

HUFVUDSTADEN

2014



# BIBLIOTEKSTAN

*Hamngatan, Stockholm*



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

# Hufvudstaden 100 years

2015 will be very much a year of celebration at Hufvudstaden. On September 20 it will be 100 years to the day that Ivar Kreuger and his colleagues founded the Company, which after just two years became the largest privately owned property company in Sweden.

During the 100 years that have passed since then, Hufvudstaden has succeeded in surviving two world wars, depressions, a stock market crash, stringent political controls and, not least, the crisis that followed the Kreuger Crash of 1932.

The core of the Company's holdings has shifted from residential properties to office and retail prop-

erties and the concentration reflects a clear focus on central locations in Stockholm and Gothenburg.

The following pages contain a number of the key milestones during Hufvudstaden's 100-year history. At the end of the Annual Report, on pages 103–121, you will find a more detailed account of the Company's eventful history. The chairman Fredrik Lundberg and the president Ivo Stopner are interviewed about the Hufvudstaden of today and their thoughts about the future. Accompany us on a journey through time.





**1915** Hufvudstaden was founded on September 20 under the leadership of Ivar Kreuger. The first building, Kvasten 6 on the corner of Mäster Samuelsgatan /Biblioteksgatan, was constructed under the Company's auspices.



**1917** Hufvudstaden's most active year – 24 properties in Stockholm were acquired and three of them still remain part of the Company's holdings: Pumpstocken 10, Rännilen 8 and Skären 9. One of the acquisitions was the large agricultural property Viksjö Gård, which supplied Hufvudstaden with wood during the war.



**1919** *Svensk Filmindustri* (SF) was founded and construction began on the Filmstaden studios in Råsunda. SF maintained close links with Hufvudstaden until it was sold in 1974.

**1933** Hufvudstaden was saved following the Kreuger Crash thanks to the determination of Ernst C:son Herslow, a director of Skandinaviska Banken.



**1938** Hufvudstaden was listed on the stock exchange with Custos as the unchallenged parent company right up until the middle of the 1990s.

**1942** Rent controls were introduced. Together with the building controls that were in force during these critical times, they continued to characterize the market in Stockholm for the next three decades.

**1963** Hufvudstaden purchased the historic Birger Jarlspassagen. In 1966, Gul & Blå opened its first store in this small shopping precinct – located between

Birger Jarlsgatan and Smålandsgatan – and proved to be a major success.

**1965** Hufvudstaden was involved in the construction of Parkaden, one of the first multi-storey car parks in Stockholm. The building, which was completed in 1965, was designed by Hans Asplund and has become renowned for its graphically distinct facade with figures denoting the different floors. Hufvudstaden later acquired the entire building, which now has 800 parking spaces.

**1970** Hufvudstaden built Sweden Tokyo Centre, marking the beginning of almost 30 years of foreign investment.

**1972** The City Plan for Stockholm, which involved extensive demolition, was gradually set aside and market rents were reintroduced for office and retail premises. This resulted in a major upturn for property management and leasing.

**1978** Following a wave of demolition, there was a turnaround in the trend in the centre of Stockholm and Hufvudstaden was able to build its first new property in two decades – on the Kvasten block on Biblioteksgatan. A couple of years later the next new construction was completed – the building at Smålandsgatan 18 on the Skären block.

**1979** The Company acquired Bygg-Oleba's properties, including Orgelpipan 7 on Klarabergsgatan, Achilles 1 in Gamla Stan and Femman in Gothenburg.

**1982** At the beginning of the 1980s, newly constructed properties were a growing investment area even outside



the inner city areas of Stockholm. In collaboration with the newspaper Dagens Nyheter, Hufvudstaden constructed a 37,000 square metre office and industrial property in the Marievik area of Liljeholmen.

**1984** The purchase by Hufvudstaden of properties owned by Swedish Match included a number of properties abroad. For over 10 years, Hufvudstaden invested heavily in its foreign holdings, acquiring, renovating and constructing properties in Paris, London and Berlin.

**1997** As part of its future ambition to focus solely on Sweden, Hufvudstaden decided to separate its Swedish property holdings from its foreign holdings.

**1998** Hufvudstaden acquired NK Cityfastigheter, which marked the beginning of an intensified period of investment in the retail sector. At the same time, Lundbergs took over as the long-term majority shareholder with a business plan that involved an even greater focus on offices and shops in prime locations in Stockholm and Gothenburg. Hufvudstaden also moved its head office from Norrmalmstorg to the NK building in Stockholm.

**2000** After 70 years, one of Stockholm's most sought-after properties came onto the market: Norrmalmstorg 1, also known as Citypalatset. The building was purchased by Hufvudstaden during the autumn and extensive renovation commenced.

**2004** The properties around Biblioteksgatan had been built on a former seabed

and after 100 years the foundations needed to be reinforced. Hufvudstaden spent seven years and SEK 300 million on foundation work in the area and on developing the basements to create new retail space.

**2010** The term Bibliotekstan was coined for the first time for the blocks around Biblioteksgatan between Norrmalmstorg and Stureplan. In Gothenburg a development project began in Nordstan with the extension of the Femman building, adding a further 5,000 square metres of office space.

**2011** Hufvudstaden added to its holdings on the Kåkenhusen block with the purchase of a property on Norrlandsgatan.

**2012** The establishment of prestige brands in Stockholm continued with Ralph Lauren opening on Biblioteksgatan and Prada on the corner of Birger Jarlsgatan and Mäster Samuelsgatan.

**2013** In Bibliotekstan, Wienercaféet reopened in meticulously renovated premises. In Gothenburg the holdings were expanded following the acquisition of the Fyran property. This resulted in Hufvudstaden owning around 40 per cent of the Nordstan Shopping Centre. At the same time, work commenced on developing a collective vision for a modern, attractive shopping area in central Gothenburg.

**2015** Hufvudstaden celebrates its 100th anniversary.





# NORDISKA KOMPANIET

*Östra Hamngatan, Gothenburg*

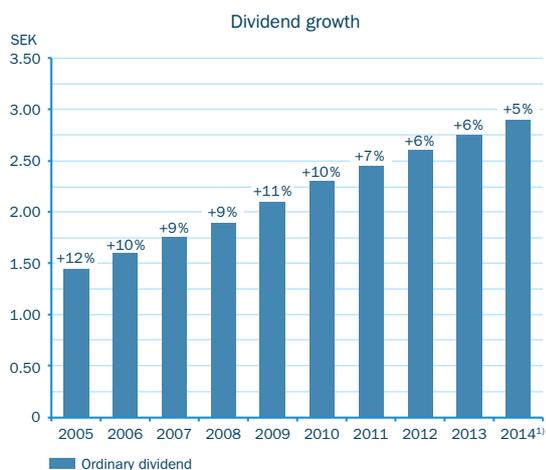
# Year in brief

- The gross profit from property management amounted to SEK 1,145 million (1,135). The increase can be attributed mainly to higher rents.
- The profit for the year before tax increased by SEK 114 million and totalled SEK 2,521 million (2,407). The increase in profit can be attributed to higher unrealized changes in value in the property holdings.
- The profit for the year after tax totalled SEK 2,001 million (1,876), equivalent to SEK 9.70 per share (9.10).
- The Board proposes an increase in the dividend to SEK 2.90 per share (2.75).
- The fair value of the property holdings at the turn of the year was SEK 27.8 billion (25.9), equivalent to a net asset value of SEK 100 per share (92).
- The rental vacancy level at the year-end was 5.6 per cent (4.0).

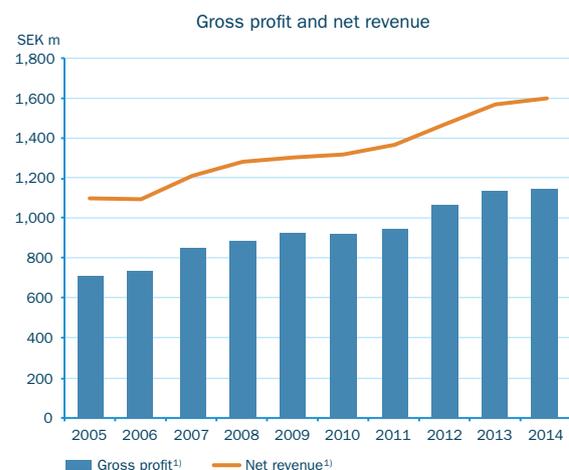


## Financial summary (SEK m)

	2014	2013
Net revenue, property management	1,596	1,573
Gross profit, property management	1,145	1,135
Changes in value	1,523	1,418
Operating profit	2,650	2,534
Profit for the year	2,001	1,876
Net profit from current operations	778	772
Fair value, properties, SEK bn	27.8	25.9
Rental vacancy level, %	5.6	4.0
Net loan-to-value ratio, properties, %	18.6	20.3
Interest coverage ratio, multiple	8.5	8.3

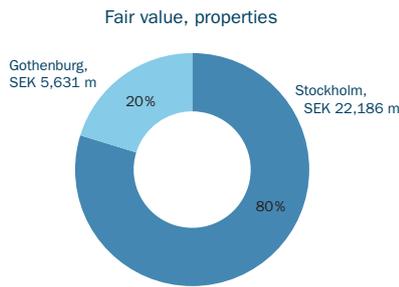


1) According to a proposal by the Board.



1) Property management, excluding discontinued operations

# Hufvudstaden in summary



## Vision and aim

Hufvudstaden's vision is to be consistently perceived as and prove to be the most attractive property company in Sweden and its aim is to have the most satisfied customers in the industry. To measure this, we take part in the annual *Fastighetsbarometern* survey, where we have been named as one of the top

We are well positioned for the future with holdings concentrated in two of the foremost growth regions in Sweden. Hufvudstaden has a solid financial position, with a low loan-to-value ratio and good earning capacity. This gives us the opportunity to continue to develop our properties and to generate a good return with limited risk for shareholders.

Hufvudstaden is a property company that owns and manages 28 properties, located in the most attractive, central parts of Stockholm and Gothenburg. At the end of 2014, the total fair value of the properties was SEK 27.8 billion.

The holdings comprise commercial properties with largely office and retail tenants. The holdings are divided between three business areas: Stockholm City East, Stockholm City West and Gothenburg. The office tenants are to be found in sectors such as banking, finance, law, IT, media and recruitment. Store tenants include internationally known brands as well as Swedish retail chains.

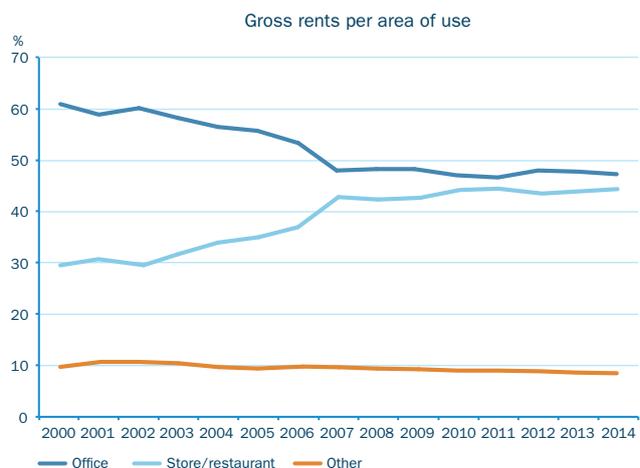
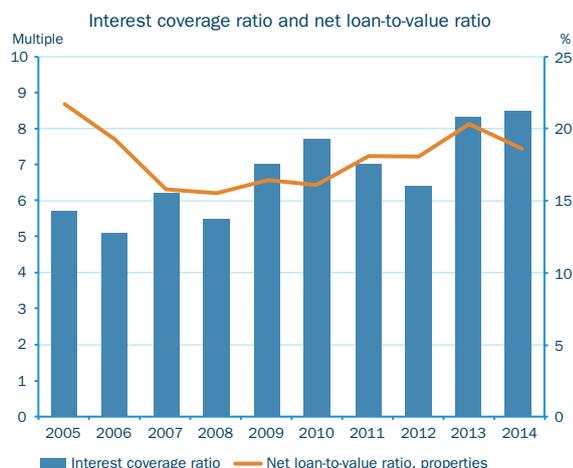
The Group also includes the wholly owned subsidiary AB Nordiska Kompaniet, which owns the NK brand and which has department stores in Stockholm and Gothenburg.

“*We are endeavouring to improve our operations from an environmental and sustainability perspective*”

companies for the past five years. We focus on providing our customers with a high level of service that requires close collaboration with our tenants. All the properties are within walking distance of our offices and we have our own operating technicians who look after and maintain the properties.

## Sustainable development

Long-term thinking characterizes the way we manage our properties. We endeavour to create flexible premises that allow us to develop and improve our operations from an environmental and sustainability perspective.



# 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 prove to be the most attractive property company in Sweden.

## Business concept

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

## Financial objectives

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

## Operating objectives

Hufvudstaden will:

- gradually increase profit from current operations.

- have the most satisfied customers in the industry.
- have the most developed property holdings in the industry.
- have the most professional personnel in the industry, with firm commitment to the customer, good business acumen and professional know-how.

## Strategies to achieve the objectives

*Customer focus.* Hufvudstaden will work in close collaboration with its customers and 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.

*Competence development.* Systematic development of the knowledge and skills of the personnel will be ensured with a focus on professional knowledge and values.

*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 share dividend will be SEK 598,2 million, equivalent to 77 per cent of the net profit from current operations.

- The equity ratio at the end of 2014 was 59 per cent.

### Operating objectives

- Net profit on current operations increased by 1 per cent during the year.
- Hufvudstaden takes part in the annual *Fastighetsbarometern* survey to determine the level of customer satisfaction among office tenants. In this year's survey, we came out top.
- During the year, Hufvudstaden developed its existing property holdings. Extensive upgrading has commenced in the Femman Shopping Precinct. Planning and enquiry work has taken place during the year and development will commence at the beginning of 2015. On the Hårbärg block, detailed planning work has commenced to reinforce the retail trade and create new offices. In addition, there has been adaptation of approximately 26,000 square metres of floor space for new and existing tenants.
- The Company has conducted an employee survey. The response rate was high and the results show that the majority of our employees are satisfied or very satisfied with their working situation. We also scored highly in the Attractive Employer Survey conducted by the Institute of Human Resource Indicators.



1) According to a proposal by the Board of Directors



# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*



# Statement by the President

## **100 years of successful enterprise**

In September 1915, during the First World War, Hufvudstaden was founded by Ivar Kreuger. The business concept was as simple and clear then as it is now. Prime location, high quality and long-term thinking proved to be the watchwords from the very outset.

During its long history, the Company has weathered crises and benefitted from the business opportunities that emerged in their wake. The Company realized at an early stage the importance of good financial order and a strong balance sheet.

100 years later we can see that Hufvudstaden has developed into a vibrant property company with unique holdings in prime locations in Stockholm and Gothenburg. Even if we are proud of our history our sights are set firmly on the future.

## **Unique property holdings**

Hufvudstaden today is Sweden's and one of Europe's most specialized companies in high-quality, commercial properties in prime locations – and within walking distance of all its customers.

The holdings over the decades have been gradually developed and adapted to satisfy the latest market requirements. The buildings have been carefully renovated and modern technology has been installed. Architectural values have been preserved although at the same time the floor space has been developed into efficient and attractive office and retail premises.

The properties are located in two cities that report the highest rate of growth in Europe. Major infrastructural investments are planned that will in time generate increased purchasing power in our marketplaces and new development opportunities for our buildings.

Whilst we may not be the biggest on the property market our floor space is among the most valuable in Sweden.

## **Global uncertainty benefits**

### **Swedish properties**

Global development during the year has been marked by financial and geopolitical uncertainty.

The eurozone has been under strain for several years and once again it has been put to the test following extensive international sanctions against Russia. Germany, which for several years has been the leading economy, has begun



to feel the effects of a fall in exports and a slowdown in growth.

Even if the economies in the USA and the United Kingdom have continued to recover and China's growth is proceeding according to plan, there are still lots of question marks hanging over future development in various corners of the world.

The Swedish economy has been stable with a reasonable rate of growth of just over 2 per cent. Employment has been rising for several years and unemployment fell slightly towards the end of the year. Even if exports were weak, this was balanced by a strong service sector and an increase in domestic consumption.

The already low interest rates were consolidated even further when the Swedish Central Bank reduced the key rate to a record-low 0 per cent during the autumn. This made the Swedish property sector even more attractive with an upturn in the number of transactions and rising values as a result.

## **Strong property market**

The Swedish property market is among the most transparent and liquid in Europe. There were a record number of transactions during the year, worth in excess of SEK 155 billion and surpassing the previous record figure from 2008.

The rental market has developed positively with a slight increase in rents and low levels of vacant space in both Stockholm and Gothenburg. Access to capital in the property sector was good and financing via the banking system and the capital market has worked well.

The extremely low interest rates in combination with a lack of attractive alternative investment opportunities have led to keen competition for the properties that did come onto the market, which has led to a fall in yield requirements.

Hufvudstaden's property holdings were valued at SEK 27.8 billion (25.9) at the year-end, an increase of 7 per cent. The increase can be attributed to falling yield requirements and rising rents. The net asset value at the year-end was SEK 100 per share and the share price was SEK 101.6.

## **Positive trend in the retail trade**

Low interest rates and a good rate of growth on the stock market have fuelled consumption, benefitting the retail trade and driving up rents for retail properties.

Turnover at Hufvudstaden's NK department stores has shown positive growth for several years and for the first time it has exceeded SEK 3 billion, representing a record turnover at both stores.

The strong interest in establishing operations in Bibliotekstan has continued. The international brand Michael Kors opened its first store in Scandinavia on Biblioteksgatan and it plans to increase its floor space even further during 2015.

#### **Improved potential through projects**

In line with the growth of the city regions and development of the infrastructure, new opportunities are being created for us to develop our properties in a variety of ways, including extensions.

Hufvudstaden has identified possible development projects in both Stockholm and Gothenburg, representing an investment of SEK 2–3 billion. Certain projects are already underway, others are at the local planning stage and some are still at the enquiry stage.

There is significant potential and the yield is expected to be higher than when, for example, we acquire properties in times of stiff competition. Investment is expected to fall within the framework of our strong balance sheet and the low level of risk in the Company will be retained.

During the year extensive development commenced of the Femman Shopping Precinct in Nordstan in Gothenburg. The project will be completed in 2016/2017 and is expected to attract high-class Swedish and international brands.

In the prime commercial location beside NK Gothenburg, Hufvudstaden has been working with the city authorities to commence local planning of the Härbärgat block, which will allow the addition of new development rights. The aim is to vitalize the city centre by adding an appropriate mix of attractive workplaces and interesting stores. The planning process is expected to continue until 2016.

#### **Responsible enterprise**

Sustainability work at Hufvudstaden is founded on strategies and values. We assume long-term responsibility at all stages in our operations, not only in terms of financial development but also with regard to environmental and social issues.

“  
*Even if we are proud of our history our sights are set firmly on the future*”

Energy use has for several years been at a considerably lower level than the average for non-residential premises. At Orgelpipan 7 in Stockholm an extensive upgrade of the ventilation system is taking place that will reduce energy use in the property by around 30 per cent.

Two properties were certified during the year according to the *Miljöbyggnad* system and several green leases have been signed. Staff receive continuous training in sustainability issues and work on producing a Code of Conduct continued during the year.

Hufvudstaden's environmental programme has been approved for investment in the Swedbank Robur Sustainability Funds and we have once again emerged as one of the foremost property companies in the Nordic region in the international climate survey Carbon Disclosure Project.

During the year, Hufvudstaden came first in the *Fastighetsbarometer* Satisfied Customer Index. We have been among the top companies for several years in both the Satisfied Customer Survey and the Satisfied Employee Survey, giving us valuable feedback in our endeavour to build up a sound and sustainable corporate culture.

#### **Results for the year**

Hufvudstaden can report stable growth in profit. The gross profit was SEK 1,164 million (1,153).

The increase can be attributed largely to a rise in rents in conjunction with new leases and renegotiations. At the same time, vacant space has increased slightly as a result of project work and a small number of major and long-standing office tenants choosing to relocate.

The pre-tax profit was SEK 2,521 million (2,407), which can be accredited to a positive change in value of the property holdings of SEK 1,709 million. (1,358).

#### **The future**

Hufvudstaden has properties in two of the most rapidly growing regions in Europe, with unique positions on the market and with very good development potential in both the office and retail segments.

Our ambition is to continue to improve current operations and at the same time increase the rate of property development to ensure that the greatest possible potential can be derived from the holdings.

We will continue to focus on central locations in Stockholm and Gothenburg. In our estimation it is these areas in particular that offer the most interesting potential for expansion. Acquisitions that complement existing holdings cannot be excluded.

Hufvudstaden is about to enter its second century of successful business and I am convinced that there are many excellent opportunities in our prioritised markets, which will in time raise the Company's profitability even further.

Finally, I would like to extend my heartfelt thanks to all the skilled and knowledgeable staff at Hufvudstaden for their extremely valuable work during the past year. I view the future with great confidence and anticipation. 100 years is an excellent beginning!

Stockholm, February 2015

Ivo Stopner  
*President*



# BIBLIOTEKSTAN

*Jakobsbergsgatan, Stockholm*

# NORDISKA KOMPANIET

*Hamngatan, Stockholm*



# Property market

During 2014, economic uncertainty grew in line with increased worldwide geopolitical instability. In Europe, Germany's economic growth showed signs of a slowdown whilst the United Kingdom developed more positively and France and Italy continued to experience structural problems with high levels of national debt, budget deficits and high unemployment. The weak economic situation in Europe has resulted in low utilization of resources and a rate of inflation of just over 0 per cent, which has resulted in a very tangible risk of deflation.

The USA reported an increase in economic growth and there were hopes that the country would contribute to financial recovery throughout the rest of the world. Overall, the global economy during 2014 has improved slowly although it has been hit by a number of unexpected events that have resulted in greater economic volatility.

During the slow and protracted recovery in recent years, the Swedish economy has fared relatively well and is regarded as stable from an international point of view. Growth in GDP during 2014 has been just over 2 per cent, which is in line with the trend throughout the 2000s. Growth was driven pri-

marily by private consumption, service production and investment in housing, which is concentrated to a large extent on the city regions. Unemployment during the year remained at a relatively high level although at the same time employment increased due to a rise in the number of people who are able to work. As is the case in many parts of Europe, the rate of inflation for the year was around 0 per cent.

The general election in the autumn resulted in an uncertain parliamentary situation with a minority government.

In summary, economic development during 2014 has had a positive impact on the Swedish property market. Interest rates and vacant space levels continued to be low whilst market rents have increased, albeit cautiously, resulting in a rise in property prices.

## Hufvudstaden's sub-markets

In Stockholm, Hufvudstaden owns and manages 24 properties, all located in the most attractive, central parts of the city. The properties house modern, high-quality office and retail premises where successful companies have the opportunity to carry on their operations.

The population of Greater Stockholm is 2.2 million and during the past

10 years it has increased by approximately 17 per cent compared to the national figure of 8 per cent. The forecast shows that the population over the next 10 years will continue to increase at roughly the same rate.

Greater Stockholm is often described as the driving force in Sweden and figures from Statistics Sweden indicate that growth measured in terms of gross regional product (GRP) increased by an average of 3.0 per cent per annum during the period 2001–2012, whilst the GDP for the whole country rose by an annual average of 2.0 per cent. The high rate of growth in Greater Stockholm can be explained largely by a very pronounced service sector, including property, finance, IT, communication and corporate services. According to Statistics Sweden, the service sector employs around 29 per cent of the working population. This can be compared to the country as a whole, where employment in this sector is around 19 per cent.

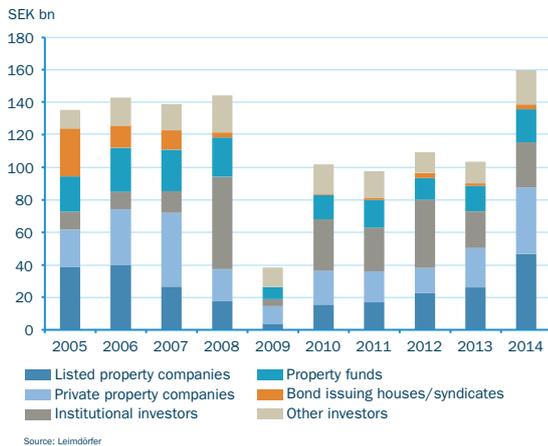
In Hufvudstaden's Gothenburg sub-market, the Company owns four properties. As in Stockholm, the holdings comprise modern, high-quality office and retail premises located in the central parts of the city.



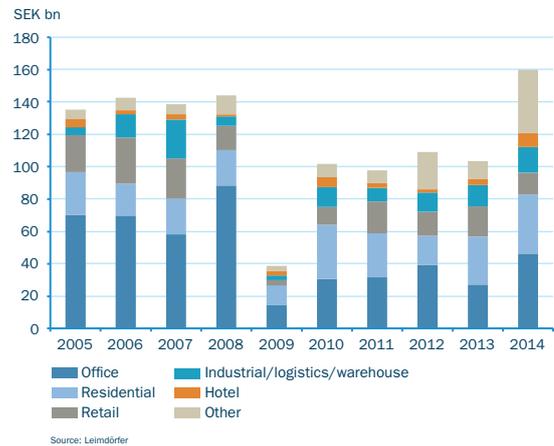
Source: Leimdörfer

Larger property owners in central Stockholm.

Transaction volume in Sweden per investor category



Transaction volume in Sweden according to type of property



The population of Greater Gothenburg is almost 1.0 million. The rate of increase for the past 10 years has been approximately 11 per cent and the forecast is that the population will continue to increase at roughly the same rate over the next decade.

The transformation of Gothenburg, from being what was in the past a distinctly industrial city to a city with a more diversified industrial and commercial

Tourism is becoming increasingly important to the Swedish economy and in particular in the city regions. The most recently published statistics show that tourism in Sweden had a turnover of almost SEK 285 billion in 2013, an increase of around 4 per cent compared to 2012. Accumulated since 2000, tourism has almost doubled. The statistics cannot be broken down to the regional level although figures for the number of hotel nights in Stockholm and Gothenburg show an increase of almost 60 per cent, which can be compared to an increase of around 40 per cent for the country as a whole.

In order to deal with a rising population, infrastructural investment is required. The Swedish Transport Administration has produced a national plan for the transport system for 2014–2025, which was adopted in spring 2014. The plan covers investment of more than SEK 520 billion, of which more than SEK 280 billion refers to the development of the transport system. The spread throughout the country has not yet been decided although it is stated specifically that the city regions, and in particular Stockholm and Gothenburg, will be prioritised. The county plans for Stockholm and Västra Götaland have been assigned 24 per cent and 18 per cent respectively of the regional development allocation.

The national infrastructure projects that are located in Stockholm include the much discussed road project *Förbifart*

*Stockholm*, 21 kilometres in length, of which 18 kilometres is in the form of a tunnel. The road will link the southern and northern parts of Stockholm and will ease the pressure on Essingeleden and the inner city. The cost of the investment is in excess of SEK 30 billion. One of the other major national projects is the planned expansion of the underground system in Stockholm with new lines to Nacka, Barkarbystaden and Arenastaden.

In Gothenburg the largest investment is the West Sweden Package, which comprises the Marieholm Tunnel and the West Link rail tunnel, which includes three stations. The cost of the investment is estimated at almost SEK 40 billion.

The office market in the inner-city areas of Stockholm comprises in excess of 5 million square metres, of which around 1.8 million square metres are located within the CBD. The CBD in Stockholm is made up of the areas around the Central Station, Norra Bantorget, Hötorget, Stureplan, Norrmalmstorg, Kungsträdgården and Sergels Torg.

Largest property owners in the Stockholm CBD

	Rentable floor space sq m
Vasakronan	363,000
Hufvudstaden	267,000
AMF Fastigheter	264,000
Diligentia	128,000
SEB Trygg Liv	102,000
Pembroke Real Estate	91,000
Ramsbury	88,000

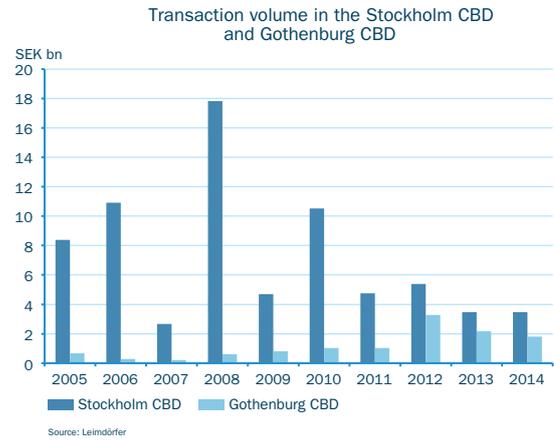
Source: Leimdörfer

base, is continuing. The service sector has increased steadily and according to Statistics Sweden around 21 per cent of people in employment work in this sector, which is a couple of percentage points higher than for the country as a whole. According to Statistics Sweden, growth in Västra Götaland, an area slightly larger than what is normally designated Greater Gothenburg, increased by an average of 2.1 per cent during the period 2001–2012. This means that the rate of growth has been among the highest of all the regions in Sweden.

Largest property owners in the Gothenburg CBD

	Rentable floor space sq m
Vasakronan	269,000
Wallenstam	135,000
Hufvudstaden	104,000
Platzer	72,000
Balder	68,000
Bygg-Göta Göteborg	67,000
Castellum	52,000

Source: Leimdörfer



Hufvudstaden is the second-largest property owner in the Stockholm CBD with rentable floor space for all types of premises totalling 267,000 square metres.

In the Gothenburg area there are approximately 3.2 million square metres of office space, of which around 0.9 million square metres are located in the Gothenburg CBD. Hufvudstaden is the third-largest commercial property owner in the Gothenburg CBD with rentable floor space for all types of premises totalling 104,000 square metres.

A comparison with other major property companies shows that Hufvudstaden holdings are among the most concentrated, both in terms of type of property and geographical location.

### Investor market

Compared to 2013, the transaction volume for the whole of 2014 increased by more than SEK 50 billion to more than SEK 155 billion. This means that the level for the year exceeded the record

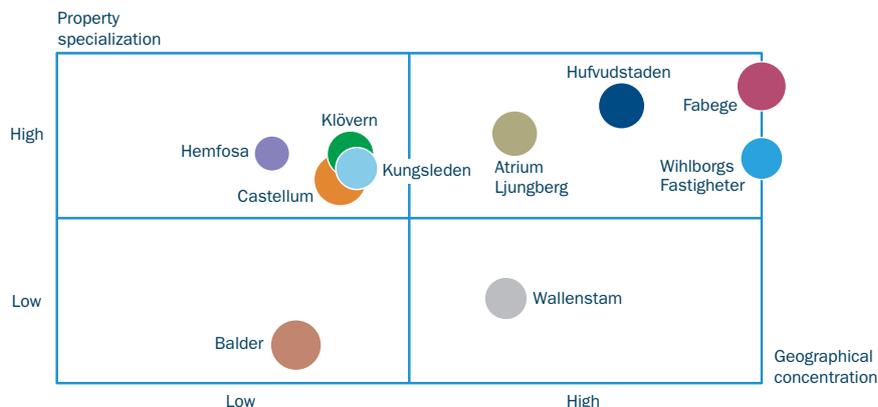
volume in 2008. Properties with a low risk, such as offices in attractive locations and residential properties, continued to account for a large proportion of the total transaction volume. Risk propensity, however, has increased compared to previous years for properties located in slightly more secondary markets. It is mainly Swedish investors, such as institutions, listed property companies and private property investors and property funds that were behind the majority of the property acquisitions.

The greatest level of activity during 2014 was on the Stockholm and Gothenburg markets, where revenue was more than SEK 61 billion and almost SEK 16 billion respectively. Revenue during the previous year on these two sub-markets totalled almost SEK 50 billion and almost SEK 10 billion respectively. In the Stockholm CBD, a small number of transactions took place during 2014. The largest was announced in December when AMF Fastigheter acquired the

Mentorn 1 property from DnB Liv Eienendom for SEK 1,560 million. The property comprises 17,700 square metres of rentable office and retail space. In the Gothenburg CBD, Kungsleden sold an office and retail property comprising 3,000 square metres to Balder for SEK 106 million. In another transaction just outside the Gothenburg CBD, Vasakronan acquired a property under construction from NCC. Following completion, the property will have 20,200 square metres of floor space and the value of the property covered by the transaction was SEK 860 million

The high demand for prime location office and retail properties in the Stockholm CBD and Gothenburg CBD continued during 2014. This has resulted in a fall in yield requirements, which for modern office and retail properties in the Stockholm CBD was between 4.00 and 4.75 per cent at the end of 2014 and in the Gothenburg CBD between 4.25 and 5.00 per cent.

### Positioning among larger listed property companies





stadium

8

stadium

stadium

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**KUNGSGATAN**  
*Stockholm*

## Rental market in Stockholm

### Offices

The slow economic recovery and continued economic uncertainty in various parts of the world have not had any major impact on the office market in Stockholm. Market rents have risen slightly, which could be attributed to the rise in employment and limited availability of modern, space-efficient offices, which are increasingly in demand on the market. In Bibliotekstan rents were noted of between SEK 4,200 and SEK 5,200 per square metre per year, excluding the property tax supplement. Throughout the rest of the CBD, rent levels were between SEK 4,000 and SEK 5,200 per square metre per year, excluding the property tax supplement.

The level of vacant space in central Stockholm continued to be low during 2014. A small number of larger bank and insurance institution tenants chose to transfer their offices to locations outside the centre of Stockholm during the year and one or two more will follow suit within the next couple of years. As a result of these changes, the property owners concerned will carry out extensive investment in these properties, which will result in the upgrading of the office holdings in the CBD, making them even more modern and efficient in terms of use of floor space. Part of these vacant office premises will also be converted for hotel and residential use. During this redevelopment period, the vacation of premises by tenants will not affect the level of vacant space as these offices are not avail-

able for rent apart from on short-term leases. The known future level of vacant space in the Stockholm CBD, including completion of projects, is approximately 215,000 square metres, which is equivalent to around 12 per cent of the office holdings. The proportion of new construction in central Stockholm during the coming year is expected to be low and the growth figures in the Stockholm area are expected to be high, which could in part offset the effect of the relocations.

One of the competitive advantages on the rental market is the ability to offer modern, space-efficient office premises, thus allowing the rental cost per employee to be reduced. The potential to lease large, cohesive office premises in the Stockholm CBD is at present relatively limited. This will have a positive impact on Hufvudstaden, as the Company has property holdings in the area that are close to each other, thus making it possible for our tenants to expand within the existing holdings.

The level of vacant space during the year was 4–5 per cent (4–5) in the CBD, 1–2 per cent (1–2) in Gamla Stan and 3–5 per cent (3–5) in the inner city areas, i.e. Södermalm, Kungsholmen, Vasastan/Norrmalm and Östermalm/Gärdet.

### Stores

The retail trade reports continued positive development during 2014. According

to the retail trade index DHI, sales at current prices increased by 3.4 per cent compared to 2013. The sale of durable goods rose by 4.4 per cent and clothing sales rose by 3.2 per cent. As a result of the positive trend, the demand for well-located retail premises in the most central sub-markets in Stockholm continued to be high during the year. Vacant space

Market rents, December 2014  
(excluding the property tax supplement)

Stockholm	Offices, SEK/sq m per year	Stores, SEK/sq m per year
Bibliotekstan/NK	4,200 – 5,200	14,000 – 22,000
Rest of CBD	4,000 – 5,200	4,000 – 12,000
Östermalm	2,600 – 3,900	3,000 – 9,000
Gamla Stan	2,800 – 3,500	2,500 – 5,000
Södermalm	2,300 – 3,200	2,500 – 5,000
Kungsholmen	2,300 – 3,600	2,000 – 7,000
Liljeholmen	2,000 – 2,400	2,000 – 5,000
Globen	1,700 – 2,400	3,500 – 6,000
Kista	1,800 – 2,400	4,000 – 9,000

Gothenburg	Offices, SEK/sq m per year	Stores, SEK/sq m per year
Inom Vallgraven	2,000 – 3,000	6,000 – 13,000

in prime locations was virtually non-existent and in other areas the vacant space arose primarily as a result of temporary or permanent relocations, which was filled relatively quickly by new tenants. The overall result is maintained or slightly higher rent levels.

Several property owners in central Stockholm, where Hufvudstaden is a major player, are working actively to develop and reinforce city retail trade by

Yield requirement, Stockholm CBD and Gothenburg CBD



Source: Leimdörfer

establishing new, exciting brands. A small number of new stores opened in Bibliotekstan during 2014. In 2015, Michael Kors will open a flagship store in the area.

The most sought-after retail areas are in Bibliotekstan and on Hamngatan, Kungsgatan and Drottninggatan. Bibliotekstan and the NK department store together have a special position as the most exclusive store locations. Rents for prime retail space in these areas are between SEK 14,000 and SEK 22,000 per square metre per year, excluding the property tax supplement.

**Rental market in Gothenburg**

*Offices*

The office rental market in Gothenburg developed positively during 2014. Modern, efficient prime-location office space has been in greatest demand although floor space of this nature is relatively limited in Gothenburg. This has resulted in rising market rents and the rents for these types of premises are between SEK 2,000 and SEK 3,000 per square metre per year, excluding the property tax supplement.

Hufvudstaden is working continuously to develop the properties and the largest future projects include the Härbärgat block, located on Fredsgatan in a prime city location. An extensive project is planned for the whole block, which will result in ultramodern office premises where efficient use can be made of the floor space.

The prime locations for offices in central Gothenburg are considered to be the Inom Vallgraven areas, particularly areas near Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan, Kungssportsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Vacant space in the Gothenburg CBD was around 3–4 per cent (4–5) at the end of the year. As in Stockholm, Hufvudstaden in Gothenburg owns properties that are centrally located in the very heart of the city.

*Stores*

The continued positive development of the retail trade, coupled with a net population influx and a rise in tourism,

has resulted in maintained or slightly increased market rents for stores in Gothenburg. Hufvudstaden has a strong presence in central Gothenburg, including the Femman Shopping Precinct, which will undergo a total upgrade of its store environment. The project will be completed in stages through to 2016/17. There are also plans for a further store project on the Härbärgat block along Fredsgatan, which will allow Hufvudstaden to benefit further from what is a strong inner-city retail sector in Gothenburg.

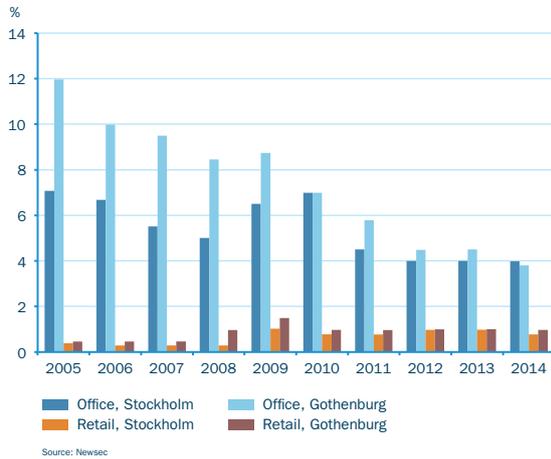
The prime locations for stores in central Gothenburg are considered to be Östra Nordstan, Fredsgatan and Kungsgatan between Östra Hamngatan and Västra Hamngatan. In these locations, rents for prime retail space were between SEK 6,000 and SEK 13,000 per square metre per year, excluding the property tax supplement.



Source: Leimdörfer

Larger property owners in central Gothenburg.

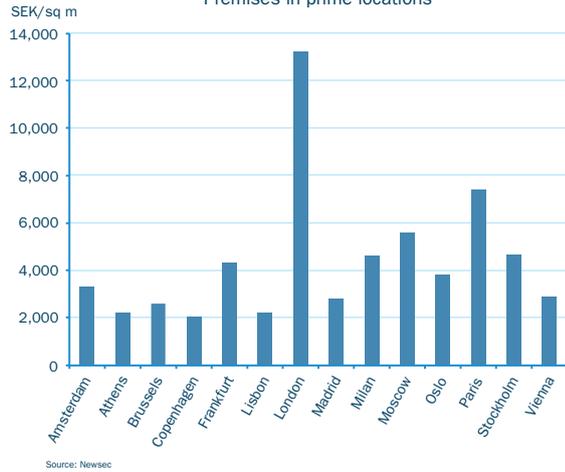
Vacant office and retail space in prime locations



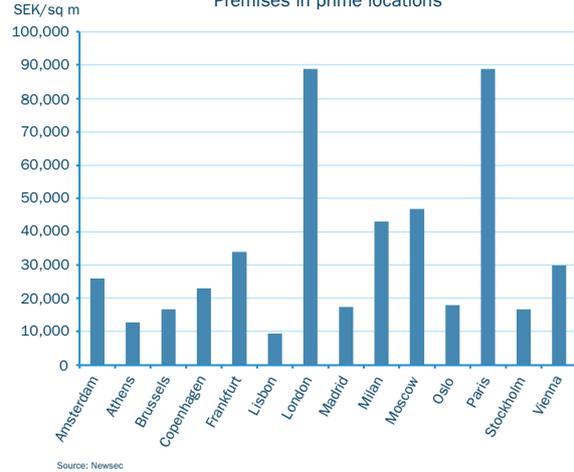
New construction, demand and vacancy level, office premises in Central Stockholm



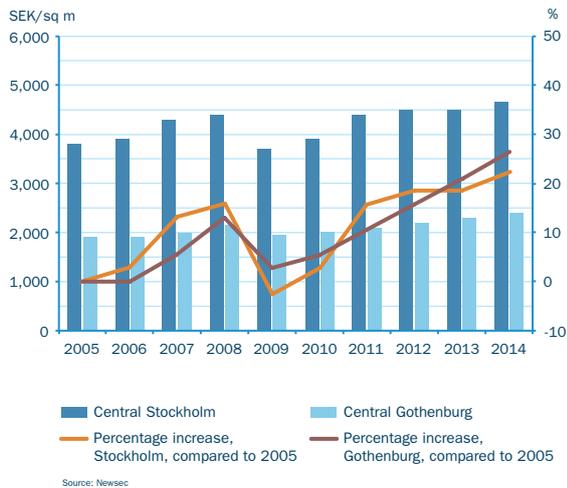
Office rents in European cities, December 2014  
Premises in prime locations



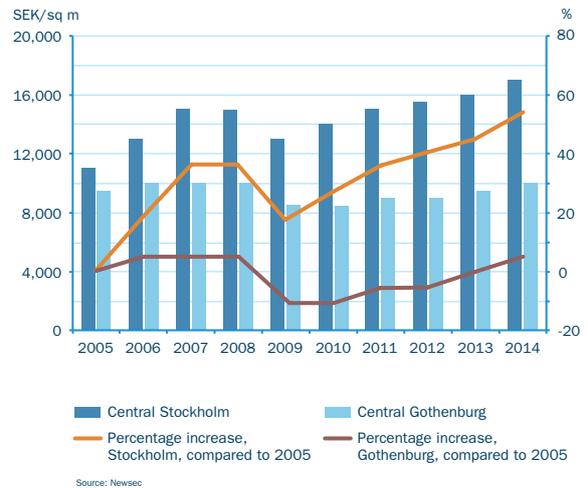
Store rents in European cities, December 2014  
Premises in prime locations



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



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





**NORDSTAN**  
*Spannmålgatan, Gothenburg*

# Shares and shareholders

## Share capital

Hufvudstaden AB was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. At the end of 2014, the share capital amounted to SEK 1,056.4 million with a par value of SEK 5 per share.

## Share structure

Hufvudstaden has two share series, series A and series C. Both series are listed in the large cap list on Nasdaq Stockholm. Series A shares carry one vote per share and series C shares carry 100 votes per share. There is no limit on how many votes each shareholder may cast at a general meeting. Series A shares were listed in 1938, on what was at the time the Stockholm Stock Exchange, whilst series C shares were listed in 1998.

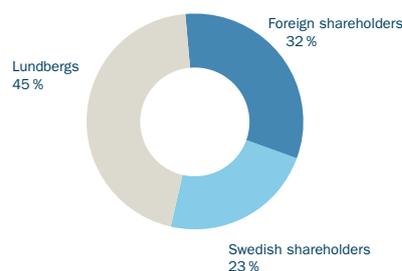
The Articles of Association include what is termed a conversion provision. This means that the holders of series C shares are entitled, if they wish, to request conversion of their series C shares into series A shares. No such conversion took place during the year.

At the end of the year, the total number of outstanding shares was 206,265,933, of which 197,990,869 were series A shares and 8,275,064 were series C shares. In addition, Hufvudstaden held 5,006,000 series A shares.

## Shareholder structure

The number of shareholders at the year-end was 19,558. The largest shareholder was LE Lundbergföretagen AB with 45.3 per cent of the outstanding shares and 88.1 per cent of the votes. The second largest was State Street

## Ownership structure



Source: Euroclear Sweden

Bank and Trust with 6.6 per cent of the outstanding shares and 1.3 per cent of the votes.

As at December 31, 2014, institutions and companies with holdings of 100,000 shares or more held 181,102,991 shares, equivalent to 87.8 per cent of the total number of outstanding shares and 96.6 per cent of the votes. Of these, 63 were Swedish institutions and companies, which together held 119,860,651 shares, equivalent to 58.1 per cent of the outstanding shares and 90.6 per cent of the votes. There were 100 foreign institutions and companies with holdings of 100,000 shares or more. Their holdings amounted to 61,242,340 shares equivalent to 29.7 per cent of the outstanding shares and 6.0 per cent of the votes.

## Ownership structure as at December 31, 2014

	Number of shareholders	Proportion of shareholders, %	Number of issued shares	Proportion of shares, %	
1–	999	15,785	80.7	3,204,095	1.5
1,000–	9,999	3,175	16.2	7,221,697	3.4
10,000–	99,999	430	2.2	12,302,738	5.8
100,000–		168	0.9	183,537,403	86.9
		19,558	100.0	206,265,933	97.6
Hufvudstaden				5,006,000	2.4
Total				211,271,933	100.0

Source: Euroclear Sweden

## Largest shareholder groups as at December 31, 2014

	Series A shares	Series C shares	Total number	Outstanding shares %		Issued shares, %	
				Capital	Votes	Capital	Votes
L E Lundbergföretagen	85,200,000	8,177,680	93,377,680	45.3	88.1	44.2	87.6
State Street Bank and Trust	13,517,952	0	13,517,952	6.6	1.3	6.4	1.3
Citibank	8,244,602	0	8,244,602	4.0	0.8	3.9	0.8
JP Morgan Funds	7,937,239	0	7,937,239	3.8	0.8	3.8	0.8
Mellon Funds	5,935,747	0	5,935,747	2.9	0.6	2.8	0.6
Länsförsäkringar	4,344,514	0	4,344,514	2.1	0.4	2.0	0.4
NTC Wealth	4,319,019	0	4,319,019	2.1	0.4	2.0	0.4
BNP Paribas	3,443,783	0	3,443,783	1.7	0.3	1.6	0.3
AFA Försäkringar	3,345,307	0	3,345,307	1.6	0.3	1.6	0.3
Other shareholders	61,702,706	97,384	61,800,090	29.9	7.0	29.3	7.0
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

Votes (excl. own holdings)	197,990,869	827,506,400	1,025,497,269
Votes (incl. own holdings)	202,996,869	827,506,400	1,030,503,269

Source: Euroclear Sweden

In addition, five Swedish private individuals each held more than 100,000 shares. The number of shareholders increased during the year by 1,225. The proportion of foreign ownership increased during the year from 30.5 per cent to 32.1 per cent of the outstanding shares.

### Buy-back of shares

Since the Annual Meeting in 2003, the Board has had the mandate of the Meeting to buy back series A shares up to a maximum of 10 per cent of all shares in the Company. The mandate was renewed at the 2014 Annual Meeting. At the end of the year, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the issued shares. No shares were bought back during 2014.

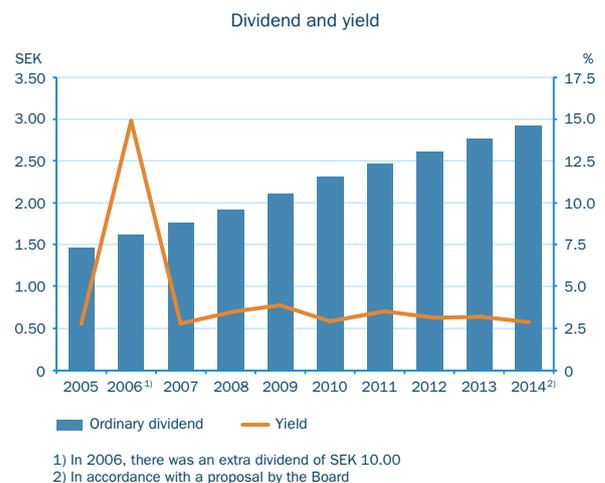
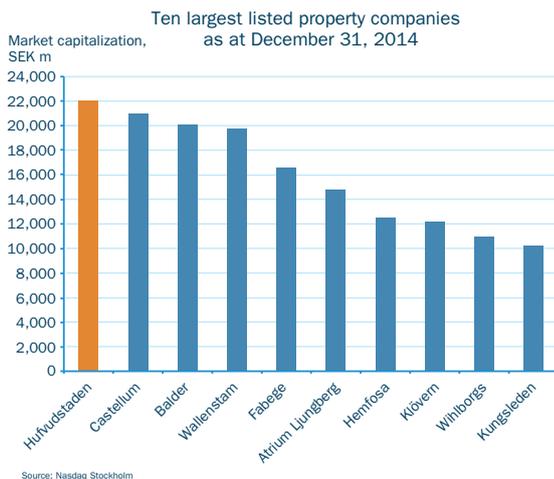
### Market capitalization and trading

At the end of 2014, Hufvudstaden's total market capitalization was SEK 22,073 million. The yield was 2.9 per cent based on the stock market price as at December 31, 2014. During the year, 139 million shares were bought and sold, equivalent to 68 per cent (67) of the outstanding shares. The rate of turnover in relation to the shares available for trading, what is termed free float, was 124 per cent (122). On average, 562,000 Hufvudstaden shares were traded on each trading day (556,000). Since the introduction of the EU's MiFID, trading in Swedish shares is taking place to an increasing extent on marketplaces other than Nasdaq Stockholm. During 2014, 58 per cent (53)

of Hufvudstaden's shares were traded outside the Stockholm Stock Exchange, e.g. Bats 32 per cent, Boat 11 per cent, LSE 8 per cent, and Turquoise 4 per cent. The graph below shows the price trend and trading in Hufvudstaden's series A shares during the year.

### Dividend

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 in general justify a deviation. A dividend of SEK 2.90 per share is proposed for 2014, equivalent to 77 per cent of the net profit from current operations. (See Definitions, page 99, Dividend).



Share price trend, including dividend, and trading in relation to Stockholm Benchmark GI and Stockholm Real Estate GI.



Share price trend, including dividend, and trading during 2014 in relation to Stockholm Benchmark GI and Stockholm Real Estate GI.





# BIBLIOTEKSTAN

*Birger Jarlsgatan/Mäster Samuelsgatan, Stockholm*

# Sustainability and corporate social responsibility

Sustainability at Hufvudstaden is based on our strategies and values. Our work involves assuming long-term responsibility with regard to financial development and environmental and social issues. This creates good conditions for achieving our sustainability objectives in areas such as choice of materials and measures that can be taken to reduce our energy use.

During the year, work has been taking place to draw up a Code of Conduct. The Code of Conduct will be the means by which Hufvudstaden carries on its operations in an ethically, socially and environmentally responsible manner and the way in which we deal with customers, suppliers, partners and our own staff.

Together with the City of Stockholm and the City of Gothenburg, we work actively on issues related to urban development in our immediate environment. As we are one of the larger property owners, there is also the potential to influence the industry with regard to sustainability issues by being actively involved in different organizations and associations.

Hufvudstaden takes part in a number of sustainability surveys, including the Carbon Disclosure Project (CDP) where again this year we have emerged as one of the foremost property companies in the Nordic region. Our environmental work has also been analyzed and approved for investment in the Swedbank Robur Sustainability Funds.

During 2014 we certified two properties according to the Swedish certification system *Miljöbyggnad*. *Miljöbyggnad* is a certification system based on official Swedish building regulations and Swedish building practice. There has also been an increase in the number of tenants requesting green leases. Green leases reinforce collaboration with the tenant and create good conditions for the continued development of our sustainability work.

## Sustainability Report

Our Sustainability Report is drawn up according to the Global Reporting Initiative (GRI) guidelines, G4 on the CORE level. This year's Sustainability Report is the first to be prepared according to GRI G4. We publish a Sustainability Report each year and our most recent report was published in February 2014. The GRI supplement and index can be found on the Hufvudstaden website.

## Stakeholders

### Stakeholder dialogue

It is of crucial importance for Hufvudstaden to be mindful of the expectations of our stakeholders and external parties. Hufvudstaden has identified five main stakeholder categories: tenants, employees, shareholders, suppliers and society. In order to develop our stakeholder dialogue within the sustainability field and to gather valuable views, qualitative, in-

depth interviews were conducted during the year with representatives from four of our main stakeholders. Based on the stakeholder dialogue and consultation with the executive management, we have been able to identify the sustainability aspects that are of greatest importance for Hufvudstaden to report. The table below presents the main issues among stakeholders and the activities within these areas that we have carried out during the year.

### Key sustainability areas

During autumn 2014, we conducted what is termed a materiality analysis, which forms the basis for the information in the Company's Sustainability Report. The purpose of the analysis is to identify prioritized sustainability areas based on the actual impact generated by the Company, the Company's objectives and stakeholders' expectations of the Company. The result is a weighing up of conclusions from the stakeholder dialogue and our in-house process. The following are the most essential reporting areas:

- Business ethics
- Customer relations
- Suppliers
- Energy use
- Climate impact
- Waste management
- Attractive employer

(See Employee section, page 32)

Stakeholder group	Key issues	Activities, key issues	Stakeholder's expectations of us
Tenants	High level of service, energy use, climate impact, waste management and social responsibility in the supply chain.	Actions based on the Customer Satisfaction Survey, regular meetings with tenants and seminars.	Run sustainability projects and activities. A long-term property owner with a high level of service.
Employees	Competence development, leadership, working environment.	Activities based on conclusions drawn from the Employee Satisfaction Survey, appraisal discussions and education and training initiatives.	Stable, long-term employer with good terms and conditions of employment. Good working environment with personal development opportunities. Hufvudstaden should be involved in pursuing sustainability issues in the industry.
Shareholders/ investors	Develop communication around sustainability issues and assume increased social and ethical responsibility within the supply chain.	Investor meetings and participation in a number of sustainability surveys.	Develop sustainability communication. Major focus on the supplier with regard to social and ethical issues.
Suppliers/ partners	Clear, consistent requirements regarding business ethics and the environment.	Procurement requirements and regular dialogue with suppliers.	Make clear and more consistent demands on suppliers. Seminars and training related to our key issues.

**Hufvudstaden's sustainability work in the community takes place mainly through active participation in various sector-linked networks and associations.**

- Hufvudstaden plays an active role in Building Products Assessment (BVB) and has been a member of the board for a number of years.
- Hufvudstaden is a member of Sweden Green Building Council and is a member of the committee for the Swedish certification system *Miljöbyggnad*.
- Hufvudstaden is a member of the Non-Residential Premises Orderer Group (BELOK) which involves collaboration between the Swedish Energy Agency and 19 of the largest commercial property owners in Sweden.
- Hufvudstaden is one of the members of the working group 'City of Stockholm forum for sustainable properties'. The aim is to exchange experience in order to speed up the introduction of energy-efficient, eco-friendly solutions in the property industry.

**Sustainability control**

Sustainability work is an integral part of our day-to-day operations. The starting point can be found in our values: quality, honesty, attentiveness and commitment, which are complemented by environment and human resource policies.

In order to be able to develop our sustainability work, we have formulated structured processes for the control and follow-up of business operations. Detailed process descriptions are to be found for everything from how construction should take place to how leases should be signed.

**Business ethics**

Our sustainability work was previously directed at environment and energy issues although in recent years ethical and other social issues have been added. Our success depends on the responsibility assumed by the Company and the employees, which then forms the basis for the confidence shown in us by external parties. In order to clarify our responsibility and the way we act towards tenants, employees, investors and suppliers, we have formulated a Code of Conduct. The Code of Conduct is based on our values and describes how we take into account ethical, social and environmental considerations in our operations. It also describes how our suppliers and partners should act as our representatives in order to maintain a high level of confidence in Hufvud-

staden. The Code of Conduct will be implemented during 2015.

**Customer relations**

The Company's vision is to be consistently perceived as and prove to be the most attractive property company in Sweden with the aim of having the most satisfied customers in the industry. Hufvudstaden has focused for many years on providing a high level of service for its customers. This requires close collaboration with our tenants. We have our own service manager who is responsible for internal and external service. Contact with customers is facilitated by the fact that we are within walking distance of our properties and that we have our own service organization with operating technicians who run and maintain the properties. Through our close, long-term, personal relation-

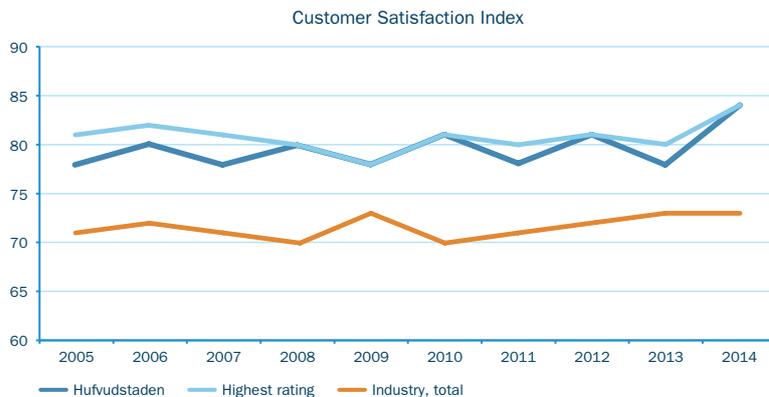
ships with our customers, we create sustainable, attractive environments, which results in loyal tenants who remain in our holdings for longer.

*Customer Satisfaction Index*

According to the annual *Fastighetsbarometern* customer satisfaction survey, Hufvudstaden has the most satisfied office tenants. The Company has thus come top three times during the past five years and we have been consistently in the top three ever since the Customer Satisfaction Index began in 1997. Apart from coming top, we also won a prize for the best Customer Satisfaction Index improvement. The survey provides answers to how office tenants perceive the premises and the level of service by the property owner, as well as the degree of tenant satisfaction and loyalty. The areas that have the greatest impact on the tenants' satisfaction, and which are also Hufvudstaden's greatest strengths, are the property owner's image and service and the manner in which faults are handled and rectified.

**Suppliers**

In order to carry on our operations, we are dependent on engaging the services of various suppliers. These in turn have employees and as a rule sub-suppliers. During the year, Hufvudstaden analyzed contact interfaces with suppliers and identified areas where there is a heightened sustainability risk. This applies primarily in project operations related to property development and the purchasing process in our operating organization. The risks are related mainly to the environment, working environment, terms and conditions of employment and corruption.



Source: CFI Group



In day-to-day operations, Hufvudstaden uses its own staff and project operations are run by its own project managers. They procure and control the contracts to ensure that our strict demands regarding quality, business acumen, long-term thinking and the environment are adhered to alongside compliance with current legislation. In our projects we demand that the consultants' and contractors' choice of building products have been environmentally examined and waste from building projects is sorted at source. To verify and expand the expertise of our contractors with regard to the environment and the working environment, we brought in a number of consultants during the year who audited selected projects to ensure that our requirements and official requirements were satisfied. The audits revealed potential for improvement in waste management and the working environment.

In our Code of Conduct we clarified our demands regarding the environment,

ethics, working environment and labour law for our suppliers. All people who work on behalf of Hufvudstaden, regardless of the employer, must have working conditions and a working environment that as a minimum comply with current legislation. The working environment is particularly prioritised as building and maintenance sites could be laden with risks. Working environment issues permeate our construction projects, where these issues are dealt with from initial planning to completed construction. Our own project managers are regularly on site to ensure that our rules and the rules laid down by the authorities are followed.

## Environment

### Energy use

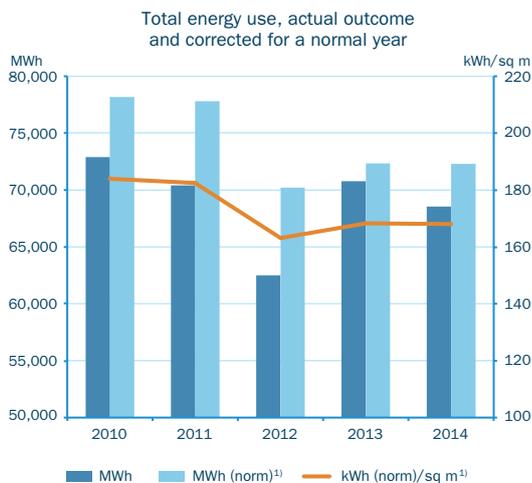
The property sector accounts for around 40 per cent of energy use in Sweden and has a significant impact on climate. Hufvudstaden has worked for a long time to improve efficiency in energy use in our properties, where responsibility rests with each operating manager. Since 2001, energy use in our comparable holdings, corrected for a normal year, has been reduced by around 20 per cent, equivalent to the energy used by 1,200 modern detached houses during the course of a year. This reduction could be achieved despite longer opening hours in the stores and the fact that an increasing number of office tenants have office landscapes with more persons per square metre, which increases energy use. In 2014, energy use, corrected for a normal year, remained unchanged compared with the previous year despite the long, warm summer, which increased our cooling requirements. Compared to the average level of

use over the past five years, the reduction has been approximately 3 per cent. If Hufvudstaden's energy used for heating is compared with the Statistics Sweden figures for non-residential premises, it can be noted that our use is approximately 60 per cent lower than the average.

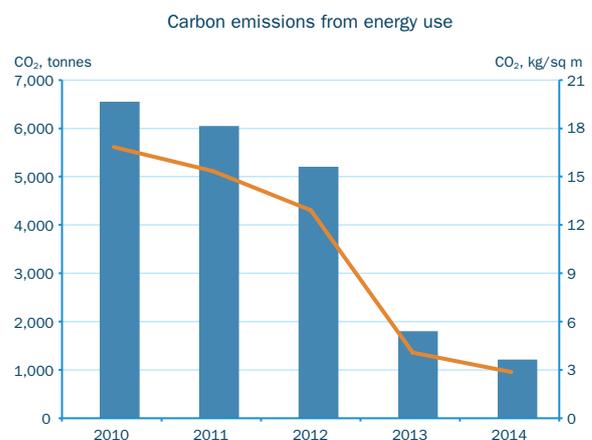
During the year we implemented a large number of minor projects with the aim of reducing energy use. This included heating, ventilation and cooling systems and choice of lighting. A larger project in the Orgelpipan 7 property commenced involving replacement of a cooling system and a fan unit. Once the new facility is fully operational we anticipate energy savings of around 30 per cent.

### Climate impact

As a property company, our main source of climate impact is the operation of properties. If we compare climate impact from our operations for the past five years, it has fallen by more than 80 per cent. This can be attributed largely to the fact that we have switched to origin-labelled waterpower, what is termed green electricity, and also the fact that the production of district heating now takes place with a lower proportion of fossil fuels, which has resulted in reduced climate impact. The reduction can also be explained by the fact that we have improved the level of efficiency in our energy use. The continued mitigation of climate impact will take place mainly through further improvements in energy efficiency and as a result of purchased district heating gradually switching to a higher proportion of renewable energy sources. During 2014, our climate impact fell by 32 per cent.



1) Comparable holdings



### Waste management

Contact with our tenants has revealed an increase in the recycling of waste and a rise in the level of ambition. More and more tenants are sorting their waste at source and the demands on us as a property owner are increasing.

Hufvudstaden's aim is to reduce the total volume of waste and to arrange a more efficient system for handling residual products. It is also our ambition that as much waste as possible is recycled or reused. Waste in Hufvudstaden's properties comes mainly from the tenants' operations and from projects. As a property owner, we have joint responsibility with our tenants for the efficient operation of the waste management system. As several of our properties are more than 100 years old and have limited common areas, the majority of the waste needs to be sorted directly by the tenant.

### Choice of materials

To create sustainable premises, it is important as a property owner to build solutions that are flexible and that can be adapted easily to different wishes and requirements. It is frequently the case that each tenant wants to bring its own style to the premises, which means tenant adaptation is commonplace. When we construct buildings, the aim is to

choose a design and degree of functionality where the level of quality means a reduced risk of replacement in conjunction with a change of tenant. We also try to work towards incorporating innovative, energy-efficient technology when choosing products as a means of reducing energy use. In order to make an environmental examination of construction products we use the BVB system, which is the property industry's own environmental assessment database. The environmental impact of the property is greatest during the management phase. If a life cycle assessment is made of the environmental impact of a property, the management phase usually accounts for around 85 per cent and the construction phase for around 15 per cent.

### Green leases

A number of new green leases were signed during 2014. Hufvudstaden has noted that green leases reinforce collaboration with the tenant and create conditions that allow us to continue to develop our environmental work.

A green lease is an annex to the normal lease. The signing of the lease means that the tenant and Hufvudstaden establish a concrete action plan with measures that will contribute to a better environment. The green lease

provides an opportunity to conduct an ongoing dialogue on environmental issues and create a sustainable strategy for, for example, reduced energy use.

### Environmental certification

During the year we certified two properties, Oxhuvudet 18 and Orgelpipan 7, according to the Swedish *Miljöbyggnad* classification system. *Miljöbyggnad* is a certification system based on Swedish building regulations, official regulations and Swedish building practice. With *Miljöbyggnad*, an independent survey is carried out to ensure that the building satisfies energy, indoor environment and material requirements. In *Miljöbyggnad*, a building can be placed on one of three levels – bronze, silver or gold, where bronze corresponds to current legal requirements. The Oxhuvudet property achieved the silver level, which can be regarded as a very good result for a property from the 1930s, and the Orgelpipan property was given a bronze classification.

We have previously environmentally classified Packarhuset and the Femman building according to the EU Green Building labelling system. A GreenBuilding certificate means that the building has reduced its energy use by at least 25 per cent.

## Quality and environmental objectives

Objectives 2014 and 2015	Outcome 2014	Comments
Improve energy use by 3 per cent.	No	In 2014 energy use, corrected for a normal year, remained unchanged compared with the preceding year, despite a long hot summer which led to an increase in our cooling requirements.
Reduce Hufvudstaden's carbon emissions by 5 per cent.	32 per cent	The substantial reduction can be attributed largely to a reduction in our use of district heating and the fact that district heating is now produced using a lower proportion of fossil fuels.
A top place in the <i>Fastighetsbarometern</i> annual customer satisfaction survey.	First place	During the past five years, we have come top on three occasions and we have consistently been among the three top companies ever since the Customer Satisfaction Survey began in 1997.
Continued development of quality and environmental work.	Yes	Work continued during the year to produce a Code of Conduct. Implementation will take place during 2015.
Further environmental certification of the properties.	Yes	Two properties were certified according to <i>Miljöbyggnad</i> – Oxhuvudet 18 and Orgelpipan 7.
Reduce the proportion of unsorted waste.	Yes	Around 20 office tenants have had a waste sorting station installed.
Guide Hufvudstaden's tenants in their waste sorting work.	Yes	All new tenants have been informed about waste sorting matters. Existing tenants have also been invited to breakfast meetings.
Develop communication with our tenants regarding energy and environmental issues.	Yes	More tenants have signed green leases. A green lease gives us the opportunity to maintain an ongoing dialogue on environmental issues and create a sustainable strategy for, among other things, reduced energy use.



# BIBLIOTEKSTAN

*Biblioteksgatan, Stockholm*

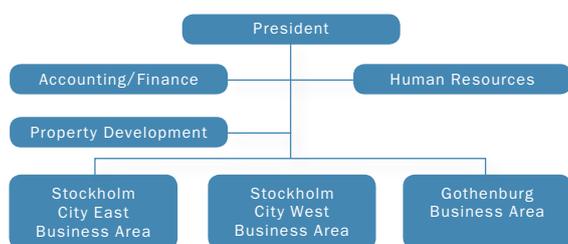
# Employees

## Organization

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

At the end of 2014, 102 persons worked in the Group, of whom 99 were in the Parent Company and three at the subsidiary Parkaden AB. There were 89 employees in Stockholm and 13 in Gothenburg. At the year-end, the division was 40 per cent women and 60 per cent men. Of the Group's managers, 33 per cent were women. The average age in the Group was 44 years for men and 41 years for women.

The organization was reinforced during the year when one of the business area heads was appointed Vice President and the number of staff in business development and project management was expanded. A couple of major development projects are being



run in Gothenburg, which has also resulted in an increase in the number of employees in Gothenburg. One of our success factors is that we handle the majority of our work within the Company.

## Value-driven corporate culture

Our core values are quality, honesty, attentiveness and commitment. These

values are the most important means at our disposal in the task of managing and controlling our operations to achieve the Company's vision and objectives and to ensure due observance of our corporate social responsibility. They are also the basis of Hufvudstaden's corporate culture. They involve ensuring there is quality in everything we do, listening actively both internally and externally, being honest with oneself and in our dealings with others and being committed to one's work. Our aim is for each employee to contribute that little bit extra and to keep quality, service and long-term thinking firmly in mind in all matters, both large and small. We have appointed groups internally that work on the ethical aspects, including the production of a Code of Conduct.

## Hufvudstaden as a workplace

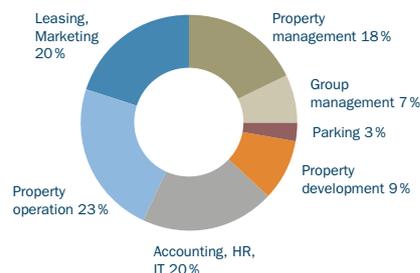
Hufvudstaden is a workplace characterized by strong commitment on the part of employees. Our ambition is for Hufvudstaden to be a workplace that our employees can be proud of. We are an integral part of each other's working environment and together we can improve that environment.

## Working environment

Our working environment must comply with legal stipulations and agreements and be safe and healthy. All employees are covered by collective agreements. Working conditions at the Company, both physical and psychosocial, must be suitable for women and men. A condition is that it must be possible for all employees to combine employment with parenthood. Our collective agreement promotes this principle and Hufvudstaden encourages both men and women to take parental leave.

We work to promote diversity and equality and counteract discrimination within the organization. It is important to us to find employees with the correct knowledge and skills for their duties regardless of age, functional impairment,

Employees per working area



sexual disposition, religion or ethnic origin. No employee, customer or supplier must be subjected to discrimination. In our equality programme, all employees are offered the same potential to develop and unfounded salary differences are counteracted.

An important part of a good working environment is efficient in-house communication. Regular staff meetings take place as part of this communication work.

## Attractive employer

Being an attractive employer is important for both present and future employees. To measure our attractiveness as an employer we make use of the 'Attractive Employer Index' produced by the Institute of Human Resource Indicators. A number of key indicators are compared to those of other companies, both within and outside the industry. Hufvudstaden achieved a high score during the year, showing that the picture that emerged concurs with what we usually deduce from our employee surveys.

During the year we conducted an Employee Survey that comprises a traditional, quantitative survey as well as a qualitative survey comprising a number of in-depth interviews. The survey has provided us with extensive and detailed knowledge of the areas that are working well and those areas that we need to work on to improve. The response rate was 92 per cent and the results show that virtually all our employees are satisfied or very satisfied with the working situation, that they would recommend the Company as an employer and that they are proud to work at Hufvudstaden.

# HUFVUDSTADEN

Gothenburg



“  
With a good spirit of collaboration and a focus on  
development, Hufvudstaden is the right company for us.”

Cecilia Bergman, Property Manager  
Martin Ericson, Project Manager, Property Development

Mobility on the labour market will probably increase in the future. We are focusing very closely on ensuring that even in the future we will be perceived as an attractive employer, both for present and future employees. Apart from stimulating duties and good potential to develop, Hufvudstaden offers a variable remuneration system in the form of a bonus related to the Company's financial outcome and the results of the Customer Satisfaction Index.

Staff turnover during the year averaged 10 per cent, of which 4 per cent were employees who retired. The average period of employment was 8 years.

### Healthy employees

Hufvudstaden adopts a preventative approach to health through regular health checks and we encourage physical activity both within and outside work. All employees are covered by health insurance, which ensures rapid, qualified care in the event of illness. We offer an annual health and fitness allowance, which a large number of our employees take advantage of, as well as massage at the workplace. The result of these initiatives reveals, among other things, a very low level of absenteeism due to illness, which was 2 per cent during 2014, and the aim is to maintain this low level.

### Career and development

Hufvudstaden has major development projects in the pipeline and the organization has therefore been reinforced in order to be able to deal with future challenges. The projects involve different types of expertise, which entail increased collaboration between the departments at the Company. This is vital if we are to achieve Hufvudstaden's ambitious goals and at the same time utilize this approach to ensure a transfer of expertise within the organization in combination with employee development. Expanded collaboration also ensures that we work uniformly throughout the organization. Taking on new challenges gives employees the opportunity to grow within the Company and at the same time acquire broader knowledge of the Company's different working areas. We therefore seek as far as possible to fill vacant positions by recruiting from within the Company.

### Employee development

We regard the fact that our employees choose to stay with us at Hufvudstaden to be a result of focusing on the correct issues in different areas, including employee development. Our ambition is to retain and develop talented employees. All new employees are offered a comprehensive induction programme, which includes both a general part and a part specific to the person's position. We also have a joint day for all new employees where matters related to the Company's values and approaches are discussed. Another important element in employee development is the appraisal discussion. During these discussions, goals and achievement of goals, skills development and similar issues are examined, after which an individual activity plan is drawn up for the coming year. During the year we have focused on building up our employees' knowledge of the 100-year history of Hufvudstaden. We feel it is important that everyone knows about the Company's background in order to be able to represent the Company during our forthcoming anniversary year in 2015.

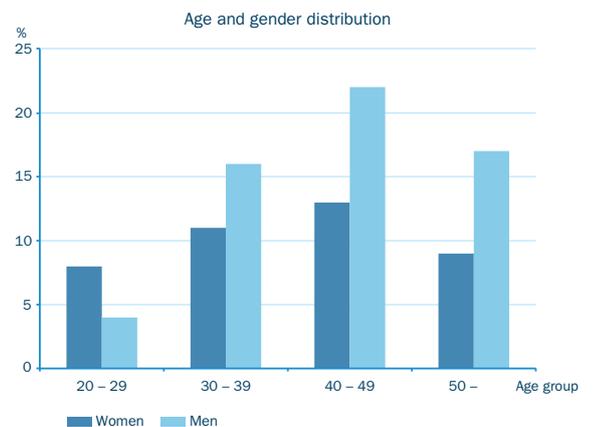
### Leadership development

Within the Company we are convinced that leadership is of major significance. Many of our managers and supervisors are also responsible for relatively small groups, which involves working close to the employees. This is a model that we believe in and statistically it is strongly linked to a high degree of job satisfaction and a low level of absenteeism due to illness. Being able to continuously identify and develop employees with leadership qualities is a prioritized area within the Company. Hufvudstaden focuses consciously on allowing younger employees to have the opportunity at an early stage to grow into the role of leader. We have four leadership criteria within Hufvudstaden: courage, inspirational conduct, forward-thinking and acting as a role model. These criteria provide guidance in the day-to-day work and are also the starting point in the follow-up of the

development of our managerial and supervisory staff and results. We have a well-established in-house managerial network and regular seminars are arranged. The network has a range of functions and acts as a meeting place where our managers can exchange experience and discuss leadership issues.

### Employees of the future

To facilitate future recruitment needs, Hufvudstaden arranges activities at universities in order to establish good relations with students. We also arrange a student day for students at the Royal Institute of Technology. This type of collaboration is just one of our strategies for finding the most professional employees in the industry in combination with reinforcing our brand. There is considerable interest in these activities and the evaluation reveals that the majority of students could envisage working for Hufvudstaden in the future. This can also be seen in the Recruitment Barometer run by the property journal *Fastighetsnytt*, where Hufvudstaden is perceived as being an increasingly attractive workplace. Over the years, the student days have resulted in several permanent appointments and work experience placements.



# HUFVUDSTADEN

*Stockholm*



“

*It is exciting to have the opportunity to be involved  
in developing the most attractive marketplaces in Sweden. ”*

Emanuel Westin, Business Development Manager, Retail  
Sofia Landberg, Assistant Property Manager

# Property development

Hufvudstaden is working actively to develop its properties, both with regard to existing premises and the creation of new development rights. Together with other property owners and the city authorities we are also developing the environments outside our properties to raise the general attractiveness of the areas in which we operate. The aim is to create good growth in value and, in co-operation with the customers, adapt offices and stores to their conditions and needs. Growth in Stockholm and Gothenburg is strong and the market demands modern offices that offer a high degree of flexibility and efficient use of floor space. To satisfy the demand on the market for good retail space and modern offices in attractive locations, adaptation of premises has taken place at a number of locations during the year.

Development projects can be divided principally into maintenance projects and adaptation of existing properties as well as major development projects involving existing or new development rights. Development gives the buildings improved environmental performance, a higher technical standard and more efficient and flexible planning of available floor space. The customers have a better product and Hufvudstaden has a higher yield and a better net operating income in the long term.

Project development takes place in close collaboration with the business development and property management organization. During the development process, we endeavour to achieve sustainable architecture with a distinct feeling of quality. The properties should be perceived as attractive, not only today but also well into the future. There is considerable emphasis on creating a product that is easy to maintain from a long-term management point of view. Our environmental impact will decrease over time, inbuilt materials are examined, waste is sorted at source and technical solutions are selected to ensure low energy use. Projects are procured and controlled by Hufvudstaden's own project managers. They are involved at all stages in the project and work on a daily basis with project control, co-ordination with the tenant and working

environment issues. This is necessary if Hufvudstaden is to meet strict demands for quality, flexibility and long-term thinking.

During the past five years, Hufvudstaden has on average invested almost SEK 300 million per year in its projects. Approximately half of this amount can be attributed to adaptation of premises. Maintenance projects and major development projects each account for one quarter of the total investment. In 2014, the level of investment amounted to more than SEK 200 million.

## Current project development

### *Härbärget block*

During the year, Hufvudstaden continued to work on the development of the Härbärget block. The properties are located in a part of the city that is sensitive from a cultural and historical point of view and this presents specific design and scale requirements. An architectural competition took place during 2014 for the Härbärget block and Hufvudstaden opted to work with Wingårdhs Arkitektkontor. The project includes volume studies, analysis of the intercommunication structure of the building and external design. Detailed planning work has commenced and will be intensified over the next year.

### *Femman Shopping Precinct*

The Femman Shopping Precinct in the Nordstan Shopping Centre is one of the most well-known shopping destinations in Gothenburg. The property was constructed at the beginning of the 1970s and over the years only minor maintenance work has been carried out. There is therefore a need for an upgrade of the whole precinct. Surveys and planning work have taken place during the year and the design work has been largely completed. The first phase of construction will commence at the beginning of 2015.

### *Bibliotekstan*

On the Skären 9 property, which is located in the Bibliotekstan area of Stockholm, planning is taking place for an office extension that will create an additional 2–3 storeys. The solutions

and choice of materials will be of consistently high quality and the premises will be efficient and flexible. At the same time our aim is to offer the tenants unique terraces. We have worked in close collaboration with the City of Stockholm during the year to examine the additional volume to ensure that it blends in with the area and is adapted to the adjacent properties. Project development will create additional rentable floor space of approximately 2,500 square metres. Consultation took place at the end of 2014.

## Adaptation of premises

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

During 2014, renovation and adaptation of approximately 26,000 square metres of floor space were completed. The adaptations were for existing tenants in conjunction with an extension of the lease or an expansion of the leased floor space, and for new tenants.

In the Fyran property in Nordstan, the potential was created for Grant Thornton to lease efficient, operationally adapted office premises. The hyper-modern, flexible office premises comprise approximately 3,000 square metres and are located on the top floor of the property. Grant Thornton moved into the new premises in December 2014.

# NORDSTAN

*Spannmålgatan, Gothenburg*



# Stockholm City East Business Area

## Property holdings

Historically, the Stockholm City East Business Area has been the core of Hufvudstaden's property holdings since the Company was founded in 1915. It comprises 16 (17) properties. The decrease can be attributed to the consolidation of two properties during the year. The business area is made up of two management areas, Norrmalmstorg and Kungsgatan. The Norrmalmstorg Management Area comprises properties in Bibliotekstan. The Kungsgatan Management Area comprises properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The properties are entirely commercial and consist of office and retail premises.

## Development of holdings

The task of developing Bibliotekstan into the foremost fashion area in Scandinavia has continued. There has been considerable interest from high-class, international brands. Stores that opened in 2014 include Nudie Jeans Co, Camper and the Australian cosmetics brand Aesop. A lease has also been signed with

Michael Kors for a flagship store on two floors. Marketing of the Bibliotekstan brand takes place mainly through events and PR. The fashion week in August and the Christmas decorations are examples of activities that took place during the

### Largest tenants

Office	Sq m
Danske Bank	10,600
Advokatfirman Vinge	7,700
Swedish Financial Supervisory Authority	6,100
Swedish Export Credit Agency	3,900
Brummer & Partners	3,700

Retail	Sq m
Zara	2,500
Urban Outfitters	1,900
Stadium	1,600
Alewalds	1,300
McDonald's	1,300

year. The development of Bibliotekstan as a retail area has led to an increase in the stores' turnover, which has in turn meant that Hufvudstaden has had positive growth in rents for several years.

At the junction of Sveavägen/Kungsgatan a large LED system has been installed on one of the property facades with the aim of reinforcing the identity of the location. The facade displays both advertisements as well as non-commercial information.

A number of the Business Area's major office tenants, such as Danske Bank, Netlight and Brummer & Partners, expanded their premises during 2014, resulting in the signing of longer leases.

## Rental market

Market rents for offices in the Business Area rose slightly during the year. The greatest interest is in modern premises where efficient use can be made of the floor space. Market rents for office space in prime locations were between SEK 4,200 and SEK 5,200 per square metre per year, excluding the property tax supplement. The increase in vacant space in the Business Area during the year can be attributed to a small number of large companies vacating their office premises.

### Property holdings

	2014	2013
Number of properties	16	17
Rentable floor space, sq m	150,843	150,962
– of which offices	102,414	103,205
– of which stores and restaurants	36,317	35,574
Annual rent, SEK m	740	743
Rental vacancy level, %	7.0	3.3
Floor space vacancy level, %	8.9	4.5

### Profit, property management, comparable holdings

SEK m	2014	2013
Net revenue	695.6	699.7
Maintenance	-16.8	-18.1
Operation and administration	-74.8	-73.9
Other costs	-76.8	-76.8
Total costs	-168.4	-168.8
Gross profit	527.2	530.9

### New leases and renegotiations

	2014	2013
New leases, sq m	9,200	8,300
New leases, annual rent, SEK m	42	42
Renegotiated leases, sq m	19,100	14,700
Renegotiated annual rent, SEK m	93	71

Rents for retail premises have also shown good growth and market rents for prime locations were SEK 14,000 to SEK 22,000 per square metre per year, excluding the property tax supplement.

### Customers

The office tenant structure within the Business Area consists mainly of companies that value centrally located, high-quality premises. The predominant sectors are banks, finance institutions and law firms as well as recruitment, IT, management and media consultants. Office customers that have been tenants for a long time include JKL, the Swedish Export Credit Agency, Erik Penser Bank, Brummer & Partners and the law firms Alrutz, Hökerberg & Söderqvist and Vinge. In total, there are 308 customers in the Business Area. The

ten largest customers lease 47,000 square metres (44,000), representing annual rent revenue of SEK 237 million (225).

Store tenants in Bibliotekstan are younger Scandinavian brands such as Hope, Whyred, WeSC, Rodebjer and Byredo, alongside larger international brands and retail chains such as Prada, Armani Collezioni, Ralph Lauren, Burberry, Filippa K, By Marlene Birger, GANT, Zara and Georg Jensen.

The stores along Norrlandsgatan are specialized in sports fashion wear and include North Face, Haglöfs and Norrona. The larger store tenants along Kungsgatan are mainly chain stores, such as Cervera, Telia, Telenor, Alewalds, Adidas, Stadium, Naturkompaniet, Ströms and Nespresso.

The Business Area has a number of Stockholm's more high-end restaurants

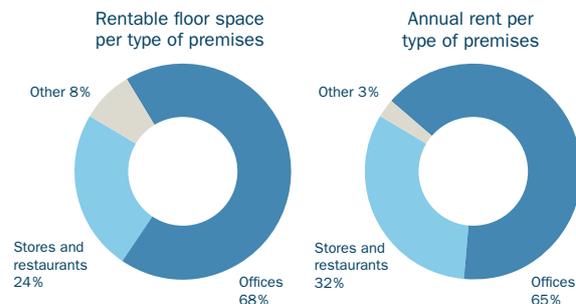
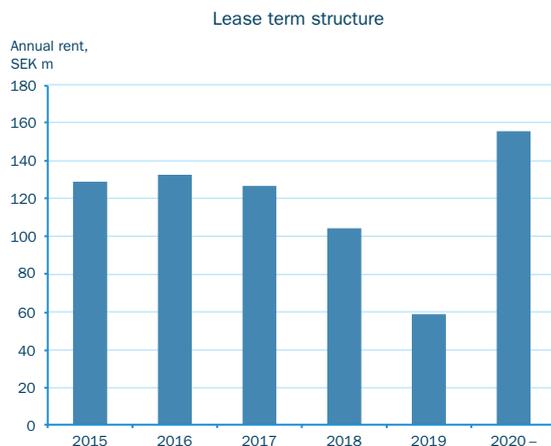
and cafes, including Prinsen, Bistro Jarl, Zink Grill, Pontus and Wienercaféet. These restaurants and cafes have an important part to play in maintaining the attractiveness of the area.

### Brands within the Business Area

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

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

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





**KUNGSGATAN**  
*Stockholm*



**KUNGSGATAN**

*Stockholm*

# Stockholm City West Business Area

## Property holdings

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

## Development of holdings

Refurbishment and adaptation of premises was completed during 2014 on behalf of new and existing tenants. Premises have also been leased to companies in other properties, including the brewing company Åbro Bryggerier and the IT company Acast at Svärdfisken 2. In the Orgelpipan 7 property a ventilation project is in progress aimed at expanding the ventilation and cooling capacity. The project is due to be completed in 2015 and it is estimated that it will produce energy savings of 30 per cent. Together with the City of Stockholm, the sealing layer on the street outside the Orgel-

pipan 7 property is being replaced. This project will continue until 2016.

The advancement of the NK department stores is an ongoing process with the aim of developing the concept for reinforcing the brand and increasing turnover. As part of this process, new

### Largest tenants

Office	Sq m
Knowit	3,500
EnterCard	2,500
Investment AB Janus	2,100
Volvo Cars	1,600
Forsman & Bodenfors	1,600

Stores	Sq m
Departments & Stores	11,300
Rizzo	1,600
NK Inredning	1,600
Northern Classic	1,600
ICA	1,500

departments have been opened at NK Stockholm, including Michael Kors and BCBG-MAXAZRIA, as well as Filippa K, which has acquired more space in a new location. At NK Gothenburg, Polo Ralph Lauren and Marc by Marc Jacobs have opened new departments.

## Rental market

The market rents for office premises in prime locations in Stockholm during

the year were between SEK 4,200 and SEK 5,200 per square metre per year, excluding the property tax supplement. The rental market during the year for retail premises continued to be good. The market rents for the best retail space in prime locations, excluding NK, were between SEK 4,000 and SEK 12,000 per square metre per year, excluding the property tax supplement. Following renegotiations and new leases at NK Stockholm, market rents are between SEK 14,000 and SEK 22,000 per square metre per year, excluding the turnover-based rent supplement and the property tax supplement. The equivalent rent levels for NK Gothenburg were between SEK 6,000 and SEK 13,000 per square metre.

## Customers

The ten largest customers lease 31,000 square metres (31,000), representing annual rent revenue of SEK 241 million (238). Of the Business Area's 214 customers, the predominant sectors are law firms, advertising agencies, IT and media companies, organizations and banks.

The store tenants are both domestic and international companies with strict demands regarding store design and marketplace. The tenants frequently represent very well-known brands that only establish operations at a few selected

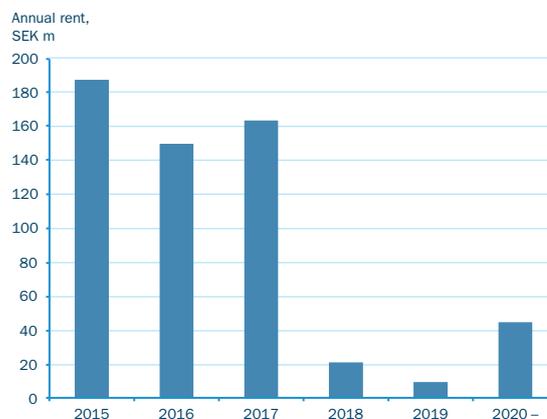
### Property holdings

	2014	2013
Number of properties	9	9
Rentable floor space, sq m	148,685	149,356
– of which offices	45,970	45,892
– of which stores and restaurants	44,470	44,496
Annual rent, SEK m	633	626
Rental vacancy level, %	3.9	4.1
Floor space vacancy level, %	5.3	5.9

### New leases and renegotiations

	2014	2013
New leases, sq m	6,700	1,500
New leases, annual rent, SEK m	32	7
Renegotiated leases, sq m	14,100	18,500
Renegotiated annual rent, SEK m	98	87

### Lease term structure



locations. This applies in particular to the NK department stores in Stockholm and Gothenburg.

#### AB Nordiska Kompaniet

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

The department store opened its doors to its first customers on September 21, 1915 and the NK property in Stockholm will celebrate its 100th anniversary in 2015.

#### The NK brand

NK is now one of Sweden's strongest and most well-known brands among both Swedish and international consumers. The vital task of preserving and implementing the long-term build-up of the brand is the basis of NK's ability to support retailing in the department

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

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

#### Retail market

The retail trade during 2014 developed positively and according to the Retail Survey Index, DHI, sales within the durable goods sector increased in terms of price by 4.4 per cent and clothing sales increased by 3.2 per cent. Sales at the NK department stores exceeded the Retail Survey Index and the increase during the year was 4.8 per cent. The

total turnover for both department stores rose from just over SEK 2,900 million to just over SEK 3,040 million, making 2014 a new record year.

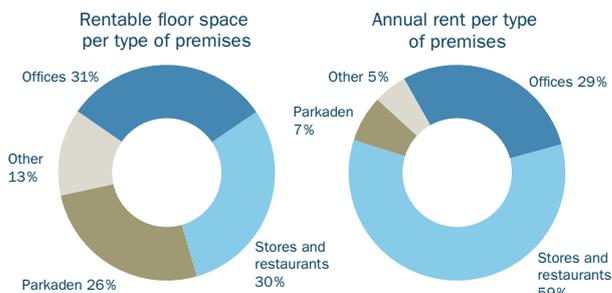
#### Parking operations

The wholly owned subsidiary Parkaden AB runs parking operations in two Hufvudstaden properties in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget at the Orgelpipan 7 property near the Central Station, with 435 parking spaces.

Parkaden, one of the safest parking facilities in Stockholm, is an important service amenity for customers in the Hufvudstaden market areas. During the year, a new number plate scanning system was installed to facilitate entry and exit. The CCTV system has been updated and expanded to improve security even further.

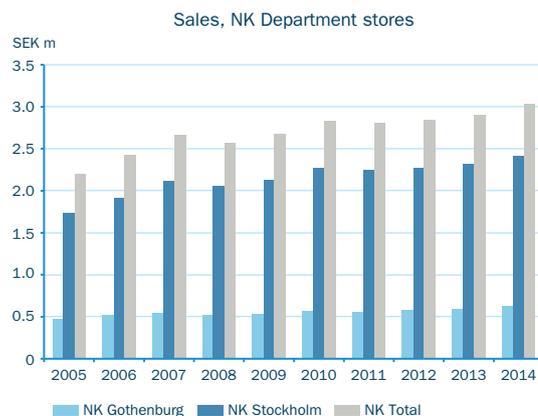
#### Profit, property management, comparable holdings

SEK m	2014	2013
Net revenue	626.7	614.8
Maintenance	-12.2	-9.9
Operation and administration	-124.2	-120.1
Other costs	-67.8	-66.0
Total costs	-204.2	-196.0
Gross profit	422.5	418.8



#### NK Department stores

	2014	2013
<i>NK Stockholm</i>		
Rentable retail space, sq m	24,026	24,024
Rentable storage space, sq m	3,540	3,534
Number of departments	99	99
Number of restaurants	8	8
Sales, including VAT, SEK m	2,417	2,320
<i>NK Gothenburg</i>		
Rentable retail space, sq m	9,891	9,900
Rentable storage space, sq m	1,291	1,285
Number of departments	43	44
Number of restaurants	2	3
Sales, including VAT, SEK m	624	582





# **BIBLIOTEKSTAN**

*Mäster Samuelsgatan, Stockholm*

# NORDISKA KOMPANIET

*Hamngatan, Stockholm*



# Gothenburg Business Area

## Property holdings

The Gothenburg Business Area comprises 3 (4) properties. The decrease can be attributed to the consolidation of two properties during the year. The properties are located in the Gothenburg CBD, divided into two areas, the Härbärgat block (Fredstan) and Nordstan. The property in Nordstan comprises two buildings, one facing Östra Hamngatan – Fyran – and one facing the Central Station – Femman. Hufvudstaden is one of the larger individual partners in the Nordstan Cooperative Association, which owns and manages the Nordstan multi-storey car park as well as the square and pedestrianized streets.

Nordstan is one of the leading shopping centres in Northern Europe with attractive retail stores, parking and modern offices in the best possible commercial location. Nordstan receives more than 35 million visitors each year, of whom more than 10 million visit the Femman Shopping Precinct. Revenue was just over SEK 4 billion, of which Femman accounts for around SEK 800 million and retailing business in Fyran for around SEK 375 million.

The Femman Shopping Precinct houses approximately 60 stores, cafes and restaurants on three floors. The largest retail and cafeteria tenants include H&M, Nilson Group, Dressmann, Kicks, Espresso House, Gina Tricot and Indiska.

### Largest tenants

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

Stores	Sq m
Cassels	1,900
H&M	1,900
Nilson Group	1,700
KappAhl	1,700
Chilli	1,400

The City of Gothenburg is planning extensive infrastructure projects in central Gothenburg and if the plans reach fruition, Hufvudstaden's marketplaces will be reinforced.

## Development of the holdings

A decision was taken during the year to commence refurbishment and development projects in the Femman Shopping Precinct. Construction is scheduled to commence in 2015 and will mean that maintenance work and design changes will take place alongside changes in the commercial concept with the aim of reinforcing the marketplace over time.

Hufvudstaden owns the whole of the Härbärgat block and has started a development project aimed at densifying and creating new, modern offices and to reinforce the retailing business. In 2014, an architectural competition for the block was evaluated and Wingårdhs Arkitektkontor was commissioned. The local planning work has commenced and will be intensified during the coming years. In autumn 2014, the Planning and Building Committee decided to commence a programme for the areas around Fredsgatan to examine ways in which these areas could be developed.

During 2014, adaptation of premises was carried out for a number of tenants in conjunction with renegotiation of a lease or the signing of a new lease.

### Property holdings

	2014	2013
Number of properties	3	4
Rentable floor space, sq m	87,361	87,169
– of which offices	49,803	49,634
– of which stores and restaurants	31,134	31,096
Annual rent, SEK m	272	268
Rental vacancy level, %	5,6	5,4
Floor space vacancy level, %	7,4	7,6

### Profit, property management, comparable holdings

SEK m	2014	2013
Net revenue	274.1	272.8
Maintenance	-2.9	-4.0
Operation and administration	-49.6	-45.9
Other costs	-26.6	-27.0
Total costs	-79.1	-76.9
Gross profit	195.0	195.9

### New leases and renegotiations

	2014	2013
New leases, sq m	3,700	2,600
New leases, annual rent, SEK m	9	6
Renegotiated leases, sq m	16,200	5,400
Renegotiated annual rent, SEK m	44	21

The premises have thus been adapted to satisfy the tenants' conditions and needs. Tenants that have moved into new premises include Adecco, Speedledger, Advokatfirman Aldo and Grant Thornton.

In Fyran, a green lease has been signed with the Second Swedish National Pension Fund – in conjunction with renegotiation of the rent.

### Rental market

The rental market for office premises during the year developed positively with a low level of vacant space and a slight rise in rent levels. The market rent for office space in prime locations was between SEK 2,000 and SEK 3,000 per square metre per year, excluding the property tax supplement. In the case of stores, the rent trend continued to be good. Prime location premises at-

tracted rents of between SEK 6,000 and SEK 13,000 per square metre per year, excluding the property tax supplement. A total upgrade of the Femman Shopping Precinct commenced during 2014, which has resulted in an increase in vacant space for the Business Area.

### Customers

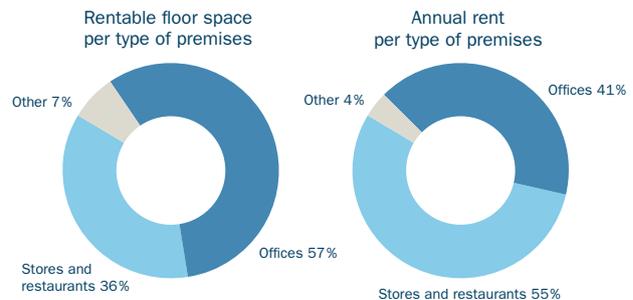
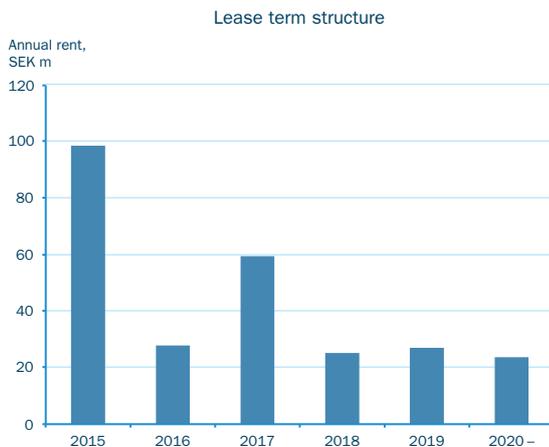
The Business Area's office customers are principally companies that appreciate centrally located, high-quality premises. The predominant sectors are law firms, accountants, the media, public authorities and organizations. The store customers appreciate our attractive, centrally located marketplaces and during the year several new national and international players have shown an interest in Gothenburg. There are 165 customers in the Business Area. The ten largest customers lease 32,000 square

metres (31,000), representing annual rent revenue of SEK 90 million (88).

### Brands within the Business Area

*Femman.* The Femman Shopping Precinct is one of the strongest brands in the retail trade in western Sweden and represents a wide range within the clothing and durable goods sectors. The Femman Shopping Precinct project also includes development of a concept to further reinforce and distinguish our brand.

*Nordstan.* Nordstan is one of Northern Europe's largest indoor shopping centres. Hufvudstaden is one of the two largest individual partners in the Nordstan Cooperative Association with a share of approximately 40 per cent.





# NORDISKA KOMPANIET

*Östra Hamngatan, Gothenburg*



ESPE

**NORDSTAN**  
*Gothenburg*

# Administration Report

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

Hufvudstaden is listed in the large cap list at Nasdaq Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group.

It is proposed that the Income Statements and Balance Sheets included in the Annual Report be adopted at the Annual Meeting to be held on March 26, 2015.

## CORPORATE GOVERNANCE REPORT

### Rules and regulations and Articles of Association

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

Hufvudstaden complies with the Code with a deviation with regard to Election Committee stipulations. The deviation from the Code is explained in more detail below.

### Shares and shareholders

Hufvudstaden's share capital at the year-end amounted to SEK 1,056,359,665, divided into 211,271,933 shares, giving a par value of SEK 5 per share. Of the

shares, 202,996,869 are series A shares, carrying one vote per share, and 8,275,064 are series C shares, carrying 100 votes per share. All shares carry an equal right to a share in the Company's assets and profit. The largest shareholder is LE Lundbergföretagen AB, with a total of 45.3 per cent of outstanding shares and 88.1 per cent of the votes. Apart from LE Lundbergföretagen AB, there is no shareholder in the Company that holds, directly or indirectly, shares where the number of voting rights represents one-tenth or more of the total number of votes for all shares in the Company.

According to a conversion provision in the Articles of Association, the holders of series C shares are entitled to request that their series C shares be converted into series A shares. There are no limits in the Articles of Association regarding transferability of shares or voting rights at a general meeting of the shareholders. There are no known agreements that would be affected by a public purchase offer. There have been no infringements of applicable stock market rules. There is no pension fund or any other undertaking to the personnel with regard to shareholdings.

### Buy-back of Company shares

Since the Annual Meeting in 2003, the Board of Directors has had the mandate of the General Meeting to buy back series A shares up to a maximum of 10 per cent of all shares in the Company. The mandate was renewed at the 2014 Annual Meeting. The aim is to give the Board the opportunity to adjust the capital structure in order to create increased value for the shareholders and/or to allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of a company or property. As at December 31, 2014, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of shares. The whole block was acquired in 2003 at an average price of SEK 27.30 per share. No shares were bought back during the year or after the end of the reporting period (up to and including February 12, 2015).

### Annual Meeting

A shareholder's right to decide in matters related to Hufvudstaden is exercised at a general meeting. Shareholders who are registered in the shareholders' register on the record date and who have notified their intention to attend the meeting within the specified time, are entitled to attend and vote at the Annual Meeting, either in person or by proxy. Shareholders who have their shares registered with nominees must, in order to exercise their right to vote at the Annual Meeting, have their shares re-registered temporarily in their own name as stipulated in the summons to the meeting. Decisions at the meeting are normally reached through a simple majority. In certain matters, however, the Swedish Companies Act stipulates that a proposal must be approved by a higher proportion of the votes represented and cast at the meeting.

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

The Annual Meeting must be held in Stockholm within six months of the end of the financial year. The Annual Meeting makes decisions in a range of matters, including adoption of the Income Statements and Balance Sheets; dividend; discharge of the members of the Board of Directors and the President from liability; election of members of the Board of Directors, the Chairman of the Board and auditors, as well as remuneration to the Board of Directors and auditors; principles for remuneration to executives and other important matters. Notice of a general meeting shall be issued in the form of announcements in *Post- och Inrikes Tidningar* and on the Company's website. Notification that the summons has been sent out is published in *Dagens Nyheter*.

The 2014 Annual Meeting was held on March 20, 2014. A total of 385 shareholders, representing 127,423,647 series A shares and 8,261,295 series C shares, were present and they represented 953,553,147 votes, equivalent to

93 per cent of the total number of outstanding votes. Present at the meeting were the Board of Directors, the members of the Executive Management and the auditor. Fredrik Lundberg was elected to chair the meeting. It was decided at the Annual Meeting to adopt the presented Income Statement and the Balance Sheet as well as the Consolidated Income Statement and the Consolidated Balance Sheet and to allocate the unappropriated earnings in such a way that SEK 2.75 per share was paid to the shareholders as a dividend. At the meeting, discharge from liability was granted to the members of the Board of Directors and the President and a decision was reached on remuneration to the members of the Board of Directors and the auditors. In addition, all members of the Board of Directors and the auditors were re-elected for the period up to the end of the next Annual Meeting. Finally, a decision was reached at the meeting on guidelines for remuneration to executives and authorization for the Board of Directors to decide on the acquisition and transfer of the Company's own series A shares.

The 2015 Annual Meeting will be held in Stockholm on March 26, 2015.

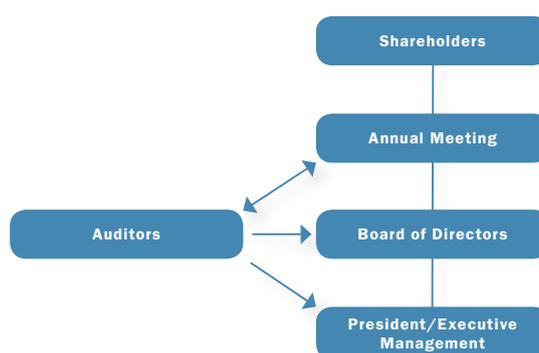
### Nomination and election of the Board of Directors and auditors

According to the Articles of Association, the Board of Directors shall comprise, in addition to the members appointed according to law by a party other than the general meeting, a minimum of five and a maximum of ten members. Members are elected at a general meeting of the shareholders for the period up to the end of the first Annual Meeting to be held after the year in which the members of the Board of Directors were appointed. In the light of the concentrated ownership structure, Hufvudstaden does not have a formally appointed Election Committee. The duty of an Election Committee to prepare the decisions to be reached at the Meeting in matters relating to elections and fees is handled by Hufvudstaden's main shareholder, LE Lundbergföretagen AB. The main shareholder proposes a person to chair the meeting, a Board of Directors, a Chairman and fees for the Board of Directors as well as an auditor and a fee for the auditor. Hufvudstaden must be

notified of the proposal from the main shareholder well in advance to ensure that the proposal can be presented in the summons to the Annual Meeting and at the same time be presented on Hufvudstaden's website. Other shareholders have the opportunity to present nomination proposals at the address stated on the website. Proposals are made public no later than in conjunction with the summons to the Annual Meeting.

As a basis for its proposal prior to the 2015 Annual Meeting, the main shareholder has assessed whether the composition of

### Hufvudstaden's control structure



the present Board of Directors is appropriate, among other things using applicable parts of the annual evaluation of the work of the Board of Directors as a guide. The Election Committee procedure applied at Hufvudstaden is a deviation from the Code.

### Composition of the Board of Directors

Hufvudstaden's Board of Directors comprises nine members, elected at the Annual Meeting for a period of one year. The composition of Hufvudstaden's Board of Directors is arranged in line with the work of the Company. All members of the Board have been assessed based on skills, experience and background. The only member of the Executive Management on the Board is the President and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder LE Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 88–89. An external lawyer is engaged to act as secretary to the Board.

### Responsibility of the Board of Directors

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

- Continuous follow-up and assessment of the Company's financial position and business development.
- Continuous evaluation of the Company's operative management and the work of the President.
- Ensuring that there is satisfactory control of the Company's compliance with laws and other regulations and the continuous evaluation of the Company's internal control and risk management systems.

• Adopting the Company's ethical guidelines.

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

The Chairman of the Board leads the work of the Board of Directors and has continuous contact with the President to follow the Group's operations and development on an ongoing basis. The Chairman of the Board consults with the President on strategic matters, represents the Company in ownership matters and passes on the views of the shareholders to the Board.

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

in question being present, and approves more material assignments carried out by the President outside the Company.

### Work of the Board of Directors

During the 2014 financial year, the Board of Directors held seven meetings, of which one was a statutory meeting. Economic and financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key matters of a principle nature or of major financial significance are taken up at each ordinary meeting. During the year, the work of the Board of Directors has been directed specifically at strategy discussions, issues pertaining to the economic climate and financing, property valuation and investments. Other matters dealt with during the year were upgrading of the Femman Shopping Precinct in Nordstan, development and refurbishment of the Hårbärg block in Gothenburg and a review of the Company's finance policy. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2013 was approved and the Board meeting in August in conjunction with the examination of the Company's six-monthly report.

### Board committees

The Board has examined the matter of establishment of an Audit Committee but has chosen not to appoint such a committee and will instead handle matters that rest with such a committee as part of the regular work of the Board of Directors. The full expertise of the Board can be utilized and the meetings can be made more efficient. This means that the whole of the Board of Directors perform the duties that rest with an Audit Committee.

The Board of Directors has examined the question of setting up a Remuneration Committee but has opted not to set up such a committee and will instead handle the matter as part of the regular work of the Board of Directors. The full expertise of the Board can be utilized and the meetings can be made more efficient. This means that the whole of the Board of Directors, apart from the President, perform the duties that rest with a Remuneration Committee, including following up and evaluating programmes governing variable remuneration to executives, both current programmes and programmes that were concluded during the year. The Board of Directors also follows and evaluates the application of the guidelines governing remuneration to executives, as decided at the Annual Meeting, and governing Company remuneration structures and remuneration levels for executives.

### Executive Management

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

In addition to the President, the Executive Management comprises the three business area heads, as well as the Head of Accounting/Finance, the Head of Property Development and the Head of Human Resources. On October 1, 2014, one of the business area heads was appointed Vice President. The Executive Management meets approximately once a month to discuss current issues. For information about individual members, see pages 90–91.

### Audit

According to the Articles of Association, the Company must have one or two auditors and a corresponding number of deputies. Alternatively, one or two registered auditing companies can be appointed. At the 2014 Annual Meeting, KPMG AB was re-elected as the auditing company for a period of one

year. George Pettersson is lead auditor. George Pettersson's other major assignments include Holmen AB, Nobia AB, Sandvik AB and Skanska AB.

The Board meets the Company's auditor twice a year, once in the absence of the President. On these occasions, the auditor presents a report and there is a discussion about the audit orientation and observations. Internal routines and control systems are examined continuously during the year. A final examination of the annual accounts and the Annual Report takes place in January–February. The six-monthly report is examined on a general basis. The fee to the auditors, including the fee for advisory services, is reported in Note 9.

### Remuneration

#### Board of Directors

Remuneration to the Board of Directors is decided at the Annual Meeting. At the Annual Meeting in 2014 it was decided that remuneration for Board work for 2014, totalling SEK 1,800,000, 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 400,000 and the other seven non-employed members received SEK 200,000 each.

#### Executive Management

Guidelines for salaries, bonuses and other remuneration to the Company's executives are decided at the Annual Meeting. It was decided at the meeting that the same guidelines decided at the 2013 Annual Meeting, with the exception of a direct pension for the President, should be applied for 2014, i.e. that the Company's remuneration shall comprise salaries in line with the market as well as a limited, profit-related bonus scheme as described below. The Company has no incentive schemes related to share price. These guidelines have been followed since the 2014 Annual Meeting. However, the Board of Directors has made a permitted deviation from the guidelines with regard to the Vice President entering an agreement regarding a defined contribution pension for the part of the salary not covered by the ITP plan. The agreement is equivalent to what has been agreed for the President. With the exception of an addendum regarding the possibility of a defined contribution pension to the Vice

Name	Function	Attendance 2014 <sup>1)</sup>	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		6	Yes	Yes
Peter Egardt		7	Yes	Yes
Louise Lindh		7	Yes	No
Hans Mertzig		7	Yes	Yes
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg		7	Yes	Yes
Ivo Stopner	President	7	No (employee)	Yes

<sup>1)</sup> Seven Board meetings were held during the year, of which five were after the Annual Meeting.

President, the guidelines that will be presented at the 2015 Annual Meeting are unchanged. The report by the Board of Directors covering the evaluation of variable remuneration programmes for the Executive Management, the application of guidelines for remuneration to executives and current Company remuneration structures and remuneration levels for executives will be published on the Company's website no later than two weeks prior to the 2015 Annual Meeting. The auditor's statement on whether guidelines for remuneration to executives, which were adopted at the Annual Meeting in 2014, have been followed will be available on the Company's website no later than three weeks prior to the Annual Meeting and will be attached to the documents distributed at the Annual Meeting. The statement is also available from the Company on request.

Remuneration to the President is proposed by the Chairman of the Board and is confirmed by the Board of Directors. The President does not take part in this decision. The President decides on remuneration to other executives following consultation with the Chairman of the Board.

For further information regarding salaries and remuneration as well as guidelines for remuneration to executives, as adopted at the 2014 Annual Meeting, see Note 8.

### **Bonus**

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

In the case of both bonus schemes, a decision is made one year at a time and the bonus is subject to a ceiling. A bonus is only payable if the Company reports a positive result with no consideration given to unrealized changes in value. In 2014, the bonus cost for all employees was SEK 1.7 million (3.1) or an average of SEK 9,000 per employee. For the Executive Management, including the President, the average was SEK 120,000 per person.

### **Internal control and risk management**

The Board of Directors has overall responsibility for ensuring that Hufvudstaden has a satisfactory internal control

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

#### *Control environment*

The control environment is the basis for internal control of financial reporting. Hufvudstaden's internal control structure is based, among other things, on a clear allocation of responsibility and duties between the Board of Directors and the President and within the Company's operations. The Executive Management and the Board of Directors continuously document and evaluate policies and guidelines, such as the Company's valuation principles, information policy and accounting handbook. To ensure continuous operational follow-up, there are routines in place for financial reporting and analysis. The routines include monthly and quarterly reports, budget follow-ups and forecasts. These tasks are handled by the accounting and controller function on the Business Area and Group level.

#### *Risk assessment*

Based on ongoing discussions and meetings in the organization, the Hufvudstaden Executive Management identify, analyze and decide on the Company's material risk areas, whereupon the Board of Directors confirms these areas. The Executive Management is responsible for handling the risk of error in the financial statements. The Board of Directors examines the outcome of the Company's risk assessment and risk management process to ensure it covers all material areas. Hufvudstaden's greatest risks are linked to property valuation, financial transactions, property projects and handling of tax matters.

#### *Control measures*

Based on risk assessments, Hufvudstaden has adopted a number of control measures. These are both of a preventative nature, i.e. measures aimed at avoiding losses or errors in the reporting, and of an identification nature. The controls should also ensure that errors are rectified. Examples of areas that have a material impact on the Company's result, and which have carefully

formulated control measures, are property and derivative valuation, maintenance, redevelopment, interest payments and leasing. Controls are carried out, among other things, using deviation analyses and quarterly meetings between the business area, group management and controller function.

#### *Information and communication*

In-house information and external communication are governed on a general level by, among other things, an information policy. Internal communication to and from the Board and Executive Management takes place, among other things, by the management holding regular information meetings, both for the whole Company and for individual units. Another important communication channel is Hufvudstaden's intranet. Through the intranet, all employees have access to up-to-date information. Internal policies, guidelines, instructions and equivalent documents that control and support operations are published on the intranet. Feedback on internal control work takes place at quarterly meetings, management team meetings and Board meetings.

#### *Follow-up*

The Hufvudstaden Executive Management evaluates on an ongoing basis internal control of financial reporting, particularly through its own analyses, questioning and familiarization with the work of the controller function. To follow up identified risks and ensure that the internal control work takes place optimally, the controller function works continuously on this follow-up process. Apart from quarterly reports with financial outcomes, including the Executive Management's comments on operations, the Board receives the Executive Management's comments on how internal control is working and whether identified risks ought to be changed. The Company's auditor attends Board meetings on two occasions each year and reports his observations regarding the Company's internal routines and control systems. The members of the Board then have the opportunity to ask questions. Each year, an examination is made of material risk areas, whereupon the Board adopts a position on risks in the financial reporting system and evaluates the internal controls.



# BIBLIOTEKSTAN

*Birger Jarlgatan, Stockholm*

# DROTTNINGGATAN

*Stockholm*



### Internal audit statement

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

## OPERATIONS

### Business concept

Through its properties in central Stockholm and central Gothenburg, Hufvudstaden's business concept is to offer successful companies high-quality office and retail premises in attractive marketplaces.

### Key events during the financial year

More than six years have passed since the financial crash and there is still considerable uncertainty regarding future financial development. The eurozone has not reverted to the pre-crisis GDP level and several countries are experiencing a high level of unemployment and an over-extended level of indebtedness. Geopolitical uncertainty has risen recently, including the Russia-Ukraine conflict, which has had a negative impact on trade.

On the other hand, an increasing rate of growth could be noted in the USA and the United Kingdom. The Swedish economy developed relatively strongly during 2014 with a growth rate of more than two per cent. The service sector and household consumption had contributed to the upturn whilst exports remained largely unchanged. Inflation remained at a low level and the Swedish Central Bank reduced the key rate during the autumn to 0 per cent.

Sweden's stable finances have allowed investment in infrastructure projects to continue. This applies in particular to the city regions and especially the Stockholm region and the Gothenburg region. Regional growth in the cities has therefore benefited and the increase in population in the cities is among the highest in Europe. Thanks to a strong service sector, low interest rates and an upturn in the stock market, consumption has increased. Tourism has also contributed to reinforcing trade even further.

Demand on the office rental market in Stockholm was stable during the year. A small number of banks and finance institutes have moved from the CBD and one or two more will do so in the years to come. The market has been affected by this increased availability of premises although at the same time extensive redevelopment projects are due to be implemented in the empty properties. The limited addition of other large, new projects in the central areas has meant that vacant space has remained at a low level, around 4-5 per cent. In Gothenburg, the rental market for offices continued to be positive. There was a good demand for modern, efficient premises, which has meant a slight rise in rents and vacant space levels of 3-4 per cent.

Demand on the retail rental market in both Stockholm and Gothenburg has been strong again this year, which has led to rising rent levels and what is virtually non-existent vacant space.

In the Group as a whole, 26,000 square metres offfloor space were adapted during the year. In the Femman Shopping Precinct, planning for an upgrade of the Precinct has been in progress. The redevelopment project is expected to commence during spring 2015. Preparations are also continuing for the Härbärgat block. Local planning work is taking place and the architects Wingårdhs have been commissioned for the project. The Building Committee also decided to start programme work for Fredstan, which includes Härbärgat. In Bibliotekstan, rent agreements have been signed with international fashion chains, which will further reinforce the marketplace. The Group's rent negotiations resulted in an increase of 6 per cent, of which stores increased by 7 per cent and offices by 5 per cent.

Operating profitability is stable and Hufvudstaden's financial position continues to be good. The net loan-to-value ratio was 18.6 per cent, the equity ratio was 58.8 per cent and the interest coverage multiple increased to 8.5. The transaction volume was more than SEK 155 billion, which exceeds previous record levels. The Company's property holdings increased in value during the year, which can be attributed to higher rents and lower yield requirements.

### Property holdings

At the end of the year, Hufvudstaden owned 28 properties (30). The decrease can be explained by two properties consolidations. Rentable floor space was 283,000 square metres in Stockholm and 104,000 square metres in Gothenburg, making a total of 387,000 square metres (387,500).

The total rental vacancy level in the Group as at December 31, 2014 was 5.6 per cent (4.0) and the floor space vacancy level was 7.2 per cent (5.7). In Stockholm, the rental vacancy level was 5.7 per cent and in Gothenburg 5.2 per cent.

Sensitivity analysis, property valuation

	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq m	SEK 870 million
Property costs	SEK 50/sq m	SEK 435 million
Rental vacancy level	1.0 percentage points	SEK 370 million
Yield requirement	0.25 percentage points	SEK 1,550 million

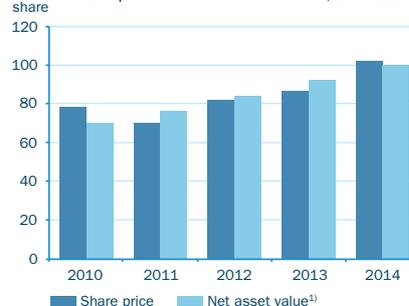
During the year, 49,400 square metres (38,600) were renegotiated at a total value of SEK 235 million per year and new leases were signed for 19,600 square metres (12,400).

### Property value and net asset value

Hufvudstaden has made an internal valuation of all the Company's properties. The aim of the valuation is to assess the fair value of the property holdings as at December 31, 2014. To assure the valuation, external valuations were commissioned from three valuation companies. The external valuations made at the turn of the year were equivalent to 32 per cent of the fair value and the equivalent proportion at the mid-year point was 32 per cent.

The fair value of the property holdings as at December 31, 2014 was set at SEK 27.8 billion (25.9). The unrealized change in value was SEK 1,708.6 million (1,357.9).

SEK/share Share price and net asset value, Dec 31



1) The estimated deferred tax for costing purposes was set at 5 per cent from December 31, 2012. The figure for previous periods was 10 per cent.

### Valuation method

A valuation of the property holdings was made by assessing each individual property's fair value. The assessment took place based on a valuation made according to a variant of the location price method, known as the net capitalization method, where the market yield requirement is set against the net operating income of the properties.

A presentation of the valuation method and assumptions can be found in Note 17.

### Net asset value

Based on the valuation of the property holdings, the net asset value was SEK 20.7 billion or SEK 100 per share after tax. When calculating the net asset value, calculated deferred tax has been used. This has been set at 5 per cent of the difference between the assessed fair value of the properties and the residual value of the properties for tax purposes. The assessment is made in the light of current tax legislation, which means that properties can be sold via a limited company without tax implications. The purchaser, however, loses the basis for depreciation, which could justify some compensation, which has been set at 5 per cent. The table shows the net asset value with different assumed deferred tax rates.

Net asset value, December 31, 2014

SEK billion	0%	5%	22%
Reported equity	16.7	16.7	16.7
Reversal of reported deferred tax	5.2	5.2	5.2
Net asset value before tax	21.9	21.9	21.9
Calculated deferred tax	-	-1.2	-5.2
Net asset value after tax	21.9	20.7	16.7
Net asset value per share	106 SEK	100 SEK	81 SEK

### Opportunities and risks

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

Hufvudstaden's financing potential has been guaranteed through long-term loan assurances. The framework is SEK 4 billion, of which SEK 2.1 billion was unutilized, of which SEK 600 million is reserved to cover outstanding commercial

paper. The Company has satisfactory margins in relation to the lenders' restrictions (covenants) regarding the loan agreements. Loans falling due in 2015 amount to SEK 400 million, see Note 25. The interest risk has been handled by hedging the interest level for SEK 3,750 million of the total borrowing of SEK 5,650 million. The fixed interest period was 33 months and the average annual equivalent rate was 2.2 per cent. The Company's financing alternatives have been broadened through an MTN programme with a limit of SEK 4 billion. The programme covers long-term financing from 1–15 years. The short-term commercial paper programme totals SEK 2 billion. To minimize bad debts, new customers are subject to credit checks and there is continuous monitoring of accounts receivable and rent receivables.

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

### Changes in value in the property holdings

Changes in the fair value of the properties due to fluctuations in the economy and other factors represent both a risk and an opportunity. However, the risk is limited by the concentration of the properties in the most attractive commercial locations.

### Rent trend

The rent trend involves both risks and opportunities. The risk, however, is limited by Hufvudstaden's concentration on properties in the most attractive commercial locations. The rent levels for vacant office premises are affected quickly in the event of a strengthening or weakening of the economy. Rents for

central retail locations are more stable. The rent level for occupied premises with leases of three years or longer is linked to the consumer price index. The majority of leases are not affected by a fall in the index. Rent changes take place when the leases are renegotiated.

### Property tax

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

### Rent losses on vacant premises

In the event of a slowdown in the economy, the risk of an increase in vacant space is greater for Hufvudstaden's office premises than for retail premises. There should always be some vacant space in order to offer the tenants potential for expansion, to permit redevelopment to take place and to test the market's willingness to accept higher rent levels.

### Lease term

A long average lease term is an advantage when market rents are falling and a disadvantage when they are rising. Excessively frequent relocation and vacation of premises give rise to considerable adaptation costs for premises. These costs cannot always be compensated for by increased rents. Normally, Hufvudstaden seeks to sign leases with a long lease term.

### Turnover-based rent

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

### Operation and maintenance

Hufvudstaden is working actively to optimize the properties' energy use and in doing so reduce operating costs. Energy procurement takes place regularly through forward agreements to reduce sensitivity to fluctuations in energy prices.

Hufvudstaden's property holdings are well maintained. The Company is very focused in the way it works with follow-up and control of costs in each individual property, thus reducing the risk of unforeseen cost increases.

### *Concentration on central Stockholm and central Gothenburg*

The concentration of a property portfolio in a geographical market area could involve a potential increase in risk because of reduced diversification. In Hufvudstaden's case, however, the risk is limited as the assessment is that in time Stockholm and Gothenburg will be the country's strongest market areas and the most interesting growth markets.

### *Financial risks*

Apart from its own funds, the Company's operations are also financed through loans. Consequently, the Group is exposed to financing, interest rate and credit risks. A presentation of the Company's Finance Policy and the manner in which financial risks are handled, as well as credit risks attributable to accounts receivable and rent receivables, can be found in Note 2.

### **Sensitivity analysis**

The effects on pre-tax profit on a full-year basis, excluding changes in value, in 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, property tax and interest expense, refer to the effects that would have occurred during the 2014 financial year if the changes had occurred at the beginning of 2014. The reported effects on profit should only be seen as an indication and do not include any effect resulting from compensatory measures that could be taken by the Executive Management.

### **Non-financial result indicators**

Corporate social responsibility, both internally and externally, is a prerequisite

for success. Hufvudstaden contributes to the development of society by assuming responsibility for its properties and the surrounding environment. The Company ensures that it complies with current laws and agreements by making demands on contractors and sub-suppliers. Hufvudstaden's values characterize the actions of its employees and are an active tool in the day-to-day work.

### **Environmental impact**

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

### **Stock market information**

All publishing of information is governed by the Company's information policy. The Annual Report and interim reports are published in Swedish and English and are distributed to shareholders and other parties who have expressed an interest.

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

### **Key events after the year-end**

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

### **The future**

Significant initiatives were taken during the year by the European Central Bank although they have not had any major impact on growth. The geopolitical situation has also deteriorated and there is therefore considerable uncertainty regarding the development of the eurozone economies. The USA and the United Kingdom report more robust growth. The Swedish economy has managed relatively well and the prospects for 2015 are considered to be on a par with the outcome for 2014, which would mean growth of just over 2 per cent. Sweden's stable finances opened up the opportunity for a continuation of the expansive finance policy assuming that the political instability nationally can be handled. The strong growth in employment, coupled with current and future infrastructure initiatives, will benefit growth. We therefore see the potential for the good

rate of development to continue in our market areas. Rent levels in both Stockholm and Gothenburg during 2014 remained stable or rose slightly and our assessment is that they will improve even further. Vacant space has not yet been affected to any great extent by banks transferring their operations from the centre of Stockholm. Hufvudstaden's vacant space increased slightly during 2014 although it is still within the vacant space range that can be regarded as normal, 4–6 per cent. In the light of the fact that the Company is planning to commence certain projects, mainly in Gothenburg, our assessment is that vacant space will be slightly higher for a limited time. The low interest rates and a strong labour market are contributing to a continued high level of purchasing power among consumers. This means there is potential for increasing rents for stores and there continues to be a high level of interest among international fashion brands to establish operations in our market areas.

The Company's solid financial position and positive profit trend will allow further development of the properties. During 2015, development of the Femman Shopping Precinct will commence and local planning work is continuing for the Härbärg block with the aim of increasing the office volume and reinforcing the retail business. The projects are expected to make this market area more attractive and in the long term increase profitability.

The low interest rates in combination with stable economic development have resulted in a high level of activity on the Swedish property market. Our assessment is that liquidity in the market in the future will continue to be good and that yield levels will remain stable. It is in the Company's interests to continue to investigate the possibility of making additional acquisitions.

### **Dividend and allocation of profit**

The Board has proposed a dividend of SEK 2.90 per share, or a total of SEK 598.2 million. The Board of Directors' proposed allocation of unappropriated earnings is presented in full on page 86.

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

Change in pre-tax profit, excluding changes in value

	Change +/-	Impact on profit, excluding changes in value before tax, +/-
Rent level	SEK 100/sq m	SEK 38 million
Vacancy level <sup>1)</sup>	1 percentage point	SEK 15 million
Operation and maintenance	10 per cent	SEK 15 million
Property tax <sup>2)</sup>	1 percentage point	SEK 15 million
Interest rate <sup>3)</sup>	1 percentage point	SEK 57 million

- <sup>1)</sup> Vacant floor space is estimated at SEK 4,000 per square metre.
- <sup>2)</sup> Taking into account the fact that the costs are in part passed on to the tenants within the framework of the lease agreements.
- <sup>3)</sup> Without taking into account the fixing of interest through derivatives. For details of the effect, including derivatives, see Note 2.

# NORDISKA KOMPANIET

*Regeringsgatan, Stockholm*



# Income Statements – Group

SEK m	Note	2014	2013
<i>Net revenue</i>			
Property management	4, 5	1,596.4	1,572.7
Parking operations		68.9	67.7
	3	<b>1,665.3</b>	<b>1,640.4</b>
<i>Property management costs</i>			
– Maintenance		-31.9	-32.0
– Operations and administration	6	-248.6	-237.8
– Ground rents		-17.0	-16.1
– Property tax		-154.2	-152.2
<b>Property management expenses</b>		<b>-451.7</b>	<b>-438.1</b>
Parking operations, costs	3, 6	-49.8	-49.7
<b>Cost of operations</b>		<b>-501.5</b>	<b>-487.8</b>
<b>Gross profit</b>		<b>1,163.8</b>	<b>1,152.6</b>
– of which Property management	3	1,144.7	1,134.6
– of which Parking operations	3	19.1	18.0
Central administration		-36.2	-35.7
<b>Operating profit before changes in value</b>	7–11	<b>1,127.6</b>	<b>1,116.9</b>
<i>Changes in value</i>			
– Investment properties	12	1,708.6	1,357.9
– Interest derivatives		-185.8	59.6
<b>Operating profit</b>		<b>2,650.4</b>	<b>2,534.4</b>
<i>Financial income and expense</i>			
Financial income	13	3.6	8.5
Financial expense	14	-133.5	-136.3
		<b>-129.9</b>	<b>-127.8</b>
<b>Profit before tax</b>		<b>2,520.5</b>	<b>2,406.6</b>
Tax	16	-519.2	-530.5
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>2,001.3</b>	<b>1,876.1</b>
Other comprehensive income		–	–
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>2,001.3</b>	<b>1,876.1</b>
Profit for the year per share before and after dilution, SEK		9.70	9.10
Ordinary dividend per share, SEK (proposed)		2.90	2.75

# Comments

## Property management

Net rent revenue from property management during the year totalled SEK 1,596.4 million (1,572.7), equivalent to an increase of 2 per cent. The increase can be attributed to higher gross rents in conjunction with renegotiations and new leases as well as the Fyran property, which was acquired in 2013. During the year, Hufvudstaden renegotiated leases equivalent to SEK 235 million in annual rent revenue. Renegotiations for both office and retail premises resulted in an average increase in rent levels of around 6 per cent (4). The cost of vacant space also increased slightly and the level of vacant space rose during the year from 4.0 per cent to 5.6 per cent. The higher level of vacant space can be explained by the fact that after long lease periods, a number of large office tenants chose to relocate operations. A further factor is that extensive development of the Femman Shopping Precinct in Nordstan has commenced and will continue until 2017.

The turnover-based rent supplement was SEK 10.9 million (10.3), of which the NK properties accounted for SEK 10.0 million (9.6). Turnover at the NK department stores was approximately SEK 3,040 million (2,900). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents.

Maintenance costs amounted to SEK 31.9 million (32.0). Operating costs amounted to SEK 184.0 million (177.4). The higher operating costs can be attributed to insurance losses and increased surveillance. Administration costs totalled SEK 64.6 million (60.4). The increase can be attributed to personnel costs of a non-recurring nature.

Property tax increased to SEK 154.2 million (152.2). The cost of property tax has mainly been passed on to the tenants. Overall, this means that the total cost for property management amounted to SEK 451.7 million (438.1).

The gross profit for the year was SEK 1,144.7 million (1,134.6), an increase of 1 per cent.

## Parking operations

Parking operations comprise operations at Parkaden AB.

Net revenue was SEK 68.9 million (67.7). Costs amounted to SEK 49.8 million (49.7) and gross profit amounted to SEK 19.1 million (18.0).

## Changes in value

Changes in the value of investment properties totalled SEK 1,708.6 million (1,357.9). The unrealized change in value can be attributed to the effect of a slightly lower yield requirement as well as higher rents in conjunction with new and renegotiated leases. The average yield requirement in conjunction with the above valuation was 4.5 per cent (4.7).

Changes in the value of interest derivatives totalled SEK -185.8 million (59.6). Hufvudstaden uses interest derivatives to reduce the impact on profit of changes in interest levels by achieving fixed interest periods that take into account the lease renewal structure. See also Interest risk section in Note 2.

## Financial items

Financial income was SEK 3.6 million (8.5). Financial expense amounted to SEK -133.5 million (-136.3). Interest expense fell due to a lower rate of interest on loans.

## Tax

The Group's tax expense was SEK -519.2 million (-530.5), of which SEK -93.8 million (-141.0) was current tax and SEK -425.4 million (-389.5) was deferred tax. Current tax has fallen by SEK 43.8 million after the Swedish Tax Agency amended its decision from 2012 not to grant a direct reduction in conjunction with work related to reinforcement of foundations. The background to this is that the Supreme Administrative Court has issued a preliminary ruling which approves a direct deduction.

## Profit for the year

The profit for the year was SEK 2,001.3 million (1,876.1). The increase in profit can be attributed to unrealized changes in value in the property holdings.

# Balance Sheets – Group

SEK m	Note	31-12-2014	31-12-2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	27,817.4	25,869.1
Tangible fixed assets	18	7.0	5.5
Non-current receivables	20	8.4	43.6
<b>Total fixed assets</b>		<b>27,832.8</b>	<b>25,918.2</b>
<b>Current assets</b>			
Accounts receivable	21	14.6	13.4
Prepaid tax		56.7	10.6
Other receivables		0.6	1.1
Prepaid expense and accrued income	22	36.4	27.8
Cash and bank holdings	23	474.2	504.6
<b>Total current assets</b>		<b>582.5</b>	<b>557.5</b>
<b>TOTAL ASSETS</b>		<b>28,415.3</b>	<b>26,475.7</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Profit brought forward, including profit for the year		15,010.3	13,576.2
<b>Total equity</b>	24	<b>16,694.8</b>	<b>15,260.7</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	4,650.0	4,550.0
Deferred tax liabilities	26	5,356.2	4,930.8
Other non-current liabilities		168.7	17.3
Other provisions	27	10.6	8.8
<b>Total non-current liabilities</b>		<b>10,185.5</b>	<b>9,506.9</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	1,000.0	1,200.0
Accounts payable		89.3	89.4
Other liabilities	28	90.1	98.4
Accrued expenses and prepaid income	30	355.6	320.3
<b>Total current liabilities</b>		<b>1,535.0</b>	<b>1,708.1</b>
<b>Total liabilities</b>		<b>11,720.5</b>	<b>11,215.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28,415.3</b>	<b>26,475.7</b>

# Comments

## **Investment properties**

The carrying amount for properties in the Group was SEK 27,817.4 million (25,869.1). The increase in the properties' fair value can be attributed to unrealized changes in value totalling SEK 1,708.6 million (1,357.9) and investments in the property holdings during the year totalling SEK 239.6 million (1,453.7). Investment properties in the Group are reported at fair value according to IAS 40, which means that there is no impairment. The valuation method is described in Note 17. The properties' fiscal residual value was SEK 3.4 billion.

## **Cash and cash equivalents**

Cash and cash equivalents, the sum of cash and bank holdings as well as current

investments, amounted to SEK 474.2 million (504.6). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is normally used for amortization of loans or is invested in short-term instruments with high liquidity and low risk. There are no limits on the right of use of cash and cash equivalents.

## **Interest-bearing liabilities**

The Group's liabilities to credit institutions amounted to SEK 2,850.0 million (2,850.0). At the year-end, Hufvudstaden's commercial paper totalled SEK 600.0 million (1,000.0) and bond loans totalled SEK 2,200.0 million (1,900.0). Borrowing totalled SEK 5,650.0 million (5,750.0). The average fixed interest period was 33

months (41), the capital tie-up period was 32 months (44) and the average annual equivalent interest cost at the year-end was 2.2 per cent (2.3). Net debt totalled SEK 5,175.8 million (5,245.4). Financial items included in net debt are listed in Note 2, page 74.

## **Deferred tax liabilities**

Deferred tax liabilities amounted to SEK 5,356.2 million (4,930.8). The change can be attributed to deferred tax on unrealized changes in value.

## Changes in equity – Group

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
<b>Opening equity 01-01-2013</b>	<b>1,056.4</b>	<b>628.1</b>	<b>12,236.4</b>	<b>13,920.9</b>
Profit for the year			1,876.1	1,876.1
Other comprehensive income for the year			–	–
Comprehensive income for the year			1,876.1	1,876.1
Dividend			-536.3	-536.3
<b>Closing equity 31-12-2013</b>	<b>1,056.4</b>	<b>628.1</b>	<b>13,576.2</b>	<b>15,260.7</b>
<b>Opening equity 01-01-2014</b>	<b>1,056.4</b>	<b>628.1</b>	<b>13,576.2</b>	<b>15,260.7</b>
Profit for the year			2,001.3	2,001.3
Other comprehensive income for the year			–	–
Comprehensive income for the year			2,001.3	2,001.3
Dividend			-567.2	-567.2
<b>Closing equity 31-12-2014</b>	<b>1,056.4</b>	<b>628.1</b>	<b>15,010.3</b>	<b>16,694.8</b>

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all shares. At the Annual Meeting on March 20, 2014, the Board of Directors was given a renewed mandate to buy back a maximum of 10 per cent of all shares with the aim of giving the Board of Directors the opportunity to adjust

the capital structure in order to create increased value for the Company's shareholders and/or to allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of companies or properties. No buy-backs took place during 2014.

During 2014, a dividend of SEK 2.75 per share was paid to the Company's shareholders, totalling SEK 567,230,497.

The proposed dividend according to the allocation of unappropriated earnings is SEK 598.2 million. (See Definitions, page 99, Dividend)

# BIBLIOTEKSTAN

*Jakobsbergsgatan, Stockholm*



# Cash flow statements – Group

SEK m	2014	2013
<b>Current operations</b>		
Profit before tax	2,520.5	2,406.6
Depreciation and impairment of assets	7.2	3.2
Unrealized change in value, investment properties	-1,708.6	-1,357.9
Unrealized change in value, interest derivatives	185.8	-59.6
Other changes	1.8	0.4
Income tax paid	-140.0	-101.6
<b>Cash flow from current operations before changes in working capital</b>	<b>866.7</b>	<b>891.1</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (-) in operating receivables	-14.9	-6.2
Increase (+) / Decrease (-) in operating liabilities	29.2	65.8
<b>Cash flow from current operations</b>	<b>881.0</b>	<b>950.7</b>
<b>Investments</b>		
Investment in properties	-239.6	-1,453.7
Investment in equipment	-4.6	-3.6
<b>Cash flow from investments</b>	<b>-244.2</b>	<b>-1,457.3</b>
<b>Financing</b>		
Loans raised	1,600.0	4,100.0
Amortization of loans	-1,700.0	-3,050.0
Dividend paid	-567.2	-536.3
<b>Cash flow from financing</b>	<b>-667.2</b>	<b>513.7</b>
<b>Cash flow for the year</b>	<b>-30.4</b>	<b>7.1</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>504.6</b>	<b>497.5</b>
<b>Cash and cash equivalents at the year-end</b>	<b>474.2</b>	<b>504.6</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	4.2	9.4
Interest paid	130.8	107.6

# Comments

## **Cash flow from current operations**

Cash flow from current operations before changes in operating capital decreased by SEK 24.4 million to SEK 866.7 million (891.1). The decrease can be attributed to lower tax paid during the previous year as a result of realized undervalues of interest derivatives. Changes in working capital increased cash flow by SEK 14.3 million (59.6). Cash flow from current operations thus totalled SEK 881.0 million (950.7).

## **Cash flow from investments**

Cash flow from investments amounted to SEK -244.2 million (-1,457.3) and refers to investment in existing holdings and equipment of SEK 244.2 million (192.3). The outcome for the previous year included property acquisitions totalling SEK 1,265.0 million.

## **Cash flow from financing**

Cash flow from financing decreased by SEK 1,180.9 million to SEK -667.2 million (513.7). Net borrowing decreased by SEK 100 million compared to an increase of SEK 1,050 million the previous year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK -30.4 million (7.1).

## **Cash and cash equivalents**

The Group's cash and cash equivalents totalled SEK 474.2 million (504.6), of which cash and bank holdings amounted to SEK 474.2 million (504.6) and current investment of surplus liquidity was SEK 0 million (0). In addition to cash and cash equivalents there were unutilized overdraft facilities amounting to

SEK 40 million (40). As at December 31, 2014, Hufvudstaden had non-current loan assurances of SEK 4.0 billion. At the year-end, SEK 2.1 billion was unutilized, of which SEK 600 million was reserved in order to cover outstanding commercial paper loans. The commercial paper programme totalled SEK 2.0 billion, of which SEK 600 million was outstanding at the year-end. The unutilized amount is SEK 1.4 billion. The Company's MTN programme has a limit of SEK 4.0 billion, of which SEK 2.2 billion has been issued. The unutilized amount is SEK 1.8 billion.

There are no limits on the right of use of cash and cash equivalents.

# Hufvudstaden AB – Parent Company

<b>Income Statements</b>			
SEK m	Note	2014	2013
Net revenue		1,031.3	987.9
Operating costs		-500.7	-429.9
<b>Gross profit</b>		<b>530.6</b>	<b>558.0</b>
Central administration		-36.2	-35.7
Changes in value	12	-185.8	59.6
<b>Operating profit</b>	6–11	<b>308.6</b>	<b>581.9</b>
<b>Profit from financial items</b>			
Group contributions received		348.8	358.4
Financial income	13	3.5	8.3
Financial expense	14	-132.9	-136.2
		<b>219.4</b>	<b>230.5</b>
<b>Profit after financial items</b>		<b>528.0</b>	<b>812.4</b>
Appropriations	15	-108.6	-105.2
<b>Profit before tax</b>		<b>419.4</b>	<b>707.2</b>
Tax	16	-56.3	-157.2
<b>PROFIT FOR THE YEAR</b>		<b>363.1</b>	<b>550.0</b>

<b>Statement of Comprehensive Income</b>			
SEK m	Note	2014	2013
Profit for the year		363.1	550.0
Other comprehensive income		–	–
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>363.1</b>	<b>550.0</b>

<b>Balance Sheets</b>			
SEK m	Note	31-12-2014	31-12-2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	8,096.7	7,588.9
Tangible fixed assets	18	4.8	3.6
		<b>8,101.5</b>	<b>7,592.5</b>
<i>Financial fixed assets</i>			
Participations in Group companies	19	2,824.8	3,091.2
Non-current receivables	20	8.4	43.6
Total financial fixed assets		2,833.2	3,134.8
<b>Total fixed assets</b>		<b>10,934.7</b>	<b>10,727.3</b>
<b>Current assets</b>			
Accounts receivable	21	2.5	3.9
Other receivables		6.0	3.2
Prepaid tax		55.4	13.7
Receivables from Group companies		394.3	668.8
Prepaid expenses and accrued income	22	17.1	22.7
Total current assets		475.3	712.3
Cash and bank holdings	23	474.0	504.4
<b>Total current assets</b>		<b>949.3</b>	<b>1,216.7</b>
<b>TOTAL ASSETS</b>		<b>11,884.0</b>	<b>11,944.0</b>

<b>Balance sheets, cont'd</b>			
SEK m	Note	31-12-2014	31-12-2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital (211,271,933 shares)		1,056.4	1,056.4
Revaluation reserve		124.2	124.2
Statutory reserve		798.1	798.1
<b>Total restricted equity</b>		<b>1,978.7</b>	<b>1,978.7</b>
<i>Non-restricted equity</i>			
Retained earnings		1,660.4	1,636.4
Profit for the year		363.1	550.0
<b>Total non-restricted equity</b>		<b>2,023.5</b>	<b>2,186.4</b>
<b>Total equity</b>	24	<b>4,002.2</b>	<b>4,165.1</b>
<i>Untaxed reserves</i>			
	29	823.3	714.6
<i>Provisions</i>			
Pension provisions	27	10.5	8.6
Provisions for taxes	26	882.3	953.2
<b>Total provisions</b>		<b>892.8</b>	<b>961.8</b>
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	4,650.0	4,550.0
Liabilities to Group companies		0.7	0.7
Other liabilities		167.5	16.2
<b>Total non-current liabilities</b>		<b>4,818.2</b>	<b>4,566.9</b>
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	1,000.0	1,200.0
Accounts payable		54.8	36.3
Liabilities to Group companies		11.2	19.8
Other liabilities	28	26.1	40.8
Accrued expenses and prepaid income	30	255.4	238.7
<b>Total current liabilities</b>		<b>1,347.5</b>	<b>1,535.6</b>
<b>Total liabilities</b>		<b>7,881.8</b>	<b>7,778.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,884.0</b>	<b>11,944.0</b>

SEK m	Note	31-12-2014	31-12-2013
Pledged assets	31	1,661.5	1,660.0
Contingent liabilities	31	None	None

## Changes in equity

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings, including profit for the year	Total
<b>Opening equity 01-01-2013</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,172.7</b>	<b>4,151.4</b>
Profit for the year				550.0	550.0
Other comprehensive income for the year				-	-
Comprehensive income for the year				550.0	550.0
Dividend, Parent Company				-536.3	-536.3
<b>Closing equity 31-12-2013</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,186.4</b>	<b>4,165.1</b>
<b>Opening equity 01-01-2014</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,186.4</b>	<b>4,165.1</b>
Profit for the year				363.1	363.1
Other comprehensive income for the year				-	-
Comprehensive income for the year				363.1	363.1
Dividend, Parent Company				-567.2	-567.2
Merger difference				41.2	41.2
<b>Closing equity 31-12-2014</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,023.5</b>	<b>4,002.2</b>

## Comments

The gross profit amounted to SEK 530.6 million (558.0). The decrease can be attributed mainly to increased maintenance costs and higher depreciation. Net revenue was SEK 1,031.3 million (987.9).

Net financial income and expense was SEK 219.4 million (230.5). The profit for the year includes group contributions from subsidiaries totalling SEK 348.8 million (358.4).

Cash and cash equivalents at the year-end totalled SEK 474.0 million (504.4). Investments in existing holdings and equipment totalled SEK 91.5 million (65.5).

## Cash Flow Statements

SEK m	2014	2013
<b>Current operations</b>		
Profit after financial items	528.0	812.4
Depreciation and impairment of assets	121.2	93.0
Unrealized changes in value, interest derivatives	185.8	-59.6
Group contribution	-348.8	-358.4
Other changes	0.4	0.4
Income tax paid	-136.3	-106.3
<b>Cash flow from current operations before changes in working capital</b>	<b>350.3</b>	<b>381.5</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (-) in operating receivables	368.3	364.2
Increase (+) / Decrease (-) in operating liabilities	9.7	78.3
<b>Cash flow from current operations</b>	<b>728.3</b>	<b>824.0</b>
<b>Investments</b>		
Investment in properties	-88.3	-1 328.2
Investment in equipment	-3.2	-2.3
<b>Cash flow from investments</b>	<b>-91.5</b>	<b>-1,330.5</b>
<b>Financing</b>		
Loans raised	1,600.0	4,100.0
Amortization of loans	-1,700.0	-3,050.0
Dividend paid	-567.2	-536.3
<b>Cash flow from financing</b>	<b>-667.2</b>	<b>513.7</b>
<b>Cash flow from financing for the year</b>	<b>-30.4</b>	<b>7.2</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>504.4</b>	<b>497.2</b>
<b>Cash and cash equivalents at the year-end</b>	<b>474.0</b>	<b>504.4</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	3.9	8.9
Interest paid	130.3	107.6

# Notes

## Note 1. Accounting principles

### General information

Hufvudstaden AB (publ) is a limited liability company with its registered office in Stockholm. Hufvudstaden is quoted in the large cap list on Nasdaq Stockholm. The Group's principal area of business is the ownership, development and management of commercial properties. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Consolidated Financial Statements for Hufvudstaden AB (publ) for 2014 have been approved for publication according to a decision reached by the Board on February 12, 2015. It is proposed that the Annual Report and Consolidated Financial Statements be adopted at the Annual Meeting on March 26, 2015.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the EU. In addition, the Swedish Financial Accounting Standards Council recommendation RFR 1, Supplementary Rules for Consolidated Financial Statements, has been applied. Hufvudstaden's Income Statements are classified according to function and are adapted to the Company's operations.

The Parent Company applies the same accounting principles as the Group except in those cases stated below under the section 'Parent Company accounting principles'. The deviations that arise between the principles applied by the Parent Company and the principles applied by the Group are attributable to limits on the potential to apply IFRS in the Parent Company as a result of the Annual Accounts Act, the Safeguarding of Pension Commitments Act and in certain cases for tax reasons.

### Prerequisites in conjunction with preparation of the financial statements

The Group's functional currency is Swedish kronor, which is also the reporting currency for the Group and the Parent Company. Assets and liabilities are reported at the historical acquisition values, apart from certain financial assets and liabilities as well as investment properties valued at fair value. Financial assets and liabilities valued at fair value comprise derivatives and assets classified as financial assets valued at fair value in profit or loss. Valuation at fair value of investment properties and financial derivatives is the accounting principle that has greatest impact on the consolidated financial statements.

The accounting principles stated below for the Group have been applied to all periods that are presented in the consolidated financial statements unless stated otherwise below. The Group's accounting principles have been applied to reporting and consolidation of the Parent Company and subsidiaries.

In certain cases, rounding-off has taken place, which means that tables and calculations do not always tally.

### Assessments and estimates

In order to prepare statements in compliance with IFRS, the Executive Management makes use of a number of material accounting estimates. In addition, it is required that the Executive Management makes certain assessments in conjunction with the application of the Group's accounting principles.

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

#### Investment properties

The value of a property can only be determined with certainty when payment has been received following its sale. In the final accounts, an estimate is made of the market value, which in accounting terms is known as the fair value. The fair value is determined based on a valuation according to a variation on the location price method, which is known as the net capitalization method. The method means that the market yield requirement is put in relation to the net operating income of the properties. In this valuation, assessment is made of the yield requirement for each individual property. The properties' net operating income is calculated based on the market rental revenue, long-term rental vacancy level and normalized operating and maintenance costs. Hufvudstaden's internal property valuation is checked with external valuation companies, where an uncertainty range of +/- 5 per cent of the assessed fair value is given for the property level. If Hufvudstaden's valuation is outside the uncertainty range, an explanation for the deviation is given.

External changes could mean that an assumption made by the Executive Management needs to be reviewed. This could result in a considerable variation in the value of the property holdings, which can be seen in the sensitivity analysis in Note 17.

### Amended accounting principles

New and amended IFRS that came into effect in 2014, such as IFRS10, IFRS 11 and IFRS12, have not had any impact on the consolidated financial statements.

### New IFRS

A number of new and amended IFRS will only come into effect in the forthcoming financial year and have not been applied in the preparation of these financial statements.

### Classification etc.

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

### Consolidated accounts

The consolidated accounts cover the Parent Company and all subsidiaries. Those companies in which the Parent Company, directly or indirectly, has a controlling interest are consolidated subsidiaries. The subsidiaries have been reported in accordance with the acquisition method, which means that assets and liabilities that have been taken over are valued at fair value according to the acquisition analysis. If the acquisition does not refer to operations that are normal in conjunction with the acquisition of properties, the acquisition costs are divided among the individually identifiable assets and liabilities according to their fair value at the time of acquisition without any reporting of goodwill or a deferred tax receivable/liability in conjunction with the acquisition. Untaxed reserves have been divided into a deferred tax liability and equity. Intra-Group receivables, liabilities and profits or losses that arise from intra-Group transactions have been eliminated in conjunction with the preparation of the consolidated accounts. Consolidation in conjunction with acquisitions takes place from the date on which a controlling influence is acquired and in conjunction with disposals up to the date on which the controlling influence ceases.

### Reporting of income and costs

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

#### Income from property sales

Income from property sales is reported on the completion date. In addition, account is taken of circumstances that could affect the outcome of the transaction and which are beyond the control of the seller and/or purchaser.

#### Intra-Group rents and costs

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

#### Administration costs

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

#### Financial income and expense

Financial income and expense comprises interest income and interest expense, dividends from subsidiaries and unrealized and realized gains on financial investments. Interest income and interest expense are reported in the Income Statement for the period to which they refer, apart from borrowing expenses that are attributable directly to investments and where the financing cost is of material significance. Interest income attributable to accounts receivable is included in

Note 1 continued on page 71.

the gross profit. Interest income and interest expense are calculated according to the annual equivalent interest rate method.

#### **Leases**

All the Group's lease agreements for the leasing of premises are classified as operational lease agreements with the Group as the lessor. All rental, leasehold and tenancy agreements which the Group has entered into as lessee are classified as operational lease agreements. The cost of these is expensed on an on-going basis.

#### **Remuneration to employees**

Remuneration to employees, such as salaries, paid holidays and social insurance costs etc. are reported in line with the employee performing services in return for payment. Remuneration according to a bonus scheme is reported in line with the employee performing services during the term of the programme.

As regards the Group's pension undertakings, the majority of white-collar workers are covered by what is known as the ITP plan, which is secured through insurance with Alecta, and blue-collar workers are covered by the SAF-LO contractual pension. During the 2014 financial year, the Company did not have access to information that made it possible to report these plans as defined benefit plans. The pension plans are therefore reported as defined contribution plans. The commitments regarding charges to defined contribution plans are reported as a cost in the Income Statement when they arise.

#### **Tax**

Tax is reported in the profit for the year apart from the fact that the underlying transaction is reported under Other Comprehensive Income or under Equity, whereupon the associated tax effect is reported under Other Comprehensive Income or Equity. Current tax is the tax to be paid or received for the year in question. This also includes an adjustment of current tax attributable to previous periods. Deferred tax is calculated according to the Balance Sheet method, using temporary differences between carrying amounts and tax values of assets and liabilities as a starting point. The amounts are calculated based on how the temporary differences are expected to be realized and on application of the tax rates and tax rules that had been decided or notified as at the year-end. In the Parent Company, untaxed reserves are reported inclusive of the deferred tax liability.

Deferred prepaid taxes recoverable in respect of deductible temporary differences and deficit deductions are only reported to the extent it is likely that these will entail lower tax payments in the future.

#### **Financial instruments**

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

A financial instrument is valued initially at fair value with a supplement for transaction costs, with the exception of the 'financial asset' and 'financial liability' categories valued at fair value in profit or loss, which are reported at the fair value excluding transaction costs. Financial assets and liabilities are recorded on application of the business date principle. A financial asset or financial liability is recorded in the Balance Sheet when the Company becomes a party to an agreement. An account receivable is recorded in the Balance Sheet when an invoice has been sent. A rent receivable, however, is recorded when each rental period has commenced. A liability is taken up when the counter-party has performed and a contractual obligation to pay exists even if an invoice has not yet been received. A financial asset (or part thereof) is removed from the Balance Sheet when the rights in the agreement are realized or fall due, or when the Company transfers in all material respects the risks and benefits that are linked to ownership. A financial liability (or part thereof) is removed from the Balance Sheet when the obligation in the agreement is performed or is extinguished in some other manner.

A financial asset and a financial liability are set off and reported as a net amount in the Balance Sheet only when there is a legal right to set off the amounts and when there is an intention to settle the items at a net amount or at the same time realize the asset and settle the liability. Hufvudstaden has not identified any embedded derivatives that should be separated from their host contracts and reported separately.

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

This category comprises two sub-groups: financial assets and liabilities, which comprise a holding for trading purposes, i.e. where the main purpose is to sell or repurchase in the short term, and other financial assets and liabilities which the Company has initially chosen to place in this category (according to what is

known as the Fair Value Option). Derivatives are classified as being held for trading purposes if they are not identified as hedges. Financial assets in this category are valued continuously at fair value with changes in value reported in the Income Statement.

This category includes interest derivatives.

#### **Loan receivables and accounts receivable**

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

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

Receivables with a remaining term of more than 12 months are reported at the accrued acquisition value.

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

#### **Other financial liabilities**

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

Liabilities are reported initially at fair value and thereafter at the accrued acquisition value. This category includes loans as well as other financial liabilities, such as accounts payable.

#### **Derivatives**

Derivatives are reported in the Balance Sheet on the contract date and are valued at fair value, both initially and in conjunction with subsequent revaluations. The Group uses derivatives of financial instruments to reduce interest risks. Borrowing at a variable rate of interest is switched to fixed interest loans through interest swap contracts. The Group reports interest swap contracts as financial instruments valued at fair value in profit or loss.

#### **Impairment of financial instruments**

At each period-end, the Group assesses whether there are any objective grounds for impairment of a financial asset. A provision for a decrease in value of accounts receivable is made when there are objective grounds for the Group not being able to receive all the amounts that have fallen due according to the original terms and conditions of the receivables. Significant financial difficulties on the part of the debtor, the probability that the debtor will enter into bankruptcy or undergo a financial reconstruction and where payments will not be made or will be delayed (fallen due more than 60 days) are regarded as indicators that there could be a need for impairment of a receivable. The size of the provision comprises the difference between the carrying amount of the asset and the current value of assessed future cash flows, discounted using the original annual equivalent rate of interest. Changes in value are reported in the Income Statement on a separate line and paid interest and accrued interest are reported as a financial expense.

#### **Tangible fixed assets**

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

#### *Depreciation, Property Management*

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

#### *Depreciation, Parking Operations*

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

#### *Depreciation principles*

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

### Investment properties

Investment properties are properties that are held for the purposes of securing rental revenue and/or an increase in value. Initially, investment properties are reported as an acquisition expense, which includes expenses directly attributable to the acquisition. After the initial report, investment properties are reported in the Balance Sheet at fair value. The fair value is based on internal valuations of each individual property. These valuations normally take place each quarter. To assure the valuation, valuations are made by external valuation companies at least once a year. The external valuations normally cover 20–30 per cent of the internally assessed fair value of the property holdings and the selection of properties represents different property categories, towns, locations, technical standards and construction standards. There is a continuous update during the year of the internal valuation of the properties to take account of purchases, sales and investments. Hufvudstaden also investigates on an ongoing basis if there are other indications of changes in the fair value of the properties. These indications could take the form, for example, of major leases, terminations and material changes in the yield requirements.

Both unrealized and realized changes in value are reported in the Income Statement. Changes in value are reported net.

Additional expenses are only capitalized when it is probable that the future financial advantages that are associated with the asset will accrue to the Group, that the cost can be calculated reliably and that measures refer to replacement of an existing component or the inclusion of a new, identified component. Other repair and maintenance costs are expensed continuously during the period in which they arise.

The loan charges attributable to the construction of what are termed qualified assets are capitalized as part of the acquisition value of the qualified asset. In the Group, this mainly involves construction or major redevelopment projects involving investment properties. Calculation of loan charges is based on the financing requirements of the project and the Group's borrowing cost.

### Impairments

The carrying amounts for the Group's assets – with the exception of investment properties, fixed assets held for resale, financial assets and deferred prepaid tax – are examined at each period-end to assess whether there is an indication that the carrying amount cannot be recovered. If there is such an indication, the recoverable amount of the asset is calculated. The asset is impaired to the recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the fair value minus sales expenses and its value in use. See above for impairment of financial assets.

### Share capital

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

### Profit per share

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

### Fixed assets held for resale and discontinued operations

Assets that are to be disposed of are classified as assets held for resale. Operations that are to be disposed of are classified as assets, liabilities and result from discontinued operations.

### Provisions

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

### Contingent liabilities

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

### Cash Flow Statements

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

### Segment reporting

From an accounting point of view, a segment is an identifiable part of the Group that provides services that are exposed to risks and opportunities that are different from other segments. The Group's operations are divided into two segments, Property Management and Parking Operations. This division is in compliance with the manner in which operations are followed up internally.

### PARENT COMPANY ACCOUNTING PRINCIPLES

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

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

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

Mergers are reported according to BFAR 1999:1.

### 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. Loan charges are not capitalized in the Parent Company.

### Valuation of investment properties and tangible fixed assets

The carrying amount of investment properties and tangible fixed assets is examined with regard to possible impairment requirements when events or a change in conditions indicate a possibility that the carrying amount might not be recovered. If there are such indications, and if the carrying amount exceeds the expected recoverable amount, the assets are impaired to the recoverable amount. The recoverable amount is equivalent to the maximum of the net realizable value and the value in use. The net realizable value is set through comparison with the sale of similar objects. The value in use comprises the current value of the expected future cash flows according to a discounting factor before tax, which reflects the market's current estimate of the time value and the risks associated with the asset.

For assets that do not generate independent cash flows to a predominant extent, the recoverable amount is set for the cash-generating unit to which the asset belongs. Any impairment is reported in the Income Statement. Reversal of impairments is made if the recoverable amount once again exceeds the previous carrying amount. Reported revaluations of investment properties have been made at the fair value with a deduction for deferred tax.

Information about the properties' fair values as at the year-end can be found in Note 17.

### Depreciation – investment properties

The Parent Company's depreciation according to plan is based on the original acquisition values, adjusted where applicable for revaluations and impairments and the estimated useful life. The estimated useful life for buildings is 50–100 years and for building equipment 5–20 years.

Depreciation of properties with mixed operations has been calculated by weighing together each floor space category's percentage for depreciation. For a property with a dominant (75 per cent) category, the percentage for the category in question is applied to the whole property. The revaluation is depreciated over the remaining depreciation period of the underlying asset. Percentages for depreciation are reported in Note 17.

### Note 2. Financial risks

Hufvudstaden is mainly exposed to financing risks and interest risks. The Group endeavours to have a loan portfolio with a diverse credit renewal structure that

facilitates possible amortizations. No loans are raised in foreign currency and consequently the Group is not exposed to a currency exchange risk. Borrowing normally takes place with short fixed interest periods and interest swaps are used to achieve the desired fixed interest structure. Derivatives are only used

for the purpose of minimizing the risk and should be linked to an underlying exposure. At present, the Group has derivatives reported in the category financial assets and liabilities valued at fair value in profit or loss. It has been decided that hedge accounting will be applied to future interest derivatives.

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

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

#### Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. The aim is to have financing from at least three of the major banks and a loan portfolio with a spread of due dates and long terms. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the rescheduling of loans and investments. In addition, the Company has a commercial paper programme and an MTN programme. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis. The Executive Management prepares rolling forecasts for the Group's liquidity on the basis of expected cash flows. Hufvudstaden's borrowings amounted to SEK 5,650 million at the year-end. The average fixed interest period was 33 months (41), the average capital tie-up period was 32 months (44) and the average annualized equivalent interest cost was 2.2 per cent (2.3). Net debt totalled SEK 5,175.8 million compared to SEK 5,245.4 million at the end of 2013. As at December 31, 2014, the Group had non-current loan assurances of SEK 4 billion, of which SEK 2.1 billion was unutilized, of which SEK 600 million has been reserved to cover outstanding commercial paper. There is also a commercial paper programme of SEK 2 billion, of which SEK 1.4 billion was unutilized, as well as an MTN programme of SEK 4 billion, of which SEK 1.8 billion was unutilized. The Company has satisfactory margins with regard to the lenders' restrictions (covenants) in the loan agreements.

#### Due date structure, interest and capital, December 31, 2014

Year due	Interest payments, SEK m	Of which swaps, SEK m	Nominal amount, SEK m <sup>1)</sup>	Proportion, %
2015, Q 1	30.7	13.1	200.0	4
2015, Q 2	30.4	13.1	–	–
2015, Q 3	30.1	13.1	200.0	4
2015, Q 4	30.1	13.1	–	–
2016	116.9	52.1	900.0	15
2017	95.7	41.3	2,650.0	47
2018	39.8	19.1	1,200.0	21
2019	4.3	3.3	500.0	9
Total	378.0	168.2	5,650.0	100

1) Capital tie-up in respect of commercial paper loans has been calculated based on the underlying loan assurances.

In addition to the above, there are other liabilities, which also include accounts payable, which normally fall due within 30 days, as well as derivatives with a negative value of SEK 149.1 million.

#### Interest risk

The interest risk refers to the impact on profit that a permanent change in the interest rate has on the Group's net financial income and expense. Hufvudstaden's financing sources are primarily equity, cash flow from current operations, the raising of loans and loan assurances. Investment of surplus liquidity is made in financial instruments with a short fixed interest period, thus limiting the Group's exposure to an interest risk in investments.

The raising of interest-bearing loans means that the Group is exposed to an interest risk. Hufvudstaden's Finance Policy states the framework for how interest risks are to be handled. An overall aim is that the renewal structure in the leases should be taken into account when determining the fixed interest period and that a balance is struck between the assessed current cost of borrowing and the risk of a significant negative impact on profit in the event of a sudden, major change in the interest rate. This means that the Group's fixed interest structure for the net debt should normally be 12–48 months. Loans are normally raised at a variable rate of interest and derivatives are used to achieve the desired fixed

interest structure. As at December 31, 2014, the Group's fixed interest period was 33 months. A change in the interest level of +/- 1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would affect Hufvudstaden's interest expense in 2015 to the amount of +/- SEK 37 million (38). At the same time, the change in interest would mean a change in value in interest derivatives to the amount of SEK 121 million (132) in the result.

#### Fixed interest structure, December 31, 2014 (Including effect of interest derivatives)

Year due	Volume, SEK m	Proportion, %	Average AER, %
2015	900.0	16	1.2
2016	500.0	9	2.1
2017	1,500.0	26	1.8
2018	1,800.0	32	2.6
2019	950.0	17	2.9
Total	5,650.0	100	2.2

#### Credit risk

A credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and any collateral does not cover the Group's claims. The aim is to minimize the credit risk through advance rent payments and to only enter into credit transactions with large financing institutions. A credit risk can be attributed mainly to outstanding accounts receivable/rent receivables, cash and cash equivalents as well as financial derivative agreements with positive values, which as at the year-end had a collective carrying value of SEK 518.0 million, which means that the Group has limited exposure to credit risks.

Losses on accounts receivable/rent receivables occur when tenants are put into receivership or for other reasons they are unable to meet their payment commitments. The risks are limited by Hufvudstaden deliberately selecting customers with documented business skills and competitive operations. To limit the risks, the financial position of the Group's customers is checked in terms of their credit rating by obtaining information from different credit information companies. In accordance with Hufvudstaden's Credit Policy, a bank guarantee or guarantee undertaking is normally required in conjunction with new leases. Rent receivables are invoiced in advance.

The Group's ten largest tenants represent 25 per cent of the total contracted rent and the single largest customer accounts for 8 per cent, which means that Hufvudstaden's exposure to the credit risk represented by individual customers is relatively limited. Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a high rating and with whom the Company has a long-term relationship. In addition, there are general agreements with these institutions regarding the set-off of different derivative agreements, which further reduces the credit risk exposure.

#### Concentration of credit risk, December 31, 2014<sup>1)2)</sup>

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	94	3,837	0.3
100 – 499	116	34,017	2.2
500 – 999	121	90,699	5.8
1,000 – 2,499	149	230,593	14.9
2,500 – 4,999	85	293,953	18.9
5,000 – 9,999	49	316,594	20.4
10,000 –	25	582,277	37.5
Total	639	1,551,970	100.0

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

2) Annual rent as at December 31, 2014.

#### Fair value

The fair value of financial instruments traded on an active market (such as financial assets held for resale) is based on listed market prices on the reporting date. The listed price used is the current purchase price. The fair value of financial instruments not traded on an active market is set with the aid of valuation techniques. Fair values are set by discounting future payment flows to the current market rate of interest for similar instruments. For financial instruments such as accounts receivable, accounts payable and so on, which are reported at the accrued acquisition value with a deduction for possible impairment, the fair value is considered to be in line with the carrying value as these instruments have a very short term. Interest-bearing liabilities mainly have a three-month fixed interest period, whereupon the fair value is considered to concur essentially with the carrying value.

Continuation, Note 2.

Information regarding fair values, financial instruments										
SEK m	Items valued at fair value through profit or loss								Total carrying amount	
	Derivatives		Accounts receivable and loan receivables		Other liabilities		Non-financial items		2014	2013
	2014	2013	2014	2013	2014	2013	2014	2013		
<b>GROUP</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables		36.6	8.4	7.0					8.4	43.6
Current receivables			35.4	38.4			16.2	3.9	51.6	42.3
Cash and cash equivalents			474.2	504.6					474.2	504.6
Non-current liabilities	149.1				4,680.2	4,576.1			4,829.3	4,576.1
Current liabilities					1,270.6	1,431.2	259.8	276.9	1,530.4	1,708.1
<b>PARENT COMPANY</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables		36.6	8.4	7.0					8.4	43.6
Current receivables			23.3	26.7			2.3	3.1	25.6	29.8
Cash and cash equivalents			474.0	504.4					474.0	504.4
Non-current liabilities	149.1				4,678.9	4,574.8			4,828.0	4,574.8
Current liabilities					1,169.1	1,354.5	167.3	161.3	1,336.4	1,515.8

The fair value concurs essentially with the carrying value. For bond loans with a fixed rate of interest the undervalue is SEK -46.4 million. The fair value of all instruments valued at fair value in the Balance Sheet is attributable to level 2 in IFRS 7, i.e. the value has been calculated based on official market listings.

### Note 3. Segment information

The Group's operations are divided into two segments, Property Management and Parking Operations. The Property Management segment is divided into business areas that follow the operative control of the Company's business, which mainly follows the geographical division of the rental market into sub-markets. In the Parent Company, there is only the Property Management segment. The following presentation shows income and costs as well as assets and investments for the different business areas for 2014 and the comparison year 2013.

#### Property Management

SEK m	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>GROUP</b>								
<i>Income and costs <sup>1)</sup></i>								
Net revenue	695.6	699.7	626.7	614.8	274.1	258.2	1,596.4	1,572.7
<i>(of which turnover-based rent)</i>	(0.9)	(0.7)	(10.0)	(9.6)	(-)	(-)	(10.9)	(10.3)
Maintenance	-16.8	-18.1	-12.2	-9.9	-2.9	-4.0	-31.9	-32.0
Operation and administration	-74.8	-73.9	-124.2	-120.1	-49.6	-43.8	-248.6	-237.8
Ground rent	-0.2	-0.2	-16.8	-15.9	-	-	-17.0	-16.1
Property tax	-76.6	-76.6	-51.0	-50.1	-26.6	-25.5	-154.2	-152.2
Gross profit, property management	527.2	530.9	422.5	418.8	195.0	184.9	1,144.7	1,134.6
Parking operations			19.1	18.0			19.1	18.0
Central administration							-36.2	-35.7
<i>Changes in value</i>								
Investment properties							1,708.6	1,357.9
Interest derivatives							-185.8	59.6
Operating profit							2,650.4	2,534.4
Financial income and expense							-129.9	-127.8
Profit before tax							2,520.5	2,406.6
<b>Assets</b>								
Investment properties	13,312.5	12,373.1	10,045.1	9,366.7	4,459.8	4,129.3	27,817.4	25,869.1
Rent receivables	1.1	0.7	0.6	2.6	0.2	0.2	1.9	3.5
<b>Investments</b>								
Investment properties and equipment	92.7	80.0	86.3	76.3	65.2	1,301.0	244.2	1,457.3

1) For comparable holdings, see Business areas in figures, page 94.

Note 3 continued on page 75.

Continuation, Note 3.

<b>Parking Operations</b>		
The Parking Operations segment includes parking operations at Parkaden AB.		
SEK m	2014	2013
<b>GROUP</b>		
Net revenue	68.9	67.7
Rental costs	-40.6	-40.8
Operation and administration	-8.3	-8.3
Depreciation	-0.9	-0.6
Gross profit	19.1	18.0
Total assets amounted to SEK 14.4 million (3.6).		

<b>Note 4. Profit trend – summary</b>										
SEK m	Jan–Mar		Apr–Jun		Jul–Sept		Oct–Dec		Jan–Dec	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>GROUP</b>										
<i>Property management</i>										
Net revenue	397.4	372.9	394.7	388.0	394.8	391.8	409.5	420.0	1,596.4	1,572.7
Maintenance	-4.4	-8.5	-10.0	-2.4	-6.1	-9.5	-11.4	-11.6	-31.9	-32.0
Operation and administration	-63.0	-64.3	-58.0	-53.4	-60.4	-50.5	-67.2	-69.6	-248.6	-237.8
Other costs	-42.2	-36.6	-42.5	-38.1	-43.2	-38.1	-43.3	-55.5	-171.2	-168.3
Property management costs	-109.6	-109.4	-110.5	-93.9	-109.7	-98.1	-121.9	-136.7	-451.7	-438.1
Other operations, net	4.4	4.7	4.8	4.5	3.1	2.5	6.8	6.3	19.1	18.0
Gross profit	292.2	268.2	289.0	298.6	288.2	296.2	294.4	289.6	1,163.8	1,152.6
Central administration	-8.9	-8.4	-9.0	-8.5	-9.0	-8.5	-9.3	-10.3	-36.2	-35.7
<i>Changes in value</i>										
Investment properties	60.9	73.2	578.5	434.2	54.5	44.4	1,014.7	806.1	1,708.6	1,357.9
Interest derivatives	-54.5	39.0	-59.8	50.6	-34.4	-1.5	-37.1	-28.5	-185.8	59.6
Financial income and expense	-31.3	-29.8	-33.7	-32.6	-32.9	-33.0	-32.0	-32.4	-129.9	-127.8
Tax	-64.1	-76.3	-170.1	-164.3	-59.9	-65.7	-225.1	-224.2	-519.2	-530.5
Profit for the period after tax	194.3	265.9	594.9	578.0	206.5	231.9	1,005.6	800.3	2,001.3	1,876.1

<b>Note 5. Operational lease agreements – Group as lessor</b>							
The Group has commercial lease agreements for the property holdings, which comprise offices, stores, warehouses and other non-residential premises. The remaining term is between 1 and 10 years.							
<i>Renewal structure<sup>1)2)3)</sup></i>							
	2015	2016	2017	2018	2019	2020–	Total
<i>Number of agreements</i>							
Offices	86	67	71	39	28	28	319
Stores	170	78	83	16	9	14	370
Other	499	203	175	47	18	30	972
Total	755	348	329	102	55	72	1,661
Proportion, %	45.5	21.0	19.8	6.1	3.3	4.3	100.0
<i>Annual rent, SEK m</i>							
Offices	110.5	108.8	171.7	114.1	64.8	163.0	732.9
Stores	259.8	179.0	151.2	29.5	26.9	50.2	696.6
Other	43.6	22.1	26.4	7.0	4.2	10.8	114.1
Total	413.9	309.9	349.3	150.6	95.9	224.0	1,543.6
Proportion, %	26.8	20.1	22.6	9.8	6.2	14.5	100.0
1) Including leases signed for future occupancy/commencement, whereupon the corresponding present floor space is excluded.							
2) Excluding vacant floor space and floor space (storage and office) for Hufvudstaden's use.							
3) Excluding residential leases.							

**Note 6. Depreciation, tangible fixed assets and investment properties**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
<i>Depreciation per type of asset</i>				
Investment properties	- <sup>1)</sup>	- <sup>1)</sup>	104.7 <sup>2)</sup>	91.7
Tangible fixed assets	3.1	2.5	2.0	1.7
Total	3.1	2.5	106.7	93.4
<i>Depreciation per function</i>				
Property management	2.2	1.9	106.7 <sup>2)</sup>	93.4
Parking operations	0.9	0.6	-	-
Total	3.1	2.5	106.7	93.4

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

2) In addition, impairments have been made totalling SEK 14.8 million.

**Note 7. Average number of employees**

Average number of employees	2014		2013	
		Of which men, %		Of which men, %
Parent Company	97	61	93	61
of which executives	7	86	7	86
<i>Wholly owned subsidiaries</i>				
Parkaden AB	3	67	3	67
Total, Group	100	61	96	61
of which executives	7	86	7	86

Of the Group's 27 managers (26), 9 are women (9) or 33 per cent (35). The Board of the Parent Company comprised 7 men (7) and 2 women (2). In the Group, there is one other male member of the Board (1 man). The Group only has employees in Sweden.

**Note 8. Salaries and remuneration**

SEK k	Group				Parent Company			
	2014	Of which bonus	2013	Of which bonus	2014	Of which bonus	2013	Of which bonus
<i>Salaries and other remuneration</i>								
Fee to the Chairman of the Board	400		388		400		388	
Fee to other Board members	1,425		1,381		1,400		1,356	
Remuneration and benefits, President	4,331	255	4,868	831	4,331	255	4,868	831
Remuneration and benefits, other executives	8,790	589	9,218	784	8,790	589	9,218	784
Remuneration and benefits, other employees	44,731	848	43,621	1,474	43,536	834	42,289	1,455
Total	59,677	1,692	59,476	3,089	58,457 <sup>1)</sup>	1,678	58,119 <sup>1)</sup>	3,070
<i>National insurance expenses, including special employer's contribution</i>								
Chairman of the Board	126		122		126		122	
Other Board members	489		352		481		344	
President	1,915		1,792		1,915		1,792	
Other executives	3,125		3,284		3,125		3,284	
Other employees	15,844		14,666		15,472		14,276	
Total	21,499		20,216		21,119		19,818	
<i>Pension expenses</i>								
President	2,420		1,452		2,420		1,452	
Other executives	1,607		1,996		1,607		1,996	
Other employees	9,083		5,536		9,007		5,469	
Total	13,110		8,984		13,034		8,917	

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

Note 8 continued on page 77.

An expensed director's fee was paid for 2014 to the Chairman of the Board Fredrik Lundberg to the amount of SEK 400,000 and to Board members Claes Boustedt, Bengt Braun, Peter Egardt, Hans Mertzig, Sten Peterson, Anna-Greta Sjöberg and Louise Lindh to the amount of SEK 200,000 each. President Ivo Stopner does not receive any remuneration for his work on the Board. Within the Group, there is also Arne Lundin, who is a member of the board of Parkaden AB. Arne Lundin received a director's fee of SEK 25,000.

Guidelines for salary, bonus and other remuneration to executives are decided at the Annual Meeting. For 2014, the meeting decided that the following guidelines should be applied.

Salary conditions for executives shall be formulated in line with the market plus an incentive element in the form of a bonus, which is only payable if the Company reports a positive result without consideration given to unrealized changes in value. Such a bonus shall be decided for one year on each occasion, shall be linked to predetermined, quantifiable criteria, and shall be subject to a ceiling. The bonus part aims to provide the management with a special incentive to work to achieve positive results for the Company and thus support the interests of the shareholders.

Payment to both the President and other executives shall comprise a fixed permanent salary with the possibility of a bonus, which is paid in the manner stated subject to achievement of objectives for the Company and for the individual.

The bonus for the President can amount to a maximum of three months' salary per year and for other executives a maximum of the higher of three months' salary or SEK 250,000 per person per year. The bonus payable to the current number of executives, at the present salary level, can amount to a maximum of SEK 2.7 million.

The retirement age for the President is 65 years, although with the right for the President or the Company to decide on retirement with a full pension from the age of 60. Pensions for members of the Group management, including the President, are covered by the ITP plan and are defined benefit plans. In addition, there is a defined contribution pension for the President for the part of the salary not covered by the ITP plan and a direct pension of SEK 1 million, secured through endowment insurance. The premium has been invested in Hufvudstaden shares.

If the President and other executives are given notice of termination of employment by the Company, the total fixed salary during the period of notice plus severance pay shall not exceed an amount equivalent to the fixed salary for two years. In the case of notice of termination of employment being given by the President or

other executives, the period of notice shall be a maximum of six months, without any right to severance pay. In all cases, any payment received from a new employer shall be offset.

These guidelines shall cover those persons who during the time the guidelines apply are members of the Executive Management. The guidelines apply to agreements entered into following a decision at the Annual Meeting and in those cases where changes are made in existing agreements after this point in time.

The current guidelines were followed during 2014. However, the Board of Directors has made a permitted deviation from the guidelines with regard to the Vice President entering an agreement regarding a defined contribution pension for the part of the salary not covered by the ITP plan. The agreement is equivalent to what has been agreed for the President. With the exception of an addendum regarding a direct pension to the Vice President, the guidelines that will be presented at the 2015 Annual Meeting are unchanged.

Pensions for Group employees, including the President, are covered by the ITP plan and are defined benefit pensions. Alecta's surplus in the form of the collective consolidation level as of December had not been confirmed at the time of the signing of this Annual Report. Alecta's preliminary consolidation level, as at December 31, 2014, amounted to 144 per cent (148). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance undertakings, calculated according to Alecta's insurance calculation assumptions, which do not concur with IAS 19.

For the President and executives a bonus scheme was in place during the year based on result, customer satisfaction and personal objectives as described above. Other permanent employees in the Group were also covered by a bonus scheme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers there was also a personal assessment and individual objectives. 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.

The bonus schemes are subject to a decision being made for one year on each occasion and the bonuses are subject to a ceiling. A bonus is only payable if the Company reports a positive result without taking into account unrealized changes in value.

In the final accounts, a provision has been made for a bonus for profit targets and customer satisfaction. For personal objectives, a provision is made equivalent to 75 per cent of the maximum outcome. The bonus outcome for 2014 has been charged with a cost for 2013 of SEK 91,347.

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
KPMG AB				
Audit work	1.0	1.0	1.0	1.0
Other assignments	0.4	0.6	0.4	0.6
Total	1.4	1.6	1.4	1.6

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

Annual charges, SEK m	Group		Parent Company	
	2014	2013	2014	2013
– 1 year	17.8	12.3	12.2	7.9
1 year – 5 years	3.0	4.4	–	0.2
5 years –	3.9	3.9	0.3	0.3

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

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Maintenance	31.4	31.2	121.3	92.3
Operation and administration	235.9	232.1	83.5	80.7
Ground rent	17.0	16.1	8.8	8.1
Property tax	154.2	152.2	107.2	103.0
Depreciation and impairment	3.1	2.5	121.5	93.4
Personnel costs	96.7	90.3	95.0	88.5
Total	538.3	524.4	537.3	466.0

**Note 12. Changes in value**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Unrealized changes in value, investment properties	1,708.6	1,357.9		
Unrealized changes in value, interest derivatives	-185.8	59.6	-185.8	59.6
Total	1,522.8	1,417.5	-185.8	59.6

**Note 13. Financial income**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Interest income from bank holdings	3.5	4.5	3.4	4.3
Interest income from current investments	–	3.9	–	3.9
Interest income, other	0.1	0.1	0.1	0.1
Total	3.6	8.5	3.5	8.3

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

**Note 14. Financial expense**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Interest expense to credit institutions	94.5	114.8	94.5	114.8
Interest expense, swaps	31.9	14.0	31.9	14.0
Interest expense, other	7.1	7.5	6.5	7.4
Total	133.5	136.3	132.9	136.2

Of the financial expense, SEK 99.5 million (122.3) refers to financial instruments not valued at fair value.

**Note 15. Appropriations**

SEK m	Parent Company	
	2014	2013
Change in accumulated additional depreciation	-51.6	9.8
Change in tax allocation reserve	-57.0	-115.0
Total	-108.6	-105.2

**Note 16. Income taxes**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
<i>Current tax expense</i>				
Tax expense for the year	-132.6	-141.3	-132.6	-141.3
Tax attributable to previous years	38.8	0.3	38.8	-0.1
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation of properties	-66.9	-58.4	-3.8	-2.7
Unrealized change in value, properties	-379.2	-298.7	-	-
Unrealized change in value, interest derivatives	40.9	-13.2	40.9	-13.2
Effect, pension provision	0.4	0.1	0.4	0.1
Effect, allocation to untaxed reserves	-20.6	-19.3	-	-
Total tax	-519.2	-530.5	-56.3	-157.2
<i>Profit before tax</i>	2,520.5	2,406.6	419.4	707.2
Tax according to the current tax rate of 22 %	-554.5	-529.5	-92.3	-155.6
Tax attributable to previous years	38.8	0.3	38.8	-0.1
Non-taxable income	0.3	0.2	0.3	0.2
Non-deductible expenses	-0.6	-0.5	-0.5	-0.5
Utilization of previous deficit deductious	-	0.1	-	0.1
Standard income, tax allocation reserve	-2.2	-1.3	-2.2	-1.3
Other	-1.0	0.2	-0.4	-
Total tax	-519.2	-530.5	-56.3	-157.2

There were no deficit deductions in the Group as at the year-end.  
The Swedish Tax Agency has commenced a VAT audit at Hufvudstaden AB for 2011.

**Note 17. Investment properties**

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

SEK m	2014	2013
Investment properties, Group	27,817.4	25,869.1

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

SEK m	Investment properties	
	Owned for the full year	
2014		
Opening fair value		25,869.1
Investment in properties		239.6
Unrealized change in value		1,708.6
Closing fair value		27,817.4

	Investment properties	
	Purchased	Owned for the full year
2013		
Opening fair value	-	23,057.5
Acquisition value	1,265.0	-
Investment in properties	1.9	186.8
Unrealized change in value	2.0	1,355.9
Closing fair value	1,268.9	24,600.2

All properties generated rental revenue during the year. For income and costs attributable to investment properties, reference can be made to Note 3.

All properties are owned by the Group and are classified as investment properties. They cover the Balance Sheet items Buildings, Building Equipment and Land and Development in Progress. Investment properties are valued according to level 3 in the fair value hierarchy. The property holdings only include commercial properties comprising office and retailing space and are treated as one single asset category. Fair value is based on an internal valuation.

**Valuation method**

Valuation of the property holdings was done by assessing the fair value of each individual property. The assessment took place in the form of a valuation according to a variation on the location price method, known as the net capitalization method. The method means that the market yield requirements are put in relation to the net operating income of the properties.

The assessment of the yield requirements is based on information gathered on the market yield on investment requirements for purchases and sales of comparable properties in similar locations. If few or no deals were concluded in the property's sub-area, transactions in the adjoining area are analyzed. Deals not yet concluded also provide guidance on the market yield requirements. Account has also been taken of the property type, technical standard and building construction. The yield requirements used in the valuation vary between different regions and different sub-areas within the regions. Information is checked with valuation and consulting companies. Hufvudstaden's average yield requirement since 2009 has varied between 4.5 per cent and 5.3 per cent and as at December 31, 2014, the figure was 4.5 per cent. For leasehold properties, the calculation is based on a yield requirement that is 0.25 percentage points higher.

The net operating income is based on market-adapted rental revenue. Rental revenue is adapted to the market by adjusting existing rents using newly signed and renegotiated leases and with account taken of the expected rent trend.

Revenue has been reduced to take into account an assessed, long-term rental vacancy level. The vacancy level is based on the true outcome of the property holdings over a business cycle and the expected rental situation for the individual property. In the valuation, an average vacancy level of 5 per cent has been estimated. The actual average vacancy level during the period 2005–2014 varied between 3 and 8 per cent and as at December 31, 2014, the figure was 5.6 per cent.

A deduction has been made for standard costs for operation and maintenance, excluding costs that can be passed on and part of the property administration. These are based on the actual outcome and are adjusted for non-permanent deviations. The average cost per square metre over the most recent five-year period has been in the range SEK 400–500 and the estimated cost in the valuation as at December 31, 2014 was on the same level.

*Note 17 continued on page 79.*

Continuation, Note 17.

The following information has been used in the valuation:

Office and retailing	Range (weighted average)
Net operating income (SEK/sq m)	1,270 – 5,840 (3,400)
Vacant space (%)	2 – 6 (5)
Yield requirement, Stockholm (%)	4.2 – 4.8 (4.4)
Yield requirement, Gothenburg (%)	4.5 – 5.3 (4.8)
Yield, total (%)	4.5

#### External valuation

To assure the valuation, external valuations were obtained from three valuation companies: Forum Fastighetsekonomi AB, NAI Svefa AB and Newsec Advice AB. The external valuations cover 11 properties and are equivalent to 32 per cent of the internally assessed fair value and the corresponding figure at the mid-year point was 32 per cent. The basis for the selection of the properties was that they should represent different property categories, towns, locations, technical standard and construction standard. The properties that underwent an external valuation were Achilles 1, Håsthuvudet 13, Hästskon 10, Järnplåten 28, Kvasten 9, Orgelpipan 7, Pumpstocken 10 (part of), Rännilen 18 and Skären 9 in Stockholm as well as Inom Vallgraven 10:9 and Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies have set a fair value of SEK 8.9 billion. Hufvudstaden's internal valuation of the same properties was SEK 8.9 billion. The internal valuations thus concur well with the external valuations.

#### Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of valuation. The price, however, can only be set when a transaction has been completed. In conjunction with a property valuation, a range is often given to indicate the degree of uncertainty surrounding the fair value estimates. The value range is usually +/- 5 per cent but can vary depending, among other things, on the market situation, the technical standard of the property and investment requirements. Hufvudstaden's property holdings are valued at SEK 27.8 billion with a degree of uncertainty of +/- 5 per cent, which means that the assessed fair value varies by +/- SEK 1.4 billion. Below are the key factors that influence the valuation and the consequent impact on profit.

#### Sensitivity analysis, property valuation

	Change, +/-	Impact on value, +/-
Rent revenue	SEK 100 per sq m	SEK 870 m
Property costs	SEK 50 per sq m	SEK 435 m
Rental vacancy level	1.0 percentage points	SEK 370 m
Yield requirement	0.25 percentage points	SEK 1,550 m

#### Tax values, investment properties, Group

SEK m	2014	2013
Tax values, buildings	8,885.6	8,885.6
Tax values, land	6,584.2	6,925.2
	15,469.8	15,810.8

#### PARENT COMPANY

Investment properties are reported according to the principles for tangible fixed assets but without the possibility of applying the fair value method.

SEK m	2014	2013
Investment properties, Parent Company	8,096.7	7,588.9

#### Investment properties, excluding land

SEK m	2014	2013
Opening acquisition values	3,406.4	2,563.0
Takeover via merger	292.1	–
Investments for the year	88.3	843.4
Disposals for the year	-15.0	–
Closing acquisition values	3,771.8	3,406.4
Opening depreciation	-904.7	-826.8
Takeover via merger	-5.8	–
Depreciation for the year	-90.9	-77.9
Impairments for the year	-14.8	–
Disposals for the year	15.0	–
Closing depreciation	-1,001.2	-904.7
Opening revaluation according to the adopted Balance Sheet for the previous year	1,091.1	1,104.9
Depreciation for the year	-13.8	-13.8
Closing revaluation	1,077.3	1,091.1
Closing residual value according to plan	3,847.9	3,592.8

#### Land

SEK m	2014	2013
Opening acquisition value	954.7	469.9
Takeover via merger	252.7	–
Investments for the year	–	484.8
Closing acquisition value	1,207.4	954.7
Opening value, revaluation	3,041.4	3,041.4
Closing value, revaluation	3,041.4	3,041.4
Closing residual value according to plan	4,248.8	3,996.1

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

- Buildings: Offices 1 per cent
- Buildings: Department stores, multi-storey car parks, restaurants 2 per cent
- Building equipment: 5–20 per cent
- Land improvements: 3.75–5 per cent

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

SEK m	2014	2013
Investment properties, Parent Company	18,271.7	16,394.9

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

#### Tax values, investment properties, Parent Company

SEK m	2014	2013
Tax values, buildings	5,906.4	5,727.4
Tax values, land	4,907.4	4,756.4
	10,813.8	10,483.8

**Note 18. Tangible fixed assets**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Opening acquisition value	31.5	31.1	17.1	18.0
Investments for the year	4.9	3.6	3.5	2.3
Disposals	-4.4	-3.2	-4.4	-3.2
Closing acquisition value	32.0	31.5	16.2	17.1
Opening depreciation	-26.0	-26.8	-13.5	-15.0
Depreciation for the year	-3.1	-2.5	-2.0	-1.7
Disposals	4.1	3.2	4.1	3.2
Closing accumulated depreciation	-25.0	-26.0	-11.4	-13.5
Closing residual value according to plan	7.0	5.5	4.8	3.6

**Note 19. Participation in Group Companies**

	Company reg. no.	Reg. office	Capital (votes) %	Number	Nominal value, SEK 1,000	Carrying amount 2014, SEK m
<b>PARENT COMPANY</b>						
<i>Shares in subsidiaries</i>						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget 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	0.0
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	0.0
Förvaltnings AB Normalmstorg nr. 1	556019-5405	Stockholm	100	150	150	0.0
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, Total						2,824.8
<b>OTHER GROUP COMPANIES</b>						
<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 Aktiebolag	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

Fastighets AB Kåkenhusen (556834-3460) and Inom Vallgraven Fastighets AB (556722-5643) were merged with Hufvudstaden AB on February 12, 2014. The entire financial result from the subsidiaries has been transferred to the Parent Company. The income statements and balance sheets for the subsidiaries can be found on the next page. In other respects, the ownership situation remains the same as the previous year. There are no foreign subsidiaries in the Group.

Note 19 continued on page 81.

SEK m	Fastighets AB	Inom Vallgraven
	Kåkenhusen	Fastighets AB
<i>Income statements as at 12-02-2014</i>		
Net revenue	5.9	0.0
Costs	0.3	0.0
Operating profit	6.2	0.0
<i>Balance sheets as at 12-02-2014</i>		
Investment properties	271.3	1.8
Deferred tax	33.4	–
Other assets	34.1	0.1
Total assets	338.8	1.9
Equity	47.7	0.1
Other liabilities	291.1	1.8
Total equity and liabilities	338.8	1.9
<i>Change in Parent Company's holdings in Group companies</i>		
SEK m	Parent Company	
	2014	2013
Opening carrying amount	3,091.2	3,091.1
Merged subsidiaries	-266.4	–
Group contribution granted	–	0.1
Closing carrying amount	2,824.8	3,091.2

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Opening carrying amount	43.6	6.7	43.6	6.7
Change in value, interest derivatives	-36.6	36.6	-36.6	36.6
Change for the year	1.4	0.3	1.4	0.3
Closing carrying amount	8.4	43.6	8.4	43.6

**Note 21. Accounts receivable**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Accounts receivable	12.7	9.9	0.9	1.9
Rent receivables	1.9	3.5	1.6	2.0
Total	14.6	13.4	2.5	3.9

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

Rent receivables are charged in advance, the majority on a quarterly basis. Accounts receivable are invoiced subject to terms of payment of 30 days. Bad debt losses for the year amounted to SEK 0.5 million (0.7). Accounts receivable that have fallen due, but which have not been impaired, amounted to SEK 2.7 million (5.0).

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Accrued rent revenue	16.9	18.1	11.5	13.8
Prepaid expenses	19.1	8.4	5.2	7.6
Accrued interest income	0.4	1.3	0.4	1.3
Total	36.4	27.8	17.1	22.7

**Note 23. Cash and bank holdings**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Bank balances	474.2	504.6	474.0	504.4
Total	474.2	504.6	474.0	504.4

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

**Note 24. Equity****GROUP****Other contributed capital**

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

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

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

**Dividend**

In 2014, a dividend was paid of SEK 2.75 per share or a total of SEK 567,230,497. For 2014, the Board of Directors proposes a dividend of SEK 2.90 per share or a total of SEK 598,171,206.

**Asset management**

The Company's capital is defined as the Group's reported equity. Hufvudstaden's aim is to improve profit from current operations and to have a well consolidated balance sheet with an equity ratio of at least 40 per cent over time. The shareholders shall have good dividend growth over time and the dividend shall comprise more than half of the net profit from current operations unless investments or the Company's financial position in general justify a deviation.

**Share capital**

SEK m	2014	2013
<i>Breakdown of share series</i>		
A 202,996,869 shares, par value SEK 5	1,015.0	1,015.0
C 8,275,064 shares, par value SEK 5	41.4	41.4
Total	1,056.4	1,056.4

Hufvudstaden AB (publ) has two share series, series A and series C. Both share series are registered on Nasdaq Stockholm. Series A shares carry one vote per share and series C shares carry 100 votes per share. All shares carry the same right to a proportion of the Company's assets and liabilities.

Shareholders are entitled to request conversion of series C shares into series A shares. No such conversion took place during the year.

Hufvudstaden's own holding is 5,006,000 series A shares. No buy-back of shares took place during the year. The average number of outstanding shares was 206,265,933, which is unchanged compared to the preceding year.

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

**PARENT COMPANY****Restricted funds**

Restricted funds may not be reduced through a dividend.

*Statutory reserve.* The aim of the statutory reserve has been to save part of the net profit that is not used to cover a retained loss.

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

**Non-restricted equity**

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

**Note 25. Interest-bearing liabilities**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
<i>Non-current liabilities</i>				
Bank loans	2,850.0	2,850.0	2,850.0	2,850.0
Bond loans	1,800.0	1,700.0	1,800.0	1,700.0
Total	4,650.0	4,550.0	4,650.0	4,550.0
<i>Current liabilities</i>				
Bond loans	400.0	200.0	400.0	200.0
Commercial paper loans	600.0	1,000.0	600.0	1,000.0
Total	1,000.0	1,200.0	1,000.0	1,200.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	4,000.0	4,000.0	4,000.0	4,000.0

As at December 31, 2014, Hufvudstaden had non-current loan assurances of SEK 4.0 billion. The loan assurances are subject to undertakings regarding the equity ratio and interest coverage ratio. At the year-end, SEK 2.5 billion was utilized, of which SEK 600 million has been reserved to cover outstanding commercial paper.

Loans raised are normally secured by means of a property mortgage and are supplemented in many cases by a guarantee regarding the equity ratio and interest coverage level. Bond loans and commercial paper loans are not secured.

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

**Borrowing 31-12-2014**

Year due	Nominal amount, SEK m			
	Average AER, % <sup>1)</sup>	Bank loans <sup>2)</sup>	Bonds <sup>3)</sup>	Commercial paper <sup>4)</sup>
2015	0.7	–	400.0	–
2016	1.2	–	300.0	600.0
2017	0.5	2,650.0	–	–
2018	2.2	200.0	1,000.0	–
2019	3.4	–	500.0	–
Total		2,850.0	2,200.0	600.0

1) All loans are denominated in SEK.

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

3) As 2) or a fixed rate of interest with an annual coupon.

4) Interest terms are 3 – 12 months Stibor with an interest margin supplement. Interest is paid at the time of issue. Maturity is calculated based on loan assurances.

**Interest swaps 31-12-2014**

Year due	Average AER			
	Fixed interest, %	Variable interest % <sup>1)</sup>	Nominal amount, SEK m	Fair value, SEK m
2016	1.5	0.3	500.0	11.4
2017	1.6	0.3	1,500.0	52.4
2018	1.7	0.3	1,300.0	59.5
2019	1.9	0.3	450.0	25.8
Total			3,750.0	149.1

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

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

**Note 26. Deferred tax liability**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Investment properties	5,191.5	4,745.4	917.4	947.0
Interest derivatives	-32.8	8.1	-32.8	8.1
Untaxed reserves	199.8	179.2	–	–
Pension provision	-2.3	-1.9	-2.3	-1.9
Total	5,356.2	4,930.8	882.3	953.2

As at the year-end December 31, 2014, there was a deficit deduction in the Group of SEK 0 million (0.4).

Change in deferred tax

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
<b>GROUP</b>			
<b>2014</b>			
Investment properties	4,745.4	446.1	5,191.5
Interest derivatives	8.1	-40.9	-32.8
Untaxed reserves	179.2	20.6	199.8
Pension provision	-1.9	-0.4	-2.3
	4,930.8	425.4	5,356.2
<b>2013</b>			
Investment properties	4,388.3	357.1	4,745.4
Interest derivatives	-5.1	13.2	8.1
Untaxed reserves	159.9	19.3	179.2
Pension provision	-1.8	-0.1	-1.9
	4,541.3	389.5	4,930.8

Note 26 continued on page 83.

Continuation, Note 26.

SEK m	Balance as at January 1	Reported within profit or loss	Takeover via merger	Balance as at December 31
<b>PARENT COMPANY</b>				
2014				
Investment properties	947.0	3.8	-33.4	917.4
Interest derivatives	8.1	-40.9	-	-32.8
Pension provision	-1.9	-0.4	-	-2.3
	953.2	-37.5	-33.4	882.3
2013				
Investment properties	944.3	2.7	-	947.0
Interest derivatives	-5.1	13.2	-	8.1
Pension provision	-1.8	-0.1	-	-1.9
	937.4	15.8	-	953.2

**Note 27. Other provisions**

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

**Note 28. Other liabilities**

SEK m	Group		Parent Company	
	2014	2013	2014	2013
VAT settlement	41.5	64.4	24.8	38.7
Other	48.6	34.0	1.3	2.1
Total	90.1	98.4	26.1	40.8

**Note 29. Untaxed reserves**

SEK m	Parent Company	
	2014	2013
<i>Accumulated depreciation in excess of plan</i>		
Opening balance	55.6	65.4
Depreciation for the year	51.7	-9.8
Closing balance	107.3	55.6
Tax allocation reserves	716.0	659.0
Total	716.0	659.0
Total untaxed reserves	823.3	714.6

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Accrued interest expense	34.1	34.8	34.1	34.8
Advance rent payments	259.8	276.9	167.3	161.3
Other accrued expenses	61.7	8.6	54.0	42.6
Total	355.6	320.3	255.4	238.7

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

SEK m	Group		Parent Company	
	2014	2013	2014	2013
Property mortgages for liabilities at credit institutions	1,653.1	1,653.1	1,653.1	1,653.1
(of which mortgages on subsidiaries' properties)			(906)	(906)
Other non-current receivables	8.4	6.9	8.4	6.9
Total	1,661.5	1,660.0	1,661.5	1,660.0

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

**Note 32. Affiliations**

Hufvudstaden AB is under the controlling influence of LE Lundbergföretagen and Fredrik Lundberg. No material transactions have taken place with LE Lundbergföretagen. Fredrik Lundberg's director's fee for 2014 was SEK 400,000. Details of payments to Board members and executives can be found in Note 8.

In addition to the affiliations that have been stated for the Group, the Parent Company also has affiliations, which means that it has a controlling influence over its subsidiaries, see Note 19.

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

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

# ESPRESSO

**NORDISKA KOMPANIET**

*Östra Hamngatan, Gothenburg*

# BRUNNSGATAN

*Stockholm*



# Proposed distribution of unappropriated earnings

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

A statement explaining the proposed distribution of earnings is available on the Company's website, [www.hufvudstaden.se](http://www.hufvudstaden.se), or from the Company on request.

Retained earnings	SEK	1,660,359,107
Profit for the year	SEK	363,096,782
	SEK	2,023,455,889
Dividend to the shareholders,		
SEK 2.90 per share	SEK	598,171,206 <sup>1)</sup>
To be carried forward	SEK	1,425,284,683
	SEK	2,023,455,889

*1) See Definitions, page 99, Dividend.*

The Board of Directors and the President hereby certify that to the best of their knowledge the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden and that the Consolidated Accounts have been prepared in accordance with International Financial Reporting Standards, as stated in Regulation No. 1606/2002 of the European Parliament and the Council (EC), dated July 19, 2002, regarding the application of international accounting standards. The Annual Report and the Consolidated Accounts provide a true and fair picture of the Parent Company's and the Group's position and results. The Administration Report for the Parent Company and the Group provides a true and fair overview of the development, financial position and results of the Parent Company and the Group and describes material risks and uncertainties facing the Parent Company and the companies that form part of the Group.

Stockholm, February 12, 2015



Fredrik Lundberg  
*Chairman*



Claes Boustedt  
*Board Member*



Bengt Braun  
*Board Member*



Peter Egardt  
*Board Member*



Louise Lindh  
*Board Member*



Hans Mertzig  
*Board Member*



Sten Peterson  
*Board Member*



Anna-Greta Sjöberg  
*Board Member*



Ivo Stopner  
*President*  
*Board Member*

Our audit report was submitted on February 16, 2015

KPMG AB



George Pettersson  
*Authorized Public Accountant*

# Auditor's Report

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

## **Report on the annual accounts and consolidated accounts**

We have audited the annual accounts and the consolidated accounts of Hufvudstaden AB (publ) for 2014. The Company's annual accounts and consolidated accounts are included in the printed version of this document on pages 50–86.

### *Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts*

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as at December 31, 2014 and of their financial performance and cash flows for the year in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A Corporate Governance Report has been prepared. The Statutory Administration Report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopts the Income Statement and Balance Sheet for the Parent Company and the Group.

## **Report on other legal and regulatory requirements**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the Company's profit or loss and the administration of the Board of Directors and the President of Hufvudstaden AB (publ) for 2014.

### *Responsibilities of the Board of Directors and the President*

The Board of Directors is responsible for the proposal for appropriations of the

Company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

### *Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the Company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the Company in order to determine whether any member of the Board of Directors or the President is liable to the Company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### *Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the Statutory Administration Report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm February 16, 2015

KPMG AB



George Pettersson  
*Authorized Public Accountant*

# Board of Directors and Auditors

The Board of Directors consists of nine members, without any deputies, all of whom are elected at the Annual Meeting. The members include persons who have links to Hufvudstaden's largest shareholder LE Lundbergföretagen. The President is also a member of the Board

of Directors. Other executives in the Company take part in Board meetings to present specific points. During the 2014 financial year, the Board of Directors held seven meetings, of which one was a statutory meeting. The work of the Board of Directors complies with the

rules of procedure adopted by the Board governing the undertakings of the Board and the President and the allocation of duties between the Board and the President.



**Fredrik Lundberg**

*Born 1951. MSc, MBA, Honorary PhD in Economics, Honorary PhD in Engineering. Chairman, Board member since 1998.*

*President and CEO of LE Lundbergföretagen AB.*

*Chairman of Holmen AB and Indutrade AB.*

*Deputy Chairman of*

*Svenska Handelsbanken AB.*

*Board member of LE Lundbergföretagen AB, AB Industrivärden and Skanska AB.*

*Holding in Hufvudstaden: 1,949,412 shares. (directly and through affiliated companies).*



**Claes Boustedt**

*Born 1962. MBA. Board member since 1998.*

*Vice President of LE Lundbergföretagen AB.*

*President of*

*LE Lundberg Kapitalförvaltning AB.*

*Holding in Hufvudstaden: 1,000 shares.*



**Bengt Braun**

*Born 1946. MBA, LL.M.*

*Board member since 2000.*

*Chairman of the Board of Euro Comfort Holding GmbH.*

*Deputy Chairman of Bonnier AB.*

*Board member of Bonnier Holding AB, Bonnier Corporation, TV4, MTV OY and Mertzig Asset Management AB.*

*Previous experience includes the position of President and CEO of Bonnier AB.*

*Holding in Hufvudstaden: 3,750 shares.*

**Auditors**

**KPMG AB with George Pettersson, born 1964, Authorized Public Accountant, as lead auditor.**



**Peter Egardt**

*Born 1949. BA.*

*Board member since 2003.*

*County Governor, County of Uppsala.  
Chairman of the Swedish National Space Board  
and the Swedish National College of Defence.  
Member of the Board of Governors  
of the Bank of Sweden.  
Previous experience includes the position of  
President of the Stockholm Chamber of  
Commerce and the Association of Swedish  
Chambers of Commerce.  
Holding in Hufvudstaden: 18,000 shares.*



**Louise Lindh**

*Born 1979. MBA.*

*Board member since 2007.*

*Vice President, Fastighets AB LE Lundberg.  
Member of the Board of  
LE Lundbergföretagen AB, Holmen AB  
and Fastighets AB LE Lundberg.  
Holding in Hufvudstaden: 29,166 shares.*



**Hans Mertzig**

*Born 1941. Economist.*

*Board member since 2000.*

*President of Mertzig Asset Management AB.  
Member of the Swedish Central Bank  
Anniversary Fund Foundation.  
Chairman of the Finance Committee  
of the Swedish Central Bank  
Anniversary Fund Foundation.  
Previous experience includes the position  
of asset manager at Ramsbury AB  
and the KK Foundation.  
Holding in Hufvudstaden: –*



**Sten Peterson**

*Born 1956. MSc.*

*Board member since 2006.*

*President of Byggnads  
AB Karlsson & Wingsjö.  
Member of the Board of LE Lundbergföretagen  
AB, Fastighets AB LE Lundberg and Byggnads  
AB Karlsson & Wingsjö.  
Holding in Hufvudstaden: 2,000 shares.*



**Anna-Greta Sjöberg**

*Born 1967. MA, MBA.*

*Board member since 2006.*

*President of Crispa AB.  
Member of the Board of Tryggstiftelsen.  
Previous experience includes the position  
of Managing Director of the Royal Bank  
of Scotland, Nordic Branch.  
Holding in Hufvudstaden: 3,000 shares.*



**Ivo Stopner**

*Born 1962. MSc.*

*President and Board member since 1999.  
No other material assignments outside the Group.  
Holding in Hufvudstaden: 3,300 shares  
(including family) and 100,000 call options.  
Ivo Stopner and family have no material  
shareholding or partnership in companies  
with which the Company  
has significant business relations.*

**Secretary**

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

# Senior Executives

## **Ivo Stopner**

*Born 1962. MSc. President. Employed 1990.  
Holding in Hufvudstaden: 3,300 shares (including family)  
and 100,000 call options.  
Ivo Stopner and family have no material shareholding  
or partnership in companies with which the Company  
has significant business relations.*

## **Ki Hummelgren**

*Born 1968. Head of Human Resources. Employed 2008.  
Holding in Hufvudstaden: 20,000 call options.*

## **Magnus Jacobson**

*Born 1958. MBA. Head of Accounting/Finance. Employed 2002.  
Holding in Hufvudstaden: 50,000 call options.*

## **Daniel Massot**

*Born 1970. MSc. Head of the Gothenburg Business Area.  
Employed 2009. Holding in Hufvudstaden: 30,000 call options.*

## **Anders Nygren**

*Born 1970. MSc. Head of Property Development. Employed 2006.  
Holding in Hufvudstaden: 10,000 call options.*

## **Mattias Nygårds**

*Born 1972. MSc. Head of the Stockholm City West Business Area.  
Employed 2011 (previously employed 2005–2009).  
Holding in Hufvudstaden: 40,000 call options.*

## **Bo Wikare**

*Born 1963. MSc. Vice President since October 2014.  
Head of the Stockholm City East Business Area. Employed 1994.  
Holding in Hufvudstaden: 62 shares and 40,000 call options.*



*Hufvudstaden Executive Management. Standing, from the left: Magnus Jacobson, Ivo Stopner, Ki Hummelgren, Bo Wikare, Mattias Nygårds, Anders Nygren and Daniel Massot.*

# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*



# Multi-year review – Group

<b>Income Statements</b>					
<b>SEK m</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<i>Net revenue</i>					
Property management	1,596	1,573	1,472	1,369	1,321
Parking operations	69	68	70	68	71
	1,665	1,640	1,542	1,437	1,392
<i>Operating expenses</i>					
Maintenance, operation and administration	-280	-270	-263	-283	-263
Ground rents	-17	-16	-16	-16	-13
Property tax	-154	-152	-128	-126	-124
Property management	-451	-438	-407	-425	-401
Parking operations	-50	-50	-49	-48	-47
	-502	-488	-457	-473	-448
Gross profit	1,164	1,153	1,085	965	944
– of which Property management	1,145	1,135	1,065	945	920
– of which Parking operations	19	18	20	20	24
Central administration	-36	-36	-34	-32	-31
<i>Changes in value</i>					
Investment properties	1,709	1,358	621	1,245	1,490
Interest derivatives	-186	60	-25	-99	51
Operating profit	2,650	2,534	1,646	2,079	2,455
Financial income and expense	-130	-128	-161	-122	-103
Profit before tax	2,520	2,407	1,486	1,956	2,352
Tax	-519	-531	454	-521	-619
Profit for the year	2,001	1,876	1,939	1,435	1,733
<b>Balance Sheets</b>					
<b>Assets</b>					
Properties	27,817	25,869	23,058	22,251	20,148
Other non-current assets	15	49	11	12	13
Current assets	583	558	585	432	378
Total assets	28,415	26,476	23,653	22,695	20,539
<b>Equity and liabilities</b>					
Equity	16,695	15,261	13,921	12,487	11,526
Interest-bearing liabilities	5,650	5,750	4,700	4,375	3,600
Other liabilities and allocations	6,070	5,465	5,032	5,833	5,413
Total equity and liabilities	28,415	26,476	23,653	22,695	20,539
<b>Property holdings</b>					
Fair value, SEK bn	27.8	25.9	23.1	22.3	20.1
Tax assessment value, SEK bn	15.5	15.8	12.9	12.9	12.6
Rentable floor space, 1,000 sq m	387	387	367	365	358
Rental vacancy level, %	5.6	4.0	3.7	3.9	5.1
Floor space vacancy level, %	7.2	5.7	5.4	5.9	6.8
Investments in properties, SEK m	240	1,454	186	945	533
Net operating income, SEK per sq m <sup>1)</sup>	2,958	2,956	2,900	2,637	2,579
<b>Financial key ratios</b>					
Gross margin, %	69.9	70.3	70.4	67.1	67.8
Return on equity, %	12.5	12.9	14.7	12.0	15.9
Return on capital employed, %	12.2	12.8	9.3	13.1	17.2
Equity ratio, %	58.8	57.6	58.9	55.0	56.1
Interest coverage ratio, multiple	8.5	8.3	6.4	7.0	7.7
Debt/equity ratio, multiple	0.3	0.3	0.3	0.3	0.3
Net loan-to-value ratio, properties, %	18.6	20.3	18.2	18.1	16.1
Cash flow from current operations, SEK m	881	951	518	559	691
Cash flow for the year, SEK m	-30.4	7.1	150.8	-1.2	-77.0
Average number of employees in the Group	100	96	94	93	92
<b>Share data</b>					
Profit for the year, SEK <sup>2)</sup>	9.70	9.10	9.40	6.96	8.40
Dividend, SEK	2.90 <sup>3)</sup>	2.75	2.60	2.45	2.30
Dividend proportion, %	29.9	30.2	27.7	35.2	27.4
Equity, SEK	80.94	73.99	67.49	60.54	55.88
Fair value of properties, SEK	134.86	125.42	111.79	107.88	97.68
Cash flow from current operations, SEK	4.27	4.61	2.51	2.71	3.35
Cash flow for the year, SEK	-0.15	0.03	0.73	-0.01	-0.37
Net asset value, SEK <sup>4)</sup>	100.00	92.00	84.00	76.00	70.00
Share price, series A, at the year-end, SEK	101.6	86.15	81.95	70.05	78.55
P/E ratio, multiple	10.5	9.5	8.7	10.1	9.3
Share price series A/equity, %	125.5	116.4	121.4	115.7	140.6
Yield, %	2.9	3.2	3.2	3.5	2.9
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933

1) The calculation was based on the number of square metres at the year-end. Acquired properties are adjusted upwards to the value for the year. For Definitions, see page 99.

2) No dilution effect.

3) In accordance with a proposal by the Board.

4) Since December 31, 2012, the estimated deferred tax used for costing purposes has been set at 5 per cent; previous periods 10 per cent.

# Business Areas in figures

Property holdings (comparable holdings)	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2014		2013		2014		2013		2014		2013		2014		2013	
	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	742.0	4,919	726.9	4,815	654.2	4,400	642.7	4,303	291.9	3,341	289.5	3,321	1,688.1	4,363	1,659.1	4,282
<i>(of which property tax supplement)</i>	71.6	475	73.0	484	43.4	292	43.4	291	24.3	278	24.4	280	139.3	360	140.8	363
Rent losses on vacant space	-45.6	-302	-28.0	-185	-27.7	-186	-26.8	-179	-18.0	-206	-16.3	-187	-91.3	-236	-71.1	-183
Bad debt losses	-0.8	-5	0.8	5	0.2	1	-1.1	-7	0.2	2	-0.4	-5	-0.4	-1	-0.7	-2
<b>Net sales</b>	<b>695.6</b>	<b>4,612</b>	<b>699.7</b>	<b>4,635</b>	<b>626.7</b>	<b>4,215</b>	<b>614.8</b>	<b>4,117</b>	<b>274.1</b>	<b>3,137</b>	<b>272.8</b>	<b>3,129</b>	<b>1,596.4</b>	<b>4,126</b>	<b>1,587.3</b>	<b>4,097</b>
Maintenance	-16.8	-111	-18.1	-120	-12.2	-82	-9.9	-66	-2.9	-33	-4.0	-46	-31.9	-82	-32.0	-83
Operations	-48.2	-320	-47.5	-315	-101.1	-680	-96.6	-647	-34.7	-397	-34.8	-399	-184.0	-476	-178.9	-462
Administration	-26.6	-176	-26.4	-175	-23.1	-155	-23.5	-157	-14.9	-171	-11.1	-127	-64.6	-167	-61.0	-157
Ground rent	-0.2	-1	-0.2	-1	-16.8	-113	-15.9	-106	-	-	-	-	-17.0	-44	-16.1	-42
Property tax	-76.6	-508	-76.6	-507	-51.0	-343	-50.1	-335	-26.6	-304	-27.0	-310	-154.2	-399	-153.7	-397
<b>Total property expenses</b>	<b>-168.4</b>	<b>-1,116</b>	<b>-168.8</b>	<b>-1,118</b>	<b>-204.2</b>	<b>-1,373</b>	<b>-196.0</b>	<b>-1,311</b>	<b>-79.1</b>	<b>-905</b>	<b>-76.9</b>	<b>-882</b>	<b>-451.7</b>	<b>-1,168</b>	<b>-441.7</b>	<b>-1,141</b>
<b>Gross operating profit</b>	<b>527.2</b>	<b>3,496</b>	<b>530.9</b>	<b>3,517</b>	<b>422.5</b>	<b>2,842</b>	<b>418.8</b>	<b>2,806</b>	<b>195.0</b>	<b>2,232</b>	<b>195.9</b>	<b>2,247</b>	<b>1,144.7</b>	<b>2,958</b>	<b>1,145.6</b>	<b>2,956</b>

Property data	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	2014	2013	2014	2013	2014	2013	2014	2013
December 31, 2014								
Number of properties	16	17	9	9	3	4	28	30
Floor space, sq m	150,843	150,962	148,685	149,356	87,361	87,169	386,889	387,487
Rental vacancy level, %	7.0	3.3	3.9	4.1	5.6	5.4	5.6	4.0
Floor space vacancy level, %	8.9	4.5	5.3	5.9	7.4	7.6	7.2	5.7
Total rentable parking spaces	165	169	1,276	1,276	51	51	1,492	1,496

Rentable space and annual rent	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m	Area, sq m	Annual rent, SEK m
December 31, 2014								
Offices	102,414	485.0	45,970	180.9	49,803	110.9	198,187	776.8
Shops and restaurants	36,317	233.5	44,470	376.8	31,134	150.3	111,921	760.6
Storage and miscellaneous	6,387	12.8	18,903	33.9	4,395	8.4	29,685	55.1
Parking	4,626	6.2	39,039	41.4	1,250	1.8	44,915	49.4
Residential	1,099	2.0	303	0.3	779	0.8	2,181	3.1
<b>Total</b>	<b>150,843</b>	<b>739.5</b>	<b>148,685</b>	<b>633.3</b>	<b>87,361</b>	<b>272.2</b>	<b>386,889</b>	<b>1,645.0</b>

Floor space vacancy level and rental vacancy level	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Property management, total	
	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m	Vacant floor space, sq m	Rental vacancy level, SEK m
December 31, 2014								
Offices	11,544	47.8	5,039	19.7	3,422	6.4	20,005	73.9
Shops and restaurants	185	0.9	490	2.4	1,921	7.2	2,596	10.5
Storage and miscellaneous	1,159	2.1	2,030	2.6	1,033	1.4	4,222	6.1
Parking	496	0.5	351	0.3	50	0.3	897	1.1
Residential	101	0.2	-	-	-	-	101	0.2
<b>Total</b>	<b>13,485</b>	<b>51.5</b>	<b>7,910</b>	<b>25.0</b>	<b>6,426</b>	<b>15.3</b>	<b>27,821</b>	<b>91.8</b>

Lease term structure <sup>1)2)3)</sup> December 31, 2014							
NUMBER OF LEASES	2015	2016	2017	2018	2019	2020-	Total
<b>Stockholm City East Business</b>							
Offices	45	30	40	28	19	20	182
Stores	29	29	18	4	2	10	92
Other	310	106	76	31	8	22	553
<b>Total</b>	<b>384</b>	<b>165</b>	<b>134</b>	<b>63</b>	<b>29</b>	<b>52</b>	<b>827</b>
Proportion, %	46.4	20.0	16.2	7.6	3.5	6.3	100.0
<b>Stockholm City West Business</b>							
Offices	19	26	17	7	3	6	78
Stores	76	37	58	10	3	3	187
Other	146	68	64	15	6	8	307
<b>Total</b>	<b>241</b>	<b>131</b>	<b>139</b>	<b>32</b>	<b>12</b>	<b>17</b>	<b>572</b>
Proportion, %	42.1	22.9	24.3	5.6	2.1	3.0	100.0
<b>Gothenburg Business Area</b>							
Offices	22	11	14	4	6	2	59
Stores	65	12	7	2	4	1	91
Other	43	29	35	1	4	-	112
<b>Total</b>	<b>130</b>	<b>52</b>	<b>56</b>	<b>7</b>	<b>14</b>	<b>3</b>	<b>262</b>
Proportion, %	49.6	19.8	21.4	2.7	5.3	1.2	100.0
<b>Hufvudstaden, total</b>							
Offices	86	67	71	39	28	28	319
Stores	170	78	83	16	9	14	370
Other	499	203	175	47	18	30	972
<b>Total</b>	<b>755</b>	<b>348</b>	<b>329</b>	<b>102</b>	<b>55</b>	<b>72</b>	<b>1,661</b>
Proportion, %	45.5	21.0	19.8	6.1	3.3	4.3	100.0
<b>ANNUAL RENT, SEK M</b>							
<b>Stockholm City East Business Area</b>							
Offices	64.6	39.1	97.2	84.1	54.2	112.8	452.0
Stores	47.8	85.3	23.6	14.1	4.6	37.5	212.9
Other	16.4	8.1	5.9	5.9	0.2	5.1	41.6
<b>Total</b>	<b>128.8</b>	<b>132.5</b>	<b>126.7</b>	<b>104.1</b>	<b>59.0</b>	<b>155.4</b>	<b>706.5</b>
Proportion, %	18.2	18.8	17.9	14.7	8.4	22.0	100.0
<b>Stockholm City West Business</b>							
Offices	33.4	61.5	32.3	9.6	2.5	30.5	169.8
Stores	136.4	77.3	112.2	10.8	3.7	8.7	349.1
Other	17.1	11.0	18.8	1.0	3.7	5.7	57.3
<b>Total</b>	<b>186.9</b>	<b>149.8</b>	<b>163.3</b>	<b>21.4</b>	<b>9.9</b>	<b>44.9</b>	<b>576.2</b>
Proportion, %	32.5	26.0	28.3	3.7	1.7	7.8	100.0
<b>Gothenburg Business Area</b>							
Offices	12.5	8.2	42.2	20.4	8.1	19.7	111.1
Stores	75.6	16.4	15.4	4.6	18.6	4.0	134.6
Other	10.1	3.0	1.7	0.1	0.3	-	15.2
<b>Total</b>	<b>98.2</b>	<b>27.6</b>	<b>59.3</b>	<b>25.1</b>	<b>27.0</b>	<b>23.7</b>	<b>260.9</b>
Proportion, %	37.6	10.6	22.7	9.6	10.4	9.1	100.0
<b>Hufvudstaden, total</b>							
Offices	110.5	108.8	171.7	114.1	64.8	163.0	732.9
Stores	259.8	179.0	151.2	29.5	26.9	50.2	696.6
Other	43.6	22.1	26.4	7.0	4.2	10.8	114.1
<b>Total</b>	<b>413.9</b>	<b>309.9</b>	<b>349.3</b>	<b>150.6</b>	<b>95.9</b>	<b>224.0</b>	<b>1,543.6</b>
Proportion, %	26.8	20.1	22.6	9.8	6.2	14.5	100.0

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

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

3) Excluding residential leases.

# Properties

Property designation	Address	Site area, sq m	Year of purchase	Year of construction/redevelopment	Tax assessment 2014, SEK m
<b>Stockholm City East Business Area</b>					
<i>Kungsgatan Management Area</i>					
Hästhuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	327.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	369.0
Kåkenhusen 40 <sup>1)</sup>	Brunnsgatan 1–9, Norrlandsgatan 29–33, Kungsgatan 4-10	4,934	1921/2011	1926/28/30/32/84/85/89/91	1,020.0
Oxhuvudet 18 <sup>2)</sup>	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 29–33, Malmkillnadsgatan 39	4,509	1926	1931/85/89/91	1,191.0
<i>Total</i>		11,830			2,907.0
<i>Norrmalmstorg Management Area</i>					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	198.0
Kvasten 6 <sup>2)</sup>	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	377.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	211.0
Norrmalm 2:63 <sup>3)</sup>	Norrmalmstorg		1992	1993	13.2
Packarhuset 4 <sup>2)4)</sup>	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	1,017.0
Pumpstocken 10 <sup>2)</sup>	Birger Jarlsgatan 13–15, Mäster Samuelsgatan 2–4, Biblioteksgatan 10–12, Jakobsbergsgatan 1–3	2,886	1917/78 91/2000	1865/97/1901/29/84 96/97/2006	783.4
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	170.0
Rännilen 11	Biblioteksgatan 8, Mäster Samuelsgatan 5	775	1958	1902/85	164.0
Rännilen 18 <sup>2)</sup>	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986/2009	407.0
Rännilen 19	Norrmalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39 2007	1902/42/64/90/2002	627.0
Skären 9	Smålandsgatan 18-20, Norrlandsgatan 8-10	2,195	1917	1984/2001	599.0
Vildmannen 7 <sup>2)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	221.0
<i>Total</i>		17,663			4,787.6
<b>Total, Stockholm City East Business Area</b>		<b>29,493</b>			<b>7,694.6</b>
<b>Stockholm City West Business Area</b>					
<i>NK Management Area, Stockholm</i>					
Hästen 19 <sup>2, 6)</sup> och 20 <sup>5, 6)</sup> , Spektern 14 <sup>5, 6)</sup>	Hamngatan 18–20, Regeringsgatan 36–40	8,875	1998	1915/91	2,428.0
<i>NK Management Area, Gothenburg</i>					
Inom Vallgraven 10:9 <sup>6)</sup>	Östra Hamngatan 42, Kyrkogatan 48–54, Fredsgatan 5–7, Drottninggatan 39–45	4,520	1998	1964/94	628.0
<i>Parkaden Management Area</i>					
Hästskon 10 <sup>7)</sup>	Regeringsgatan 47–55, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	512.0
<i>Management Area, West</i>					
Achilles 1 <sup>8)</sup>	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th Century /1974	150.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	250.0
Kungliga Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	120.0
Medusa 1 <sup>2)9)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	71.0
Orgelpipan 7 <sup>10)</sup>	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	726.0
Svärdfisken 2 <sup>2)</sup>	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	180.0
<i>Total</i>		12,075			1,497.0
<b>Total, Stockholm City West Business Area</b>		<b>30,391</b>			<b>5,065.0</b>
<b>Gothenburg Business Area</b>					
<i>Gothenburg Management Area</i>					
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	228.0
Inom Vallgraven 12:11 <sup>11)</sup>	Drottninggatan 50–52, Södra Hamngatan 45-47, Fredsgatan 2–4	2,127	1967/ 2010/11	1875/1929/30	152.4
Nordstaden 8:24 <sup>12)</sup>	Postgatan 26–32 och 39-43, Nordstadstorget 2-8, Spannmålgatan 19, Nils Ericssonsgatan 17, Götgatan 9–11, Köpmansgatan 28–34, Östra Hamngatan 26–28	12,678	1979/2012	1972/2005/11	2,023.0
Nordstaden GA:5 <sup>13)</sup>	Nordstadstorget and others				306.8
<b>Total, Gothenburg Business Area</b>		<b>18,962</b>			<b>2,710.2</b>
<b>TOTAL</b>		<b>78,846</b>			<b>15,469.8</b>

Rentable space, sq m

Offices	Stores	Restaurants	Cinemas	Storage	Parking	Residential	Other	Total
4,971	1,866			239				7,076
6,418	1,809			1,028				9,255
17,115	3,338	1,673		602				22,728
20,807	5,078			2,001	1,612		5	29,503
49,311	12,091	1,673		3,870	1,612		5	68,562
2,845	800			285	792			4,722
2,808	3,427	243		232	206			6,916
2,458	593	144		256				3,451
		194						194
10,864	3,269	704		437				15,274
7,789	3,845	495		73		192	1	12,395
2,022	741							2,763
1,630	869	539		2				3,040
5,199	948	444		292				6,883
7,843	2,139			501	910			11,393
7,710	1,642			411	1,106			10,869
1,935	1,517			21		907	1	4,381
53,103	19,790	2,763		2,510	3,014	1,099	2	82,281
<b>102,414</b>	<b>31,881</b>	<b>4,436</b>		<b>6,380</b>	<b>4,626</b>	<b>1,099</b>	<b>7</b>	<b>150,843</b>
11,470	21,934	2,092		3,540			17	39,053
5,164	9,684	207		1,291			2	16,348
	2,696	515		8,680	24,482		1	36,374
4,014	351			604				4,969
7,583	378	263		871				9,095
2,775				8				2,783
1,283	242	271		103		303		2,202
9,956	3,693	1,969		1,334	13,450		1	30,403
3,725	175		1,893	558	1,107			7,458
29,336	4,839	2,503	1,893	3,478	14,557	303	1	56,910
<b>45,970</b>	<b>39,153</b>	<b>5,317</b>	<b>1,893</b>	<b>16,989</b>	<b>39,039</b>	<b>303</b>	<b>21</b>	<b>148,685</b>
10,430	3,115	404		1,107	1,250			16,306
2,111	1,634			473		779		4,997
37,262	25,087	894		2,763			52	66,058
<b>49,803</b>	<b>29,836</b>	<b>1,298</b>		<b>4,343</b>	<b>1,250</b>	<b>779</b>	<b>52</b>	<b>87,361</b>
<b>198,187</b>	<b>100,870</b>	<b>11,051</b>	<b>1,893</b>	<b>27,712</b>	<b>44,915</b>	<b>2,181</b>	<b>80</b>	<b>386,889</b>

1) During the year, Kåkenhusen 38 and Kåkenhusen 39 were merged with Kåkenhusen 40.

2) The property is classified as being of cultural and historical importance.

3) The property is held on a lease.

4) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.

5) Hästen 20 och Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 3.3 million and is fixed until May 1, 2022. The ground rent for Spektern 14 is SEK 0.6 million and is fixed until October 1, 2015. The ground rents are adjusted every 10 years. The tax assessment value of the land is included to the amount of SEK 43 million.

6) Owned by the subsidiary AB Nordiska Kompaniet.

7) Owned by the subsidiary AB Hamngatgaraget. Hästskon 10 is on leasehold and the ground rent after August 31, 2014 is subject to negotiation. The tax assessment value of the land is included to the amount of SEK 226 million. A review of the tax assessment for 2013 has been requested.

8) The property is a listed building.

9) Owned by the subsidiary Fastighetsaktiebolaget Medusa.

10) Orgelpipan 7 is on leasehold and the ground rent after October 31, 2014 is subject to negotiation. The tax assessment value of the land is included to the amount of SEK 295 million.

11) During the year, Inom Vallgraven 12:2 and Inom Vallgraven 12:8 were merged with Inom Vallgraven 12:11.

12) The property previously included the former Nordstaden 8:26, which was acquired through a property consolidation, with completion on March 7, 2013.

13) The property is jointly owned and includes parking operations, certain leasing of premises as well as servicing and maintenance of pedestrian precincts, loading areas, cooling and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 39.4 per cent, equivalent to approximately 31,000 square metres.

# BIBLIOTEKSTAN

*Biblioteksgatan, Stockholm*



# Definitions and glossary

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

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

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

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

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

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

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

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

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

*Comparable holdings.* Properties disposed of during the year are excluded. Properties acquired during the year are included and the previous year is adjusted for the equivalent period.

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

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

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

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

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

*Fair value.* The estimated market value of the properties.

*Fair value, properties.* The amount for which the properties could be assigned on condition that the transaction takes place between parties that are independent of each other and which have an interest in the transaction being implemented. In accounting terms, this is known as fair value.

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

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

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

*Interest coverage ratio.* Profit after financial items, excluding unrealized changes in value, plus interest expense, in relation to interest expense.

*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.

*MTN programme* Medium Term Note is a bond programme with a term of 1–15 years.

*Net liabilities.* Interest-bearing liabilities minus current investments and cash and bank holdings.

*Net loan-to-value ratio, properties.* Net liability in relation to the carrying value of the properties.

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

*Net profit on current operations.* Profit before tax, excluding changes in value, properties and derivatives and items affecting comparability charged with 22 per cent (26.3 and 28) standard tax.

*New leases.* Leases signed during the year with a new tenant other than the tenant that leased the property previously or for premises that were previously vacant.

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

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

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

*Properties' carrying amount per share.* The carrying amount of the properties in relation to the number of outstanding 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 floor space 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 before tax plus interest expense in relation to the average capital employed.

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

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

*Surplus ratio.* The gross profit in relation to net revenue.

*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 current tax and deferred tax.

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

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

*Yield properties.* Net operating income in relation to the fair value of properties.

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



# KLARABERGSGATAN

*Stockholm*

# Annual Meeting

The Annual Meeting will take place at 3.30pm on Thursday, March 26, 2015 at the Grand Hôtel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual Meeting will be published on the *Post- och Inrikes Tidningar* website [www.bolagsverket.se/](http://www.bolagsverket.se/) and on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se). Notification that a summons has been issued will be published in *Dagens Nyheter*.

## Notification

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by Euroclear Sweden AB by Friday, March 20, 2015, whereupon shareholders who have their shares registered with nominees must have the shares re-registered temporarily in their own name at Euroclear Sweden AB to be entitled to attend the meeting. Registration must be completed by March 20, 2015.

- notify Hufvudstaden by Friday March 20, 2015, preferably before 4pm. Notification must be sent using the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se), e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se), telephone on +4687629000, fax on +4687629001 or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

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

received by the Company at the above address by March 14, 2015 at the latest. A proxy form is provided on request and is available on the Company's website.

## Dividend

The Board of Directors proposes that a dividend of SEK 2.90 per share, totaling SEK 598.2 million, be paid for 2014, with the record date set as March 30, 2015. Payment is expected to be made on April 2, 2015.

## Change of address

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

# Calendar

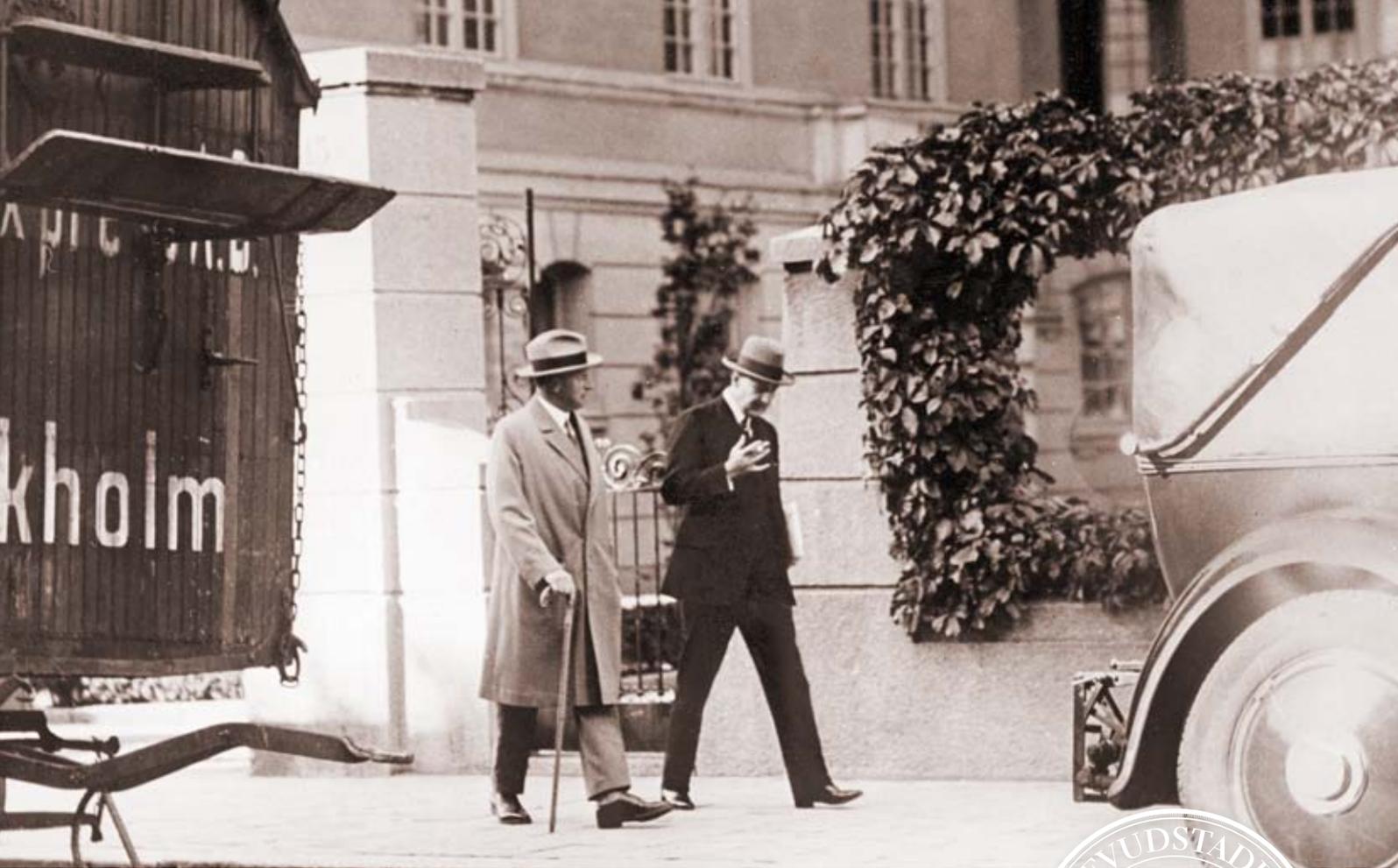
Interim Report, Jan–Mar 2015 ..... May 5, 2015  
Interim Report, Jan–June 2015 ..... August 20, 2015  
Interim Report Jan–Sept 2015 ..... November 4, 2015  
Year-End Report 2015 ..... February 11, 2016  
Annual Report 2015 ..... March 2016

## Contact persons

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





HUFVUDSTADEN 1915 – 2015





*For the past 100 years Hufvudstaden has had its operating base around Kungsträdgården, Norrmalmstorg, Stureplan and Kungsgatan. However, in the years before NK and Bibliotekstan the Company also invested in residential properties in Östermalm, in agriculture in Järfälla, in offices at Liljeholmen, in a hotel in Gothenburg, in cinemas throughout Sweden, in holiday villages in Skåne and in properties in Tokyo, London and Paris. Over the years, Hufvudstaden has faced two world wars, strict government controls, a frenzied period of mass demolition, depressions and a stock market crash. But thanks to a sound financial base, the Company has consistently seized the opportunity to make key acquisitions during times of adversity when no one else was interested in buying. By adopting a long-term business approach, the Company could frequently afford to sit back and wait several decades for the final piece in a particular block to become available. Join us on a journey through the first century of Hufvudstaden's history.*

# 1915 – 1920

## Foundation of Hufvudstaden

On Monday, September 20, 1915, Fastighetsaktiebolaget Hufvudstaden was founded in an office at the newly built Sveriges Privata Centralbank building at Gustaf Adolfs torg 18. The chairman, Ivar Kreuger, was listed as holding 5,996 shares and the other four founders held one share each. The original idea was to call the company Holmia – after Stockholm – but in the end the name Hufvudstaden was chosen and a change was subsequently made in the pre-drafted minutes. The aim of the company was to acquire residential and commercial properties and to take advantage of economies of scale to manage the properties efficiently and economically.



*Ivar Kreuger (1880 – 1932).*

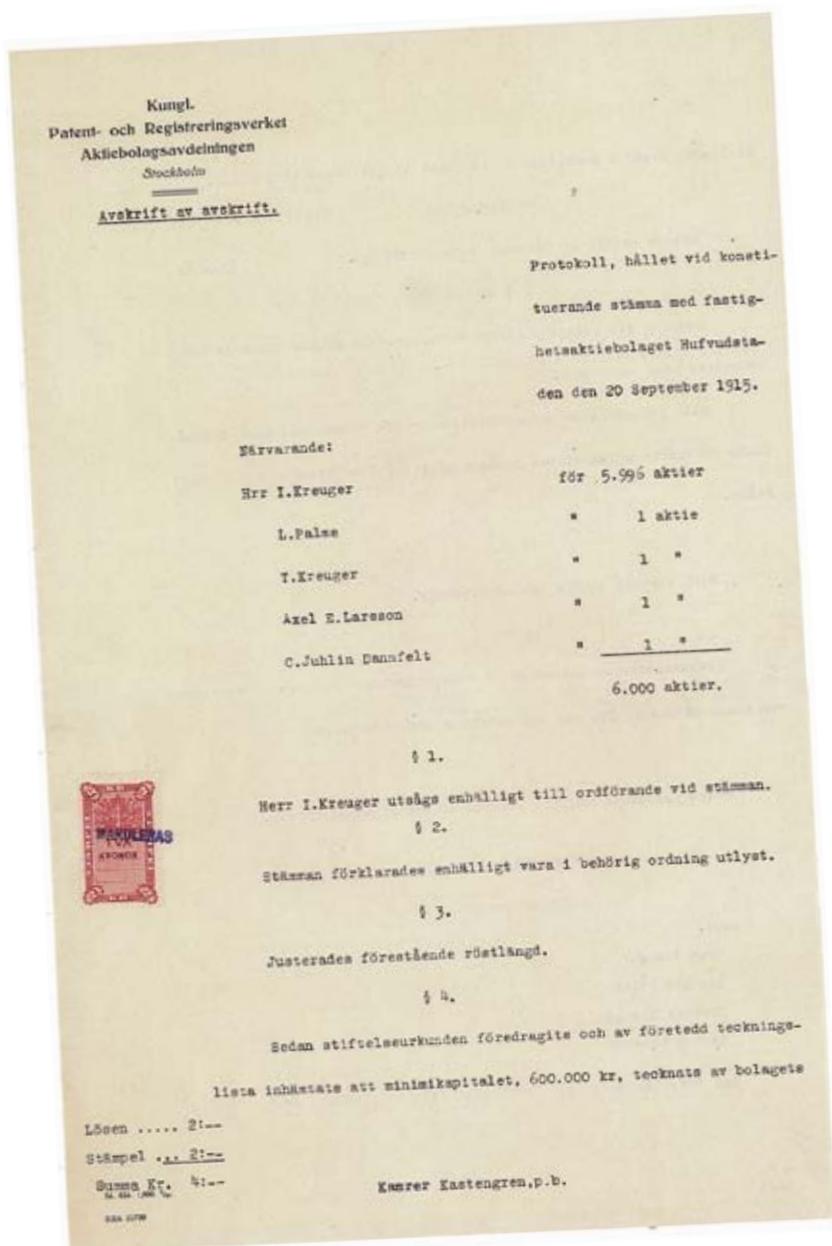
### Ivar Kreuger

When Ivar Kreuger founded Hufvudstaden he had already become a multi-millionaire from match production and as a highly successful building developer. His achievements included Stockholm Olympic Stadium, the NK department store and the foundations of Stockholm City Hall.



*Stockholm Olympic Stadium was constructed in record time, 1911 – 12.*

After graduating as an engineer from the Royal Institute of Technology he spent seven years working abroad. During this time he was constantly on the look-out for new business ideas. On his return from the USA he not only brought back the rights to a revolutionary construction method that made use of reinforced concrete, he had also had his eyes opened to the enormous opportunities offered by the world of finance.



### Kvasten 6 and Röda Kvarn

The Kvasten 6 property at Biblioteksgatan 5 became the first of Hufvudstaden's newly constructed buildings to be completed. Ivar Kreuger and his business partner Paul Toll purchased the site in January 1915 and demolished the existing building. The four floors of the new building were filled with offices and shops and just before New Year 1915 the ultramodern cinema Röda Kvarn was officially opened. Two years later, a restaurant was opened under the name Cecil and it was to become the first in Stockholm to feature jazz music. It was for a long time the most fashionable and lavish restaurant in the city. Hufvudstaden sold Cecil in the 1950s but retained the building, which has now been part of the Company's holdings for 100 years.



*The Röda Kvarn cinema was housed in Hufvudstaden's first newly constructed building.*

### War years

Sweden was not involved in the First World War although by 1917 Stockholm had begun to seriously feel the effects. Border closures led to a shortage of certain foods, giving rise to starvation and demonstrations. This was compounded by an acute shortage of housing as construction had come to a standstill, coupled with an influx of refugees and a rise in the number of people moving into the city from rural areas. Rents rose so steeply that Parliament was forced to introduce a law that in effect banned rent increases. This resulted in a desperate time for property owners as they were unable to compensate themselves for a doubling of the cost of fuel and repairs.

### A unique purchasing opportunity

In the centre of Stockholm the vast majority of buildings were owned by private individuals or entities – often widows or the estates of deceased persons – who were finding it difficult to run and maintain the buildings under the extreme conditions that prevailed during the war. Many of them tried to sell their properties. For Hufvudstaden – which during the war years was unable to find materials and workers to construct new buildings – this offered an opportunity to rapidly expand its property holdings. 1917 proved to be a unique year for the Company. It was a year in which it acquired no fewer than 24 properties, almost one every other week. These included buildings in Bibliotekstan, such as Rännilen 8 at Birger Jarlsgatan 11. Hufvudstaden had by then become the largest private property company in Stockholm.

### Viksjö

To ensure fuel supplies during the war, Hufvudstaden bought a haulage company



*During the crisis year of 1917, Hufvudstaden acquired 24 properties in Stockholm.*

and Viksjö Gård, a large manor located between Hässelby and Jakobsberg. Wood, coke and coal were rationed but thanks to the wood from the forests at Viksjö the Company managed to supply tenants with heating and hot water during the winter fuel crisis that persisted throughout the war. Even during the Second World War, Hufvudstaden obtained enormous quantities of wood from Viksjö. The land at Viksjö was eventually sold for housing during the 1960s.



*Ivar Kreuger was more than happy to take film stars out for a trip on his motorboat, Loris.*

# 1921 – 1932



*The 1920s cinema Skandia on Drottninggatan. Drawing by architect Gunnar Asplund.*



*SF invested in large film studios in Råsunda.*

## Speculative bubble bursts

The crisis years of the First World War were followed by a period of rampant inflation and widespread speculation in the Swedish economy. The bubble soon burst. Sweden was hit by deflation, agricultural land fell into disuse and industrial enterprises were left insolvent. The newly founded film company SF was close to being toppled by the costs associated with the newly constructed Filmstaden studios in Råsunda but it was saved when Hufvudstaden bought SF's cinema properties in 16 towns.

## Professional board

Ivar Kreuger formally stepped down from the Hufvudstaden board. The president, Lennart Palme, was forced to resign. Kreuger's trusted co-worker and cousin Nils Ahlström became chairman of the board and from 1923 a number of highly capable directors and politicians were recruited as members of what was becoming a more 'professional' management team. These included building developer C W Andrén, Erik Hjorth from Skånska Cement, former county governor Sven Lübeck, Allan Cederborg from Handelsbanken and city finance commissioner Carl Juhlin Dannfelt, all of whom had the added distinction of being 'men of great thrift'.

## Skandia

In the 1920s, the most beautiful cinema in Sweden was built in the Hufvudstaden property at Drottninggatan 82. In the capable hands of architect Gunnar Asplund the Skandia cinema became a lavish neoclassical gem, decorated with antique period motifs by the leading artists in the country.

## Kungsgatan

What was to become the most fashionable street in Stockholm, Kungsgatan, was constructed in 1911 through the Brunkebergsgåsen ridge, extending from Stureplan in the direction of Hötorget. Hufvudstaden was quick off the mark and purchased a large number of sites. These included sites on Norrlandsgatan – where Kungsgatan 4–10 were built and with Radiotjänst as one of the tenants – and in particular around the junction with Sveavägen.

Hufvudstaden purchased properties on the corner blocks Järnplåten and Hästhuvudet although the first complete block to be acquired at the junction of Kungsgatan and Sveavägen was Oxhuvudet. It was on this block that Centrumhuset was opened in 1931. Centrumhuset was an ultramodern colossus, constructed in dark brick and housing an exclusive shopping centre with 14 stores – all carefully selected by Hufvudstaden



*Centrumhuset, the impressive brick-built colossus on the corner of Kungsgatan and Sveavägen, which was opened in 1931.*

– and no fewer than 60 offices for the film company SF.

### **Tändstickspalatset**

In the middle of the 1920s, Hufvudstaden was once again involved in new construction under its own auspices. In the newly established district of Röda Bergen in Vasastan the Company constructed almost 200 apartments. Even greater attention was attracted by the elegant Tändstickspalatset, built for Ivar Kreuger at Västra Trädgårdsgatan 15 between 1926 and 1928. It was in the neighbouring building, at number 17, that Hufvudstaden had its head office right up until the 1960s.



*Tändstickspalatset – Ivar Kreuger's headquarters.*



*March 1932: Kreuger's body was transported from Paris to Stockholm.*

## **The Kreuger Crash**

**I**n March 1932, the end came for Ivar Kreuger, engineer, financial magnate and business leader, when he was found dead in Paris. He was one of the world's largest borrowers and lenders but could no longer keep rolling over the millions he had in debt.

The collapse of the Kreuger empire had enormous repercussions for large corporations and small savers alike. For Hufvudstaden it marked the beginning of an uncertain future and legal proceedings against the Company's management. Criminal investigators even seized Hufvudstaden's petty cash, which meant that the employees had to scrape together small change when the tenants came in to pay their rent each month.

# 1933 – 1950



*Ernst C:son Herslow at Skandinaviska Banken saved the Company following the Kreuger Crash.*

## Hufvudstaden saved

**H**ufvudstaden found itself in dire straits following the Kreuger Crash of 1932 and a couple of leading figures in the Company were sent to prison. When the lenders divided up the companies that were controlled by Kreuger, which included LM Ericsson, SCA and Boliden, Hufvudstaden was left largely in the hands of Skandinaviska Banken, which intended to sell the properties and wind up the Company. However, the newly appointed head of Skandinaviska Banken in Stockholm, Ernst C:son Herslow, realized that Hufvudstaden had a fundamentally sound financial base and secure assets in the form of good property holdings. He finally succeeded in persuading the bank and other lenders to grant Hufvudstaden respite with its debt repayment and thus saved the Company.

### Custos

In the aftermath of the Kreuger crash, Swedish commercial banks were banned from holding shares directly. In response, the large banks set up management companies to which they transferred their shareholdings. In 1937, Skandinaviska Banken founded the investment company Custos, and its biggest asset was a majority shareholding in Hufvudstaden.

### Public listing

In the summer of 1938, Hufvudstaden was listed on the Stockholm Stock Exchange with A, B and C shares. The price quickly rose by 30 per cent. The insurance companies Trygg and Atlas bought large blocks of shares although it was Custos that was the clear majority shareholder – a situation that was to continue until the 1990s.

### On the backburner

The 1930s was a remarkable period on the Stockholm property market. It was the only period in the city's history when



*Hufvudstaden became a publicly listed company in 1938.*

construction of residential property outstripped the rise in population. This overproduction, which coincided with a global recession, led to a fall in rents and an increase in vacant space. Hufvudstaden was run at the time under the



*The Company's own supply of wood ensured that heating could still be provided in Hufvudstaden's buildings during the Second World War.*

watchful eye of the president, Hugo Hintze, who played safe by selling several sites along Kungsgatan and building just one new property – a residential building at Drottninggatan 90.

### War and crisis

The Second World War meant that Hufvudstaden was unable to build its new head office on Norrmalmstorg. As was the case during the First World War, rationing made it difficult to find fuel. The Company solved this by purchasing wood in Ångermanland and storing it at Viksjö. As people were only allowed to take a hot bath on Christmas Eve, the city's caretakers worked frantically day and night to keep the boilers going.

### Rent control

The housing shortage returned and a couple of years into the war the situation became chaotic, resulting in a dramatic rise in rents. Parliament and the government intervened by introducing a ban on rent increases along with a series of controls that meant that all rent increases had to be decided centrally. Consequently, property owners were unable to cover the rising cost of heating, repairs, interest and taxes, resulting in an increasingly sluggish rental market and overdue maintenance.



*During the crisis of the 1930s, Hufvudstaden was forced to sell several properties on Kungsgatan.*



*The end of the Second World War on May 7, 1945 was marked by showers of tickertape on Kungsgatan.*

### Peace and restrictions

The war finally came to an end on May 7, 1945, an occasion marked by celebrations outside Radiotjänst in the Hufvudstaden building at Kungsgatan 8. Nevertheless, the restrictions imposed on the construction sector were to remain

for a further 10 years. Materials were rationed and it was difficult to secure building consent in Stockholm. Nor was it permitted to demolish old buildings as there was nowhere to evacuate the tenants.

# 1951 – 1970



*Construction of the underground was destined to change the City of Stockholm for ever.*



*Hufvudstaden's buildings on Regeringsgatan were demolished at the end of the 1960s.*

## Underground system

Nothing characterised post-war Stockholm more than the construction of the underground system. Not only was it fundamental to the expansion of the city, it was also used as a pretext for demolishing large swathes of the city centre. A combination of ground conditions and 1940s construction technology meant that it was not always possible to bore tunnels. Instead construction workers had to first demolish buildings and then excavate down to where the tracks and the stations were to be constructed. This was the case at the junction of Kungsgatan



*A political conflict raged for a long time around the Järnplåten block.*

and Sveavägen, where Hufvudstaden had properties on three of the corners.

## City project – compulsory purchase – demolition

Construction of the underground was gradually transformed into what was in effect mass clearance of Stockholm city centre and as time passed the pace and ruthlessness of this process gathered momentum. Entire blocks were obliterated, slums and mansions alike, and the city employed strict means of enforcement. Around 20 of Hufvudstaden's properties were on the 'death list'. The majority on Regeringsgatan and Västra Trädgårdsgatan were demolished although many around Biblioteksgatan were saved at the last minute when plans to construct a road through the area were shelved.

## Järnplåten

The Järnplåten area at the junction of Kungsgatan and Sveavägen became the centre of a conflict during the 1950s between the authorities and privately owned property companies. The City of Stockholm stipulated that everything that was built following the city clearance programme must be erected on municipal leaseholds. However, after battling for many years Hufvudstaden succeeded in acquiring the final piece that was missing at Järnplåten. The trump card in the negotiations was that the underground required a street exit at that particular point. After further years of discussions with the minister, Gunnar Sträng, Hufvud-



*A new property was finally completed in 1959 on the corner of Sveavägen and Kungsgatan.*

staden was finally granted consent to build on the site. The NK-owned K Department Store was officially opened in 1959.

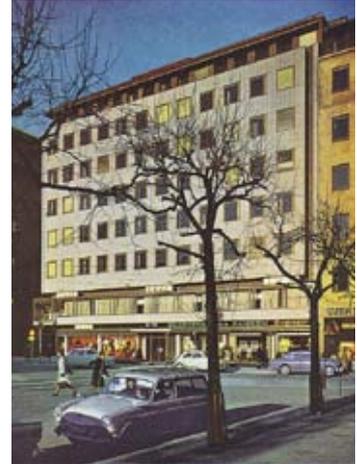
### **Leisure sector**

At a time during the 1960s when the Stockholm property market was strictly

regulated and uncertain, Hufvudstaden invested in the growing leisure boom. At Bosjökloster in central Skåne, 800 homes were planned in a beautiful location beside Lake Ringsjön. Unfortunately, sales proved sluggish and fewer than 100 were completed.



*Staff from Hufvudstaden inspect the planned holiday village in Skåne.*



*The new head office on Norrmalmstorg was completed in 1964.*

## **Norrmalmstorg 14**

After 25 years of waiting, Hufvudstaden's head office on the corner of Norrmalmstorg and Biblioteksgatan was completed in 1964. First it was the war that intervened and then building restrictions. When construction finally got underway the excavators came across an underground river that flooded the entire foundations. Divers were brought in along with archaeologists, who found remains on this former seabed of vessels that sank during the 17th century.

# 1971 – 1997

## City plan scrapped

After an intense wave of demolition in Stockholm and the elm tree conflict in Kungsträdgården in 1971, opinion at City Hall took a new turn. Money began to run out and more and more people were beginning to realize that old buildings also had value. When the threat of demolition was officially removed, Hufvudstaden could once again refurbish its buildings around Biblioteksgatan and Birger Jarlsgatan.



*Biblioteksgatan was for a long time threatened by demolition...*



*In spring 1963 cars were seen for the last time along Biblioteksgatan, which was eventually pedestrianised.*

## Market rents

In 1972, a political decision was reached that was to be of major significance to Hufvudstaden. The government rent controls that were introduced in 1942 were dropped for all non-residential buildings. Once rents became a matter for negotiation between property owners and tenants, both parties could start to make demands on each other. Hufvudstaden began to focus seriously on its customers and offer premises that justified an increase in rent.

## Clear-out

Lars Öberg, who became president of Hufvudstaden in 1976, first came to the Company as head of development in 1970 although he was equally involved in the divestment of what was quite a varied range of holdings that for different reasons had become part of the Company. Involvement in the leisure business was discontinued, construction companies were divested and the wholly-owned film company SF was sold to *Dagens Nyheter*.

## Bygg-Oleba

When Hufvudstaden purchased the construction company Bygg-Oleba in 1979, several well-managed properties were included, such as Orgelpipan 7 on Klarabergsgatan and the historic Räntmästarhuset on the corner of Skeppsbron and



*... but the building housing Wienercaféet survived.*

Slussplan. Not to mention the Femman Shopping Precinct in the Nordstan Shopping Centre in Gothenburg, which comprised several floors with offices and what was at the time the largest shopping centre in the country.



*The Femman Shopping Precinct was opened in 1972.*

## Investment in Gothenburg

During the 1970s, Hufvudstaden invested in two blocks on Södra Hamngatan in Gothenburg. A new office building was completed on the Härbärg block in 1975 and in 1986 Hufvudstaden's new hotel was opened on the Slusskvarnen block. The hotel, which was run by Sheraton, failed to generate a profit and did not fit in with the Company's core operations and was sold in 1999.

## Tokyo

In collaboration with the company Statsföretag and the Royal Swedish Academy



*After the fall of the Wall, Hufvudstaden constructed a property in Berlin.*



*Sweden Centre in Tokyo marked the beginning of an era of overseas investment.*

of Engineering Sciences, Hufvudstaden had the opportunity to construct the Sweden Building in Tokyo. The eight-storey building was opened in 1972 and Hufvudstaden soon became the sole owner of the property. The restaurant on the ground floor was run by a restaurateur who had been recommended by King Carl Gustaf after he had visited another establishment in Osaka. The property was sold at the end of the 1990s with a good return.

### Trans Match

In order to purchase properties abroad, a permit was generally required from the Swedish Central Bank to transfer money out of Sweden. In 1984, Hufvudstaden was able to acquire foreign properties in a much simpler way – by purchasing the Swedish Match property company Trans Match.

The company had holdings in Amsterdam, Lisbon and Oslo as well as an historic palace at Place Vendôme in Paris, which was at one time owned by Ivar Kreuger. Also included in the purchase was a newly constructed office building at Kungsträdgården.

### London, Paris and Berlin

Following the abolition of exchange controls in 1987, investing abroad became much simpler. Hufvudstaden identified London and Paris as the most interesting markets and during a temporary downturn in the rental market it acquired a number of centrally located properties. These were then refurbished according to Swedish standards – much to the surprise of local builders.



*The Hufvudstaden Board of Directors during a turbulent 1997.*

## Öresund steps in

When the market realized that the cross-ownership between Volvo, Skanska and Hufvudstaden's parent company Custos was in the process of dissolving, the investment company Öresund saw an opportunity. In 1995, Öresund became the majority shareholder in Custos and thus controlled Hufvudstaden, which was split into an international division and a Swedish division. The idea was to sell off the international property holdings. The president, Olov Agri, who had argued for 10 years in favour of a continuation of international investment, stepped down in 1997, shortly after the decision was taken.



*At Place Vendôme in Paris, Hufvudstaden owned a large mansion dating back to the 17th century.*

Following the fall of the Wall in 1989, Berlin also became an attractive proposition and Hufvudstaden subsequently constructed a building in the city. To meet the cost of this substantial overseas investment and to maintain the share dividend, the Company sold a number of assets – including its residential holdings in Stockholm – to various institutions, one of which was the Nobel Foundation.

### **Refurbishment of Kungsgatan and Norrmalmstorg**

Following the disappearance of the trams in 1967, Kungsgatan had gradually fallen into disrepair and lost its position as one of the most fashionable streets in the city. To help the street recapture its former glory, Hufvudstaden and other major property owners joined forces with the City of Stockholm to invest in an ambitious plan to breathe new life into the street environment. Pavements, signs, facades, bridges – everything was given a massive facelift. Norrmalmstorg was also modernized in the same spirit at the beginning of the 1990s.

### **World Trade Centre**

Together with SIAB and Lundbergs, Hufvudstaden was assigned the task of building a large terminal across the SJ rail tracks at the Central Station. The World Trade Centre, which was opened in 1990, had 46,000 square metres of floor space, housing offices, shops, a hotel and

other activities. In 2000, Hufvudstaden became the sole owner of the property before eventually selling it in 2006.

### **Property and financial crisis**

In autumn 1990, in the same week that Hufvudstaden celebrated its 75th anniversary, the property and finance market was hit by a crisis. The credit economy had begun to veer out of control and

finally crashed. The banks were bleeding money, the Swedish Central Bank raised the interest rate to 500 per cent and many property companies went under. And yet Hufvudstaden managed to survive the crisis almost unscathed. The simple reason was that the Company had refused to be dragged into the lending merry-go-round and stubbornly insisted on maintaining its considerable financial strength.



*The World Trade Centre beside Stockholm Central Station was built by Hufvudstaden, SIAB and Lundbergs.*

# 1998 – 2015



*Fredrik Lundberg became majority shareholder and Chairman in June 1998.*

## Lundbergs take over

In spring 1998, a new stakeholder bought into Hufvudstaden – Lundbergs. In June, the plural-vote shares held by the investment company Öresund were also acquired. Lundbergs thus had a majority shareholding in Hufvudstaden and stepped into Custos's old role as the clear majority shareholder.

### Investment in Stockholm and Gothenburg

In autumn 1998, Fastighetsaktiebolaget Hufvudstaden changed name to Hufvudstaden AB and adopted a new business plan in which the sole focus was high-quality office and retail premises in Stockholm. A year later, it was proposed that central Gothenburg should also be included in the plan.



*The core area for 100 years has been the blocks between Norrmalmstorg and Stureplan.*

### NK

In 1998, Hufvudstaden acquired the majority shareholding in NK Cityfastigheter and delisted the Company. It thus became the owner of two old-established department stores in Stockholm and Gothenburg plus shopping centres in a further four cities. Equally important was the build-up of valuable knowledge within the retail business – a niche that was to gradually increase in importance. Hufvudstaden also transferred its head office from Norrmalmstorg 14 to the NK building.

### Ivo Stopner President

In March 1999, graduate engineer Ivo Stopner took over as President of Hufvudstaden after Tomas Billing, who had held the position for a couple of



*Ivo Stopner, who took over as President in 1999.*

years. Ivo Stopner began working for the Company in 1990 and was, among other things, head of operations in Sweden and head of the Office business area. Under his leadership a new business plan was adopted that stipulated that Hufvudstaden should focus on three areas: central Stockholm, central Gothenburg and NK.



*In 1998, Hufvudstaden made the strategically important purchase of NK.*



*This much sought-after white functionalist gem on Norrmalmstorg was purchased and modernized around 2000.*

### Norrmalmstorg 1

After 70 years, one of the most sought-after properties came onto the market for the very first time. Norrmalmstorg 1 was constructed in 1931 by Torsten Kreuger and it remained in the family. In autumn 2000, Hufvudstaden had the opportunity to purchase Norrmalmstorg 1 and extensive renovation was soon underway of this centrally located functionalist gem. Renovation was completed in 2004 and new tenants included Danske Bank and the Spanish fashion chain Zara.



### IT bubble bursts

The IT bubble grew unabatedly for several years although when it finally burst at the beginning of the 2000s a recession ensued that was to hit Hufvudstaden harder than the property crisis 10 years previously. Plummeting stock market prices and major bankruptcies shook the rental market in central Stockholm, where companies had competed for several years to secure the right address. Rent levels generally fell by half and for a couple of years Hufvudstaden was left holding large volumes of vacant space until the recession came to an end.



*Hufvudstaden invited employees and tenants to classic film experiences at the renovated Skandia cinema.*

### Rationalization of holdings – mixed properties sold

The majority of Hufvudstaden's pure residential properties were sold during the period of foreign investment during the 1990s. Around 2004, the last of the Company's mixed properties – homes, stores and offices – were sold off. These included properties on S:t Paulsgatan and at the junction of S:t Eriksgatan and Fleminggatan. The Victoria Cinema in Gothenburg and the Röda Kvarn cinema in Stockholm were converted into stores and Hufvudstaden, SF and the County Administrative Board joined forces to renovate the Skandia cinema on Drottninggatan – the last of the many cinemas in the Company's history.



*A major transformation is planned for the Härbärget block in Gothenburg.*

### Complete blocks in Stockholm and Gothenburg

At the beginning of the 2000s, Hufvudstaden succeeded in supplementing several centrally located blocks by purchasing the missing pieces – pieces that they had been waiting to acquire for 50, 70 or even 90 years. These include Pumpstocken and Rännilen between Biblioteksgatan and Birger Jarlsgatan in Stockholm, and Härbärget (Inom Vallgraven 12) in Gothenburg.



*Prada's establishment was a sign of the success of the investment in Bibliotekstan.*

### Bibliotekstan in Stockholm

The term 'Bibliotekstan' was coined in 2010 for the block around Biblioteksgatan between Norrmalmstorg and Stureplan. This was to be the area in which the most attractive shopping district in Stockholm would be created, with a pleasant street environment and enticing restaurants and cafeterias. Above all, Hufvudstaden worked consciously to attract international prestige brands to its premises. This initiative

### Fredstan in Gothenburg

Focusing on Gothenburg's 400th Anniversary in 2021, Hufvudstaden has taken the initiative to modernize the city's commercial centre. On the Härbärget block – between Nordstan and NK – the Company is working to create a landmark that will include modern, flexible premises. The aim is for the property to become a portal to an attractive area for shopping and office use around the pedestrianised Fredsgatan. Following



*New plans are being formulated to build up a brand that will act as a portal for the new commercial centre in the heart of Gothenburg.*

was to prove successful and within a couple of years several world-leading brands had established operations in Bibliotekstan, including the Italian company Prada, which opened its store on the corner of Birger Jarlsgatan and Mäster Samuelsgatan in 2013.

on from the thinking around Bibliotekstan in Stockholm, the working name is Fredstan.

Hufvudstaden would like to thank all the organisations and photographers who have assisted us by providing photographs for the Hufvudstaden 100 Years, 1915–2015 sections of this Annual Report (pages 4–6 and 103–121). All the photographs will appear in the major anniversary publication Hufvudstaden 100 Years, which will be published by Bokförlaget Max Ström during 2015. All image sources will be stated in the book.

# Present and future

Jeppe Wikström meets Ivo Stopner and Fredrik Lundberg

**In just a few key words, how would you describe Hufvudstaden?**

**Fredrik Lundberg** – central locations, Stockholm, Gothenburg, quality – both in the buildings and the organization.

**Ivo Stopner** – a combination of quality and long-term profitability. Not to mention a feeling that is unique; something that ‘stands out from the crowd’.

**It would appear that your success is governed by relatively ‘soft’ variables – trends and consumer and tenant behaviour.**

**Fredrik** – Hufvudstaden runs a customer-oriented business which is necessary if the Company is to attract the more demanding, international customers.

**Ivo** – We have moved away from being technology oriented to being more customer oriented. The property holdings are entirely commercial. When we purchased NK in 1998 we began to view the retail sector in a totally different light. We realized that we needed staff who had their own network and who could talk to the proprietors in their way. Their mode of thinking differs quite markedly from the office sector.

**The fact that many companies are looking for flexible office space must represent a challenge for a property company with so many historic buildings?**

**Ivo** – We are constantly adapting our holdings. We upgrade our office holdings continuously in terms of technology, floor space planning and design. More than 80 per cent of our office space has now been adapted to meet modern office requirements. Very old buildings have also been adapted to meet modern standards.



*Ivo Stopner*

are beginning to see the same trend in Gothenburg. We realize that land really is limited. Investment in the infrastructure is creating new marketplaces and suddenly there is the

**Fredrik** – What is interesting is that certain tenants want flexible offices and open planning solutions whilst others want a classic style with dividing walls and heavy doors. There’s a market for both types of office and Hufvudstaden can offer different types of premises.

**When you are unable to acquire new properties have you extended and redeveloped instead?**

**Ivo** – Yes. Stockholm is growing at an incredible rate and we

opportunity to develop existing buildings. We can see enormous potential for the future.

**Fredrik** – Within the framework of an old building you can create a great deal that is new by extending and modernizing and in particular the incorporation of new technology.



**What characterizes a property that could be a potential acquisition?**

**Fredrik** – Mainly the location. Then how the property is structured and built and whether it is possible to create modern premises that are fit for purpose. Only then can we generate customer benefit and charge accordingly.

**Ivo** – Nowadays it is the case that every company is developing its brand. Even the building you work in should reflect how you want to be perceived as a company. You want to be proud of the building.

**How has your perception of a good location changed over the past 20 years?**

**Fredrik** – The majority of locations that were good in the past are just as good today although a number of new locations have been added due the fact that Stockholm is growing. The central station area in Stockholm is a prime example. Its location is far better today than it was 20 years ago.

**Ivo** – Yes. Even in Gothenburg we can see that new areas are becoming more attractive. Companies now want to be in the ‘real’ city, which is around Nordstan and NK.

**What are the major development opportunities for Hufvudstaden?**

**Ivo** – All our properties are located in two regions, both of which are among the most rapidly growing regions in Europe. The infrastructural investments that are being decided or which have already been decided will pave the way for the regions to develop successfully, even in the future. At the same time, politicians are becoming more receptive to a slightly

different view of extensions, which presents us with opportunities that were not available to us ten years ago to create projects in our existing properties. Another avenue would be to continue to develop the retail sector. For many of our tenants, e-trade is not a threat but a possibility.

**Fredrik** – As I see it, Hufvudstaden should continue along the path that has already been set. There is no reason to revise our strategy. We will make investments in existing properties and add new properties as opportunities arise and our financial situation permits. In other words, the Company will probably grow in volume – there will be more square metres of floor space to rent out in ten years’ time than there are at present and the quality will be higher. More attractive floor space that is higher in value.

**By industry standards, Hufvudstaden has a very low loan-to-value ratio.**

**Fredrik** – I have learned from a very young age that one should not be indebted to the banks. At a time when interest rates are low and everything appears to be positive one might think that we should be capable of carrying more debt. But it

is easy to forget that it is not only the interest that needs to be paid. You also need to amortize. Loans must be repaid and until they are the money belongs to someone else.

**You have been at the forefront in sustainability thinking over the past 10–15 years.**

**Ivo** – As we adopt an incredibly long-term approach in everything we do, we incorporate solutions that are designed to last a long time. We measure how successful we are and we take part in various surveys. These surveys put us among the foremost property companies in Sweden and internationally, and in certain surveys we have come out top.

**What is important for the next generation at Hufvudstaden to bear in mind? What advice would you give to your successors at the Company?**

**Fredrik** – I can’t think of anything better than to continue with the strategy that Hufvudstaden already has in place. Continue to offer good service and quality and continue to concentrate on central Stockholm and central Gothenburg. It is not possible to present a vision of the future other than to carry on working with the same concept and to follow the Company’s current values and prioritizations.

**Ivo** – I want to add that we also have other major assets. We have a sound corporate culture that is governed by values. Our employees make that little extra effort and they are incredibly committed and attentive to what is happening externally. Last but not least – everyone is extremely quality conscious. We are a small company in terms of employees although we have properties worth almost SEK 28 billion, many of which are located at the best and most prestigious addresses.

**How does Lundbergs have the courage to have so much money invested in Hufvudstaden? The market capitalization of your holdings is around SEK 10 billion.**

**Fredrik** – Viewed historically, the shareholders have had a very good return on their investment. I believe that there is good reason for this to continue in the future. It is a very satisfying combination – good yield, good increase in value and relatively low risk.

**Hufvudstaden also has competitors. What is your relationship with them?**

**Ivo** – We have obviously always had to keep a close eye on the competition. But even if we are competitors we also collaborate in the development of the city, both in Stockholm and Gothenburg. It was a lot more difficult 20 years ago. Then it was a more divided property profile with both small and large property owners. Now there are a number of large companies that have roughly the same objective and strong balance sheets. They, like us, can invest in the marketplace. On the one hand there is keen competition between us but on the other hand we are developing the city, which is incredibly important. We are all pulling in the same direction.

**Hufvudstaden has been around for a century and has had virtually the same business concept throughout.**

**What will the future hold?**

**Fredrik** – Hufvudstaden has an incredibly strong set of values with customer benefit firmly in focus. A good corporate culture is an enormous source of strength. In Hufvudstaden’s case growth has taken place over a long period and it will still be there for future generations. 100 years is a very good beginning. Those who are sitting here in 30 years’ time will see that Hufvudstaden is an incredibly good company. Even if we are no longer involved!



*Fredrik Lundberg*

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## Group brands

norrholmstorg 1



  
BIBLIOTEKSTAN  
EVOLVED SINCE 1885

**BJP**  
BIRGER JARLSPASSAGEN



  
Nordstan

VARHUSET  
**Femman**



# BIBLIOTEKSTAN

*Mäster Samuelsgatan, Stockholm*



HUFVUDSTADEN