78.9	69.0	16.9	81.1	410.7
Proportion %	17.3	22.8	19.2	16.8	4.1	19.8	
Stockholm City West Business Area							
Offices	27.2	38.1	46.8	14.5	14.0	3.5	144.1
Stores	22.2	18.2	19.9	1.4	2.9	–	64.6
Miscellaneous	17.2	8.3	31.3	1.4	0.2	2.2	60.6
Total	66.6	64.6	98.0	17.3	17.1	5.7	269.3
Proportion %	24.7	24.0	36.4	6.4	6.4	2.1	
NK Business Area							
Offices	7.0	4.7	10.0	15.5	–	–	37.2
Stores	40.7	73.5	63.2	17.8	12.4	6.0	213.6
Miscellaneous	7.0	3.9	6.3	4.7	–	0.1	22.0
Total	54.7	82.1	79.5	38.0	12.4	6.1	272.8
Proportion %	20.1	30.1	29.2	13.9	4.5	2.2	
Gothenburg Business Area							
Offices	0.9	8.0	17.2	18.0	4.1	–	48.2
Stores	15.5	13.3	24.0	8.6	1.0	10.1	72.5
Miscellaneous	3.6	2.4	3.3	0.3	1.0	0.3	10.9
Total	20.0	23.7	44.5	26.9	6.1	10.4	131.6
Proportion %	15.2	18.0	33.8	20.4	4.7	7.9	
Hufvudstaden, total							
Offices	63.9	118.7	122.9	109.9	27.7	61.8	504.9
Stores	114.7	124.0	131.5	34.9	19.1	38.3	462.5
Miscellaneous	33.9	21.3	46.5	6.4	5.7	3.2	117.0
Total	212.5	264.0	300.9	151.2	52.5	103.3	1,084.4
Proportion %	19.6	24.4	27.8	13.9	4.8	9.5	

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

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

3) Excluding residential leases.



NK Gothenburg, Östra Hamngatan.



Södra Hamngatan, Gothenburg.



NK Gothenburg, Fredsgatan.



Viktoria, Kungsgatan, Gothenburg.

Definitions

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

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

Average number of full-time 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 value of the number of outstanding shares during the year.

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

Capital employed. Capital employed refers to total assets less non-interest-bearing liabilities and deferred tax liabilities.

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

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

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

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

Comparable property holdings. Properties acquired during the year recalculated at the full-year value. Properties sold are excluded.

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

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

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

Dividend. The total dividend is calculated on the total number of outstanding shares as of the date on which the annual accounts are published. The amount could change depending on any buy-back of Company shares during the period up to the record date.

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

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

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

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

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

Gross margin. Gross profit in relation to net sales.

Gross rent. Gross rent is defined as the contracted rent and includes the estimated market rent for vacant premises.

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

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

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

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

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

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 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 issued shares during the year.

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

Property tax supplement. Reimbursement of property tax by 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.

Addresses

Hufvudstaden AB (publ)

NK 100

SE-111 77 STOCKHOLM

Visiting address: Regeringsgatan 38

Telephone: +46-8-762 90 00

Fax: +46-8-762 90 01

E-mail: info@hufvudstaden.se

Website: www.hufvudstaden.se

Company reg. no.: 556012-8240

Registered office: Stockholm

Gothenburg

Hufvudstaden AB (publ)

Kyrkogatan 54

SE-411 08 GOTHENBURG

Telephone: +46-31-710 21 00

Fax: +46-31-710 21 88

E-mail: info@hufvudstaden.se

Website: www.hufvudstaden.se

NK Department stores

NK Stockholm

NK 100

SE-111 77 STOCKHOLM

Visiting address: Hamngatan 18-20

Telephone: +46-8-762 80 00

Fax: +46-8-762 90 89

Website: www.nk.se

Other operations

Parkaden AB

NK 100

SE-111 77 STOCKHOLM

Visiting address: Regeringsgatan 47

Telephone: +46-8-762 92 00

Fax: +46-8-762 92 01

E-mail: info@parkaden.se

Website: www.parkaden.se

NK Gothenburg

NK 331

Drottninggatan 39

SE-411 07 GOTHENBURG

Visiting address: Östra Hamngatan 42/

Fredsgatan 5

Telephone: +46-31-710 10 00

Fax: +46-31-710 11 79

Website: www.nk.se



Sveavägen/Kungsgatan, Stockholm.

