

## Corporate Governance Report

### Rules and regulations and Articles of Association

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

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

### Shares and shareholders

Hufvudstaden's share capital at the year-end amounted to SEK 1,056,359,665, divided into 211,271,933 shares, giving a par value of SEK 5 per share. Of the shares, 202,996,869 are series A shares, carrying one vote per share, and 8,275,064 are series C shares, carrying 100 votes per share. All shares carry an equal right to a share in the Company's assets and profit. The largest shareholder is L E Lundbergföretagen AB, with a total of 45.3 per cent of outstanding shares and 88.1 per cent of the votes. Apart from L E Lundbergföretagen AB, there is no shareholder in the Company that holds, directly or indirectly, shares where the number of voting rights represents one-tenth or more of the total number of votes for all shares in the Company.

According to a conversion provision in the Articles of Association, the holders of series C shares are entitled to request that their series C shares be converted into series A shares. No conversion of this nature took place during the year. There are no limits in the Articles of Association regarding transferability of shares or voting rights at a general meeting of the share-

holders. There are no known agreements that would be affected by a public purchase offer. There have been no infringements of applicable stock market rules.

### 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 2017 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, 2017, 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 15, 2018).

### Annual Meeting

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

Individual shareholders who wish to have a matter taken up at the meeting can make a request to the Hufvudstaden

Board of Directors at a specific address well in advance of the issuing of a summons to the meeting. The address is published on the Company's website.

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

The 2017 Annual Meeting was held on March 23, 2017. A total of 521 shareholders, representing 128,565,154 series A shares and 8,262,245 series C shares, were present, and they represented 954,789,654 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 Income Statement and Balance Sheet presented, as well as the Consolidated Income Statement and Consolidated Balance Sheet, and to issue a dividend of SEK 3.30 per share to the shareholders. At the meeting, the members of the Board of Directors and the President were granted discharge from liability, and a decision was reached on remuneration to the members of the Board of Directors and the auditors. In addition, all the members of the Board of Directors and the auditors were re-elected for the period up to the next Annual Meeting. Finally, a decision was reached at the meeting regarding guidelines for remuneration to senior executives and authorization of the Board of Directors to

decide on the acquisition and transfer of the Company's own series A shares.

The 2018 Annual Meeting will be held in Stockholm on March 22, 2018.

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

According to the Articles of Association, the Board of Directors shall comprise a minimum of five and a maximum of ten members. Members are elected at a general meeting of the shareholders for the period up to the end of the first Annual Meeting to be held after the year in which the members of the Board of Directors were elected. In the light of the concentrated ownership structure, Hufvudstaden does not have a formally appointed election committee. The duty of an election committee to prepare decisions to be reached at the Meeting in matters relating to elections and fees rests with Hufvudstaden's main shareholder, LE Lundbergföretagen AB. Hufvudstaden's procedure regarding the election committee is a deviation from the Code. The main shareholder presents a proposal regarding the person who will chair the Annual Meeting, the Board of Directors, the Chairman of the Board, and remuneration to the Members of the Board of Directors. A proposal regarding the auditor and the audit fee is presented by the Board of Directors. Other shareholders have the opportunity to submit nomination proposals at the address stated on the Company website. The proposals are published no later than the time of the issuing of a summons to the Annual Meeting.

The main shareholder has applied point 4.1 in the Code as a diversity policy, which means that the composition of the Board of Directors must be well adapted in the light of the Company's operations, the current phase in its development, and circumstances in general. The composition of the Board must reflect diversity and breadth in terms of the expertise, experience and background of the members elected at the Annual Meeting, and an even gender distribution must be sought. A decision was reached at the 2017 Annual Meeting in accordance with the proposal set forth by the main shareholder, which resulted in the election of nine members, of whom three were women and six were men.

As a basis for its proposal prior to the 2018 Annual Meeting, the main shareholder has assessed whether the composition of the present Board of Directors is appropriate, among other things using applicable parts of the annual evaluation of the work of the Board of Directors as a guide.

#### **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 Company's operations. All members of the Board have been assessed based on skills, experience and background. The only member of the Executive Management on the Board is the President, and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder LE Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 92–93. An external lawyer is engaged to act as secretary to the Board of Directors.

#### **Responsibility of the Board of Directors**

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

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

the continuous evaluation of the Company's internal control and risk management systems.

- Adoption of guidelines governing the way the Company should act in the community from a sustainability point of view.

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

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

The Chairman of the Board ensures that the work of the Board is evaluated once a year and that new Board members receive appropriate training. The evaluation takes place by each Board member completing a questionnaire. The responses are collated by the Chairman, who then presents the results to the Board, whereupon a discussion takes place within the Board. The Board also evaluates the work of the President, although without the person in question being present, and approves more material assignments carried out by the President outside the Company.

#### **Work of the Board of Directors**

During the 2017 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. The work of the Board of Directors during the year was aimed specifically at strategy discussions, issues pertaining

to the economic climate and financing, property valuation and acquisitions and investments. Other matters dealt with during the year include more extensive current projects, including the Company's digital transformation, upgrading of the Femman Precinct in Nordstan, the complete renovation of the Vildmannen 7 property and the fire that occurred at the end of the year, and the Company's internal reorganization, which resulted in a change in the Company's business area arrangement and an additional member of the Executive Management. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2016 was approved, and the Board meeting in August in conjunction with the examination by the Board of the Company's six-monthly report.

#### **Board committees**

The Board of Directors have examined the matter of establishment of an audit committee and a remuneration committee but has chosen not to set up any committees and will instead handle matters that rest with such committees 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 Board of Directors as a whole perform the duties that rest with an audit committee, and that the entire Board, apart from the President, discharge the duties that rest with a remuneration committee, including following up and evaluating current variable remuneration programmes for the Executive Management as well as programmes that were terminated during the year. The Board of Directors also follows and evaluates the application of the guidelines governing remuneration to senior executives, as decided at the Annual Meeting, and governing Company remuneration structures and remuneration levels for senior executives.

#### **Executive Management**

The President heads operations in accordance with the adopted rules of procedure for the Board of Directors and the President, which include the instructions for the President issued by

the Board of Directors. The President is responsible for ensuring that the Board of Directors receives information and a basis for making decisions that is sufficiently factual, complete and relevant for the Board of Directors to make well-informed judgements. The Executive Management comprises the President and three business area heads, as well as the CFO, Head of Business Development/Vice President, Head of Property Development and Head of Human Resources. The Executive Management meets approximately once a month to discuss current issues. For information about individual members, see pages 94–95.

#### **Audit**

According to the Articles of Association, the Company must have one or two auditors and a corresponding number of deputies. Alternatively, one or two registered auditing companies can be appointed. At the 2017 Annual Meeting, KPMG AB was re-elected as the auditing company for a period of one year. Joakim Thilstedt is lead auditor. Joakim Thilstedt's other major assignments include Ahlsell, Alfa Laval, Holmen, LE Lundbergföretagen and Modern Times Group, MTG.

The Board meets the Company's auditor twice a year, of which at least one meeting is 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 2017 it was decided that remuneration for the period up to the next Annual Meeting, totaling SEK 2,025,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work

on the Board. Remuneration is divided between the Chairman, who receives SEK 450,000, and the other seven non-employed members, who each receive SEK 225,000.

##### *Executive Management*

Guidelines on salaries, bonuses and other remuneration to the Company's senior executives are decided at the Annual Meeting. It was confirmed at the 2017 Annual Meeting that remuneration from the Company shall comprise salaries that are 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 the share price. These guidelines have been followed since the 2017 Annual Meeting. However, the Board of Directors, in accordance with the stipulations in the guidelines, has deviated from the guidelines and entered into an agreement with the Vice President, stipulating that if notice of termination of employment is issued by the Company, the period of notice shall be two years. The agreement is the same as for the President. Apart from an adjustment for remuneration to the Vice President in conjunction with termination of employment by the Company, the guidelines that will be presented at the 2018 Annual Meeting remain 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 senior executives, and current Company remuneration structures and remuneration levels for senior executives, will be published on the Company's website no later than three weeks prior to the 2018 Annual Meeting. The auditor's statement on whether guidelines adopted at the Annual Meeting in 2017 governing remuneration to senior executives have been followed, will be available on the Company's website no later than three weeks prior to the Annual Meeting and will be attached to the documents distributed at the Annual Meeting. The statement is also available from the Company on request.

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

following consultation with the Chairman of the Board.

For further information regarding salaries and remuneration, as well as guidelines for remuneration to senior executives, as adopted at the 2017 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 2017, the bonus cost for all employees was SEK 5.1 million (5.9), or an average of SEK 168,000 per person for the Executive Management, including the President, and an average of SEK 37,000 per person for other employees.

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

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

#### *Control environment*

The control environment is the basis for internal control of financial reporting. Hufvudstaden's internal control structure is based, among other things, on a clear allocation of responsibility and duties between the Board of Directors and the President, and within the Company's operations. The Executive Management and the Board of Directors continuously document and evaluate policies and guidelines, such as the Company's valuation principles, information policy and accounting handbook. To ensure continuous operational follow-up, there are routines in place for financial reporting

and analysis. The routines include monthly and quarterly reports, budget follow-ups and forecasts. These tasks are handled by the accounting and controller function on the Business Area and Group level.

#### *Risk assessment*

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

#### *Control measures*

Based on risk assessments, Hufvudstaden has adopted a number of control measures. These are both of a preventative nature, i.e. measures aimed at avoiding losses or errors in the reporting, and of an identification nature. The controls should also ensure that errors are rectified. Examples of areas that have a material impact on the Company's result, and which have carefully formulated control measures, are property and derivative valuation, maintenance, redevelopment, interest payments and leasing. Controls are carried out, among other things, using deviation analyses and quarterly meetings between the business area, group management and controller function.

#### *Information and communication*

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

instructions and equivalent documents that control and support operations are published on the intranet. Feedback on internal control work takes place at quarterly meetings, management team meetings and Board meetings.

#### *Follow-up*

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

#### *Internal audit statement*

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