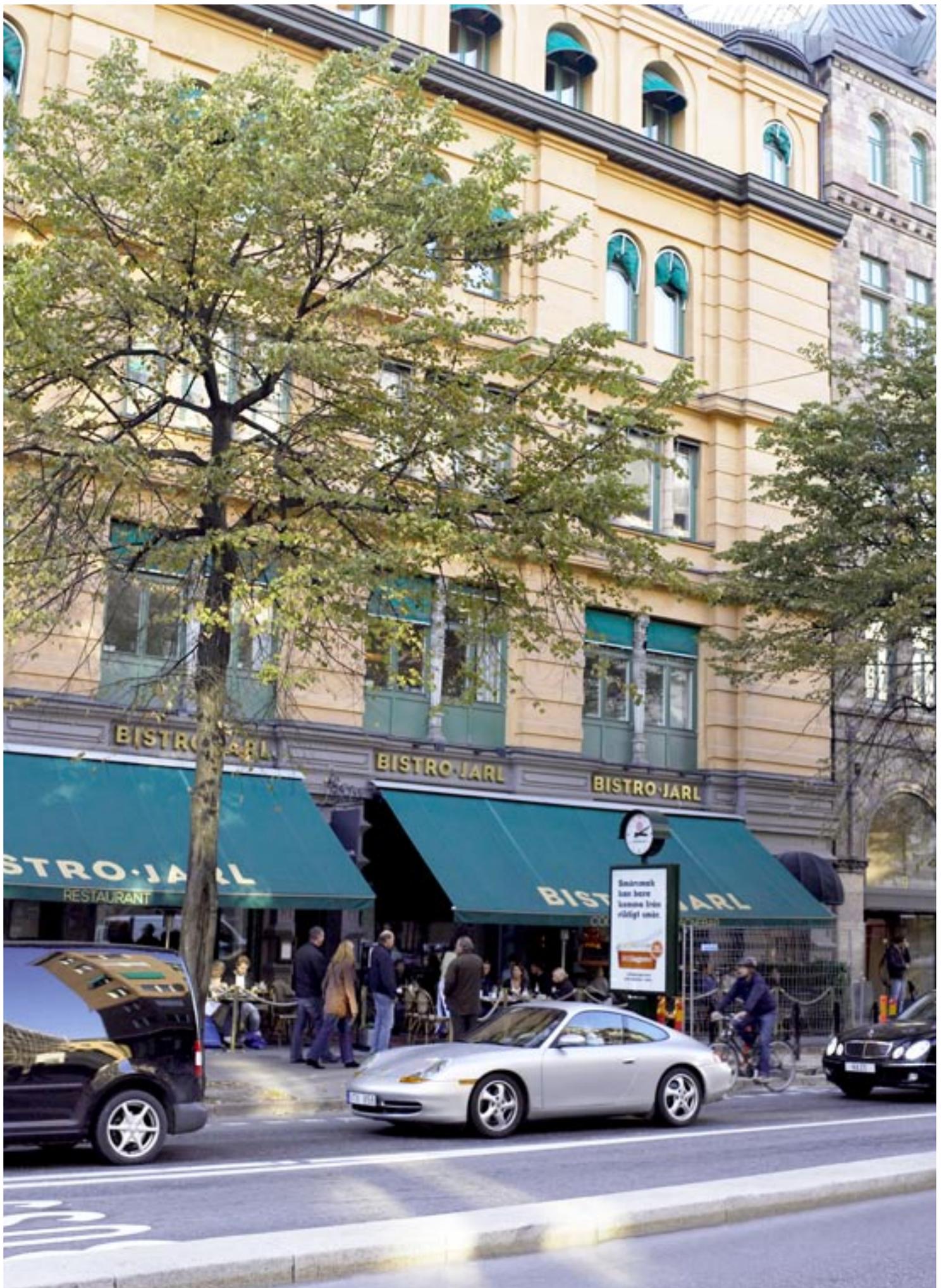


HUFVUDSTADEN

2005

*English*



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*The formal financial statements can be found on pages 40–70.*

## *The year in brief*

- Profit for the year after tax amounted to SEK 1,333.9 million (771.4). The increase can be attributed mainly to unrealized changes in value in the property holdings.
- The Board proposes a dividend of SEK 1.45 per share.
- The fair value of the property holdings was set at SEK 16.3 billion at the turn of the year, equivalent to a net asset value of SEK 53 per share (50).
- Group net sales for comparable holdings amounted to SEK 1,344.5 million (1,336.0).
- The rental vacancy level at the year-end was 7.1 per cent (8.2).
- Profit per share was SEK 6.47 (3.74).

## *Annual General Meeting*

The Annual General Meeting will take place at 4pm on Thursday, March 23, 2006 at the Grand Hotel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual General Meeting will be published in the Post- och Inrikes Tidningar, Dagens Nyheter and Svenska Dagbladet.

### **Notification**

Shareholders who wish to attend the Annual General Meeting must be registered in the shareholders' register kept by VPC AB (Swedish Securities Register Centre) by Friday March 17, 2006 at the latest and must notify Hufvudstaden by 4pm on Friday March 17, 2006 at the latest. Notification, preferably in writing, should be sent to Hufvudstaden AB, NK 100, SE-111 77 Stockholm. Notification can also be made by fax on +46-8-762 90 01, by e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se) or by telephone on +46-8-762 90 00.

### **Dividend**

The Board of Directors proposes that a dividend of SEK 1.45 per share, totalling SEK 299.1 million, be paid for 2005. The record date is March 28, 2006 and payment is expected to be made on March 31, 2006.

### **Change of address**

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

## *Financial information*

Interim report, Jan–Mar 2006 .....	May 9, 2006
Interim report, Jan–June 2006 .....	August 24, 2006
Interim report, Jan–Sept 2006.....	November 6, 2006
Year-end report 2006 .....	February 8, 2007
Annual Report 2006 .....	March 2007

*This information is also published on Hufvudstaden's website, [www.hufvudstaden.se](http://www.hufvudstaden.se).*

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# *Business concept, objectives and strategies*

Hufvudstaden, which was founded in 1915, rapidly became one of the leading property companies in Sweden and today it is 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 the development of the company's commercial properties in the most attractive business locations in Stockholm and Gothenburg.

## **Vision**

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

## **Business concept**

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

## **Financial objectives**

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

## **Operating objectives**

Hufvudstaden will

- gradually increase its profit from current operations.
- have the most satisfied customers in the business.
- have the most developed property portfolio in the business.
- have the most professional personnel in the business and they will display firm commitment to the customer as well as business acumen and professional know-how.

## **Strategies to achieve the above objectives**

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

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

*Skills development.* Hufvudstaden will systematically ensure that its personnel can develop their skills, with a focus on professional know-how and attitudes.

*Business development.* Hufvudstaden will create added value in its property holdings through active business development.

## **Fulfilment of objectives**

### *Financial objectives*

- According to a proposal by the Board, the share dividend will be SEK 299 million, equivalent to 64 per cent of the net profit from current operations.
- The equity ratio exceeded 40 per cent at the end of 2005 and amounted to 52.2 per cent.

### *Operating objectives*

- Profit from current operations during the year remained generally unchanged.
- Hufvudstaden came third in the Fastighetsbarometern Customer Satisfaction Survey.
- Hufvudstaden is working steadfastly to develop its property holdings. Several projects were completed during the year.
- In-depth seminars for management with a special focus on Hufvudstaden's values were run during the year. All employees were encouraged and given the opportunity to acquire greater know-how by setting personal objectives, which are followed up each year.

## *Statement by the President*

### **Buildings in the centre of events**

Hufvudstaden has chosen its place on the map. We are in the heart of our two largest cities and we can with pride state that several of our properties are well-known landmarks in both Stockholm and Gothenburg. Properties such as the World Trade Center, NK and Norrmalmstorg 1 in Stockholm and the department stores NK and Femman in Gothenburg say a great deal about us. Our focus is on the city, in the very centre of events, where commerce and communications, culture and street life create a stimulating atmosphere for encounters and business. It is an environment where people meet, business is done and new ideas emerge. There is a forward-thinking spirit handed down from generation to generation. Working in the city means being involved in the strong pulse and potential of inner city life.

### *We want to develop*

An attractive city does not live alone. It demands innovative thinking, will and commitment. We enjoy the challenge of bringing our properties into the future. Norrmalmstorg 1, which brings together the classic functionalist architecture of the 1930s with contemporary, high technology offices, is an excellent example of how we safeguard the basic qualities of the buildings and at the same time adapt them carefully to the needs of today. The historical Birger Jarlspassagen, with its young, pioneering trademarks, is another example. Our buildings embody an exciting history but also bode well for an exciting future.

Our commitment does not stop with our buildings and our tenants. Our properties are located in the foremost shopping areas and business districts. We want to be a concerned discussion partner in matters related to the city's future and contribute where we can to developing the city environment around our properties. In doing so we can safeguard the interests of our customers, our business and a living city.

### **Hufvudstaden's markets reinforced**

Hufvudstaden has for several years focused very firmly on modernizing and improving the efficiency of its property holdings in both Stockholm and Gothenburg. This has taken place through extensive reconstruction and new construction projects within the portfolio but also through acquisitions and sales. Now that the tenants, after several years of cutbacks, are in many cases once again looking to the future and are beginning to look for better and more efficient and better premises, Hufvudstaden is well-

equipped to satisfy this need, whether it be for new, flexible offices or older offices with the highest standard and a well preserved feeling of the time.

### *Both our newer and older properties are in demand*

Today there is an increasing demand for modern, open office solutions that can be adapted to shifting needs. In Stockholm, more than three-quarters of Hufvudstaden's office space comprises flexible premises with a potential for effective, open-plan solutions. In Gothenburg virtually all the office space is flexible.

We can also offer unique office solutions that combine efficiency with the highest standard, feeling and tradition in older properties. At the turn of the year 2005/2006 extensive reconstruction of a 19th century property commenced at Biblioteksgatan 12 in Stockholm. The property will be carefully adapted to the needs of the 21st century, where open, efficient planning solutions are made possible at the same time that the charm and architectural values of the property are maintained. Our other older properties have also been improved over the years.

### *Office rental market in Stockholm stabilizes*

After several years of falling office rents and increased vacant space we could see a certain stabilization during 2004. The rental market in Stockholm stabilized further during 2005 and during the autumn a certain reduction in the level of vacant space and an increase in rent could be noted for really good office premises. Market rents for offices in prime locations totalled SEK 3,200–3,800 per square metre per year, excluding the property tax supplement.

In Gothenburg, the rental market continued to be stable despite a slight rise in vacant space, which at the turn of the year was just over 12 per cent. Market rents remained unchanged and totalled SEK 1,600–1,800 per square metre per year, excluding the property tax supplement.

### *Retail trade doing well*

During the year, the retail trade developed very positively with an increase in sales. Christmas trade was very strong and for the retail trade, 2005 was on the whole better than 2004.

There is a major demand for store premises within Hufvudstaden's market areas, particularly in the area around Biblioteksgatan and NK, where market rents have risen slightly during the year.

During the year NK Gothenburg concluded extensive reconstruction with the aim of achieving a more distinct character and at the same time several new brand names were introduced into the store.

At NK Stockholm the equivalent reconstruction is taking place, which is expected to be concluded during the first half of 2006. In September, a reconstructed cosmetics department was opened, with several new brand names and in December a completely new jewellery salon was opened and which is collaborating with some of the world's foremost brand names.

#### **Renegotiations moving in the right direction**

During the year, Hufvudstaden renegotiated approximately 21 per cent of its agreements, equivalent to approximately SEK 161 million. The renegotiations resulted in an average reduction in rent of approximately 2 per cent (-20). The reduction can be explained by the agreement stock still containing a number of agreements that were signed at the beginning of the century when market rents were at their highest. We can, however, state that the old rents are closer to the current market rents, which is positive as this will in time entail possible rent growth.

Hufvudstaden's rental vacancy level at the turn of the year totalled 7.9 per cent (9.2) in Stockholm and 2.2 per cent (2.2) in Gothenburg. Despite the positive vacant space trend in Stockholm during 2005 the level of vacant space is expected to remain unchanged during 2006 as a result of vacation of premises that are already known. In Gothenburg, the level of vacant space is expected to remain at a low level.

#### **Increased fair value**

The considerable interest in commercial properties was reinforced further during 2005. The continued very low interest levels, in combination with very good access to Swedish and foreign capital, contributed strongly to a turnover of more than SEK 100 billion in Swedish properties.

The direct yield requirement for modern, well-located properties fell in both Stockholm and Gothenburg. In central Stockholm, the direct yield requirement for office properties was 5.0–6.25 per cent and in central Gothenburg 6.0–7.0 per cent. For attractive properties with a dominant retailing element the yield requirement was in certain cases slightly lower.

The fair value of Hufvudstaden's property holdings at



the turn of the year was set at SEK 16.3 billion, an increase of SEK 1.3 billion compared with the turn of the year 2004/2005. Net asset value at the turn of the year was SEK 53 per share.

#### **Profit for the year and the focus for 2006**

The Group's profit after tax was SEK 1,333.9 million, an increase of 72.9

per cent compared with 2004. The increase can be explained mainly by unrealized changes in value in the property holdings. The board proposes a dividend for 2005 of SEK 1.45 per share. The focus in 2006 will be mainly on reducing the company's vacant space and continuing to develop the property holdings so that future rent growth and positive profit growth can be promoted.

#### **Space for the winners of the future**

At Hufvudstaden we seek to offer our tenants more than just premises. We seek to provide an environment that helps to reinforce their brand names and in doing so contribute to their profitability. Our offer is modern premises of the highest quality in the heart of Sweden's two foremost growth regions. Stockholm has a special position as a driving force for growth in Scandinavia and the city is the hub of this growth.

But we offer more than this. A lease agreement with us marks the beginning of a long-term relationship. We have developed our inner city properties since 1915. We know the city like the back of our hand, we work with our own personnel, we live close to the reality of the customer's day-to-day life and we are large enough to be able to offer alternative solutions as needs change.

Hufvudstaden puts the customer firmly in focus. We are creating marketplaces where the urban environment, communications, our functional buildings and our commitment contribute to successful business for our tenants. We are quite simply bringing together winners in the urban space. This is something we intend to continue with for many years to come.

Stockholm, February 2006

Ivo Stopner  
President



***Restaurant Prinsen, Mäster Samuelsgatan 4, Stockholm.** Prinsen was first opened in 1897 and is a classic Stockholm restaurant. It is and always was a natural meeting place, particularly for actors, writers and people working in the media. The property also houses the law firm Alrutz, which is one of Hufvudstaden's oldest tenants.*



***Bistro Jarl, Birger Jarlsgatan 7–9, Stockholm.** The property was built in 1888 and is one of Stockholm's oldest office buildings. On the ground floor there are several high-class brand name stores and restaurants, including Bistro Jarl, which has become a meeting place for lawyers and people in the finance sector.*

## Five-year summary

<b>Income statements</b>					
SEK m	2005	2004	2003 <sup>(1)</sup>	2002 <sup>(1)</sup>	2001 <sup>(1)</sup>
<b>Net sales</b>					
Property management	1,259	1,273	1,286	1,236	1,135
Other operations	86	85	83	112	125
	1,345	1,358	1,369	1,348	1,260
<b>Operating expenses</b>					
Maintenance, operation and administration	-317	-289	-384	-338	-347
Ground rents	-30	-36	-34	-33	-31
Property tax	-109	-106	-129	-129	-103
Depreciation	-1	-1	-101	-98	-92
Property management	-458	-431	-648	-598	-573
Other operations	-72	-74	-74	-97	-102
	-530	-506	-722	-695	-675
Gross profit	815	853	647	653	585
– of which Property management	801	842	638	638	562
– of which Other operations	14	11	9	15	23
Central administration	-31	-29	-29	-36	-32
Items affecting comparability	–	–	–	24	19
Operating profit before changes in value	784	823	618	641	572
Changes in value, investment properties	1,200	298	–	–	–
Operating profit	1,984	1,121	618	641	572
Financial income and expense	-132	-225	-187	-188	-191
Profit before tax	1,852	896	431	453	381
Tax	-518	-125	-61	-116	102
Profit for the year	1,334	771	370	337	483
<b>Balance sheets</b>					
<b>Assets</b>					
Investment properties	16,276	15,000	10,612	10,566	10,563
Other fixed assets	69	84	97	111	181
Current assets	144	59	223	275	247
Total assets	16,489	15,142	10,932	10,952	10,991
<b>Equity and liabilities</b>					
Equity	8,615	8,140	4,792	4,791	4,666
Interest-bearing liabilities	3,525	3,135	3,751	3,766	4,062
Other liabilities and allocations	4,349	3,867	2,389	2,395	2,263
Total equity and liabilities	16,489	15,142	10,932	10,952	10,991
<b>Property holdings</b>					
Fair value, SEK billion	16.3	15.0	15.1	–	–
Tax assessment value, SEK billion	10.6	10.9	13.5	13.0	10.4
Rentable floor space, 1,000 m <sup>2</sup>	408	407	438	436	435
Rental vacancy level, %	7.1	8.2	8.1	9.3	3.9
Floor space vacancy level, %	8.7	9.5	8.7	9.2	3.9
Investments in properties, SEK m	76.0	68.6	135	101	123
Property sales, SEK m	–	18	–	–	3
Net operating income, SEK per sq m <sup>(2)</sup>	1,964	2,071	1,687	1,687	1,504
<b>Financial key ratios</b>					
Gross margin, %	60.6	62.8	47.3	48.4	46.4
Return on equity, %	15.9	9.8	7.7	7.1	10.7
Return on capital employed, %	16.5	9.7	7.4	7.6	6.9
Equity ratio, %	52.2	53.8	43.8	43.7	42.4
Interest coverage, multiple	5.7	3.5	3.2	3.2	2.8
Debt/equity, multiple	0.4	0.4	0.7	0.8	0.8
Loan to value ratio, properties, %	21.7	20.9	35.3	35.6	38.5
Cash flow from current operations, SEK m	579	313	537	540	377
Cash flow for the year, SEK m	78.5	-148	26	-2	-88
Average number of employees in the Group	122	122	123	133	141
<b>Share data</b>					
Profit for the year, SEK	6.47	3.74	1.78	1.60	2.29
Ordinary dividend, SEK	1.45 <sup>(3)</sup>	1.30	1.20	1.10	1.00
Extra dividend, SEK	–	2.70	–	–	–
Dividend proportion (ordinary), %	22.4	34.8	67.4	68.9	43.7
Equity, SEK	41.77	39.46	23.23	22.68	22.08
Fair value of properties, SEK	78.91	72.72	73.21	–	–
Cash flow from current operations, SEK	2.81	1.52	2.58	2.56	1.78
Cash flow for the year, SEK	0.38	-0.72	0.12	-0.01	-0.41
Net asset value, SEK	53.00	50.00	–	–	–
Share price, Series A, at the year-end, SEK	52.00	47.60	34.70	27.00	26.30
P/E ratio, multiple	8.0	12.7	19.5	16.9	11.5
Share price/equity, %	124.5	123.5	153.0	120.4	118.6
Direct yield (ordinary), %	2.8	2.7	3.5	4.1	3.8
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	211,271,933	211,271,933
Average number of outstanding shares during the year	206,265,933	206,265,933	208,268,933	211,271,933	211,271,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933

(1) No recalculation according to IFRS has taken place for 2001–2003

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

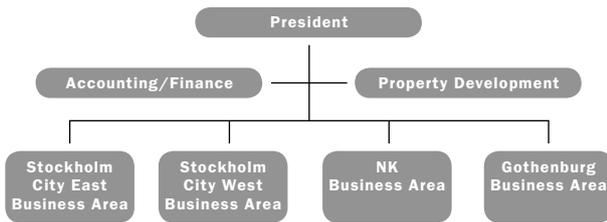
(3) In accordance with a proposal by the Board.

For Definitions, see page 81.

# Organization and employees

## Organization

The Company's operations are organized into four business areas: Stockholm City East, Stockholm City West, NK and Gothenburg. The central staffs Property Development, Finance and Human Resources, support the work in the operative organization. In addition, parking operations are run through the subsidiary Parkaden AB and conference and restaurant operations through the subsidiary World Trade Center Stockholm AB.



## Hufvudstaden's values

A clear, broadly accepted, common set of values are a vital prerequisite to maintain the high level of quality in the day-to-day work and the company's profitability. Hufvudstaden's values reflect the way in which the employees act, both internally and externally. The core values are attentiveness, honesty, commitment and quality.

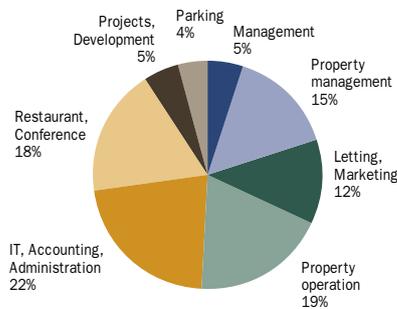
## Employees

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

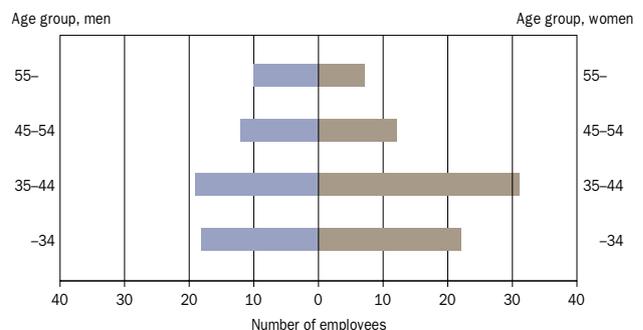
- The Company's values as a platform for attitudes and working methods.
- Leadership that is exemplary, bold, inspirational and forward-thinking.
- Individual development plans within the framework of Hufvudstaden's objectives and vision.
- Promoting equality between men and women and counteracting unfounded salary differences.
- Counteracting all forms of discrimination or harassment as a result of gender, ethnic affiliation or sexual disposition.
- Promoting good work attendance based on good health through preventive measures such as regular health checks, health insurance and various health-promoting activities as well as systematic, long-term work on matters related to the working environment.

At the end of 2005, 131 persons worked in the Group, of whom 101 were at the Parent Company and 30 at subsidiaries. At the turn of the year, the division was 45 per cent men and 55 per cent women. Of the Group's 25 managers, nine were women, i.e. 36 per cent. The average age was 40 years for women and 42 years for men. The average period of employment was eight years. Absenteeism in the Group during the year totalled six per cent.

Employees per working area



Age and gender distribution



## *Share capital and ownership structure*

### **Share capital**

Hufvudstaden was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. To date, three new share issues, four non-share issues, nine bonus issues and four share splits have been implemented. Three convertible subordinated loans have also been issued. All these loans have been converted or redeemed. At the end of 2005, the share capital amounted to SEK 1,056.4 million.

### **Share classes**

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

Series A shares were first listed in 1938, on what was at the time the Stockholm Stock Exchange, whilst Series C shares were first listed in 1998.

According to a decision taken at the Annual General Meeting in 2001, a so-called conversion reservation has been included in the Articles of Association. This means that holders of Series C shares, if they wish, are entitled to request conversion of their Series C shares into Series A shares. During the year, 270 Series C shares were converted in this way.

### **Outstanding shares**

At the end of the year the total number of outstanding shares was 206,265,933, of which 197,990,389 were A shares and 8,275,544 were C shares. In addition, Hufvudstaden held 5,006,000 A shares.

### **Buy-back**

At the 2003 Annual General Meeting the Board was given the mandate to buy back up to 10 per cent of the issued shares. The mandate was renewed at the 2005 Annual General Meeting. At the end of the year Hufvudstaden held 5,006,000 A shares, equivalent to 2.4 per cent of the total number of issued shares. No shares were bought back during the year.

### **Ownership structure**

The number of shareholders at the year-end was 21,370. The largest shareholder was L E Lundberg Holding AB with 45.2 per cent of the total number of outstanding shares and 88.0 per cent of the votes. The second largest was SEB Trygg Liv with 11.7 per cent of outstanding shares and 2.4 per cent of the votes.

As of December 31, 2005, institutions and companies with holdings of over 100,000 shares held a total of 183,168,924 shares, equivalent to 88.8 per cent of the total number of outstanding shares and 96.8 per cent of the votes. Of these, 51 were Swedish institutions and companies, which together held a total of 152,785,896 shares, equivalent to 74.1 per cent of the outstanding shares and 93.8 per cent of the votes. There were 35 foreign institutions and companies with holdings of over 100,000 shares. Their holdings amounted to 30,383,028 shares, equivalent to 14.7 per cent of the outstanding shares and 3.0 per cent of the votes. In addition, four Swedish private individuals each held more than 100,000 shares. The number of shareholders fell during the year by 1,310. The proportion of foreign ownership rose during the year from 7.8 to 15.6 per cent of the total number of outstanding shares. As of the year-end, 18,342 shareholders, 85.8 per cent of the total number of shareholders, held 1,000 shares or less. Ninety shareholders, each of whom held more than 100,000 shares, held 89.9 per cent of the outstanding shares.

### **Market capitalization**

At the end of 2005, Hufvudstaden's total market value was SEK 10,986 million. The graph on the opposite page shows the price trend and trading in Hufvudstaden's Series A shares during the year.

### **Dividend policy**

Hufvudstaden shall have good dividend growth over time and the dividend shall be more than half the net profit from current operations unless investments or the Company's financial position generally justify a deviation. A dividend of SEK 1.45 per share is proposed for 2005, equivalent to 22 per cent of the profit for the year or 64 per cent of the net profit from current operations <sup>(1)</sup>.

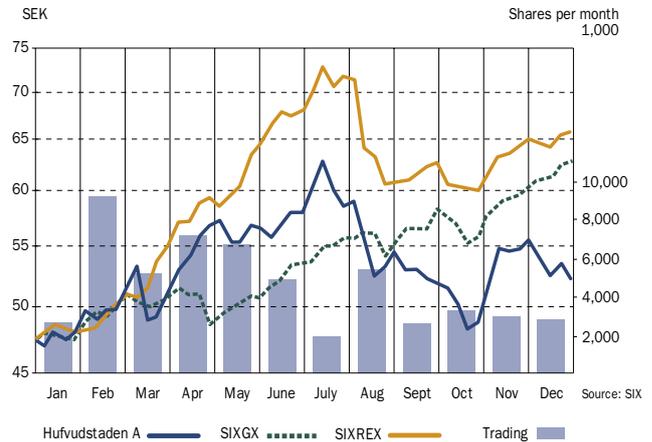
*(1) See Definitions, page 81. Dividend amount.*

The ten largest focused property companies

December 31, 2005	Market value, SEK m
Fabege	14,423
Castellum	12,298
Hufvudstaden	10,986
Kungsholmen	10,442
Wallenstam	6,124
Wihlborgs	3,680
Klövern	2,937
LjungbergGruppen	2,928
Capona	2,790
Brinova	1,811

Source: SIX

The share price trend and trading from January 1, 2005 in relation to the SIX Real Estate Index (SIXREX) and the SIX General Index (SIXGX)

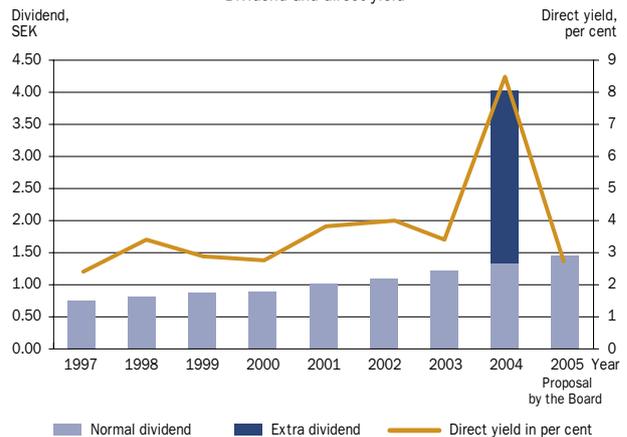


Ownership structure as of December 31, 2005

	Number of shareholders	Proportion of shareholders, %	Number of shares	Proportion of shares, %
1- 500	15,750	73.7	2,208,596	1.0
501- 1,000	2,592	12.1	1,962,513	0.9
1,001- 2,000	1,476	6.9	2,191,475	1.0
2,001- 5,000	856	4.0	2,815,852	1.3
5,001- 10,000	287	1.4	2,195,700	1.0
10,001- 20,000	161	0.8	2,431,611	1.2
20,001- 50,000	111	0.5	3,530,188	1.7
50,001- 100,000	47	0.2	3,486,662	1.7
100,001-	90	0.4	185,443,336	87.8
	21,370	100.0	206,265,933	97.6
Hufvudstaden			5,006,000	2.4
Total			211,271,933	100.0

Source: VPC

Dividend and direct yield



The largest shareholders as of December 31, 2005

	Series A shares		Series C shares		Total number of shares		Outstanding shares, %		Issued shares, %	
	Capital	Votes	Capital	Votes	Capital	Votes	Capital	Votes	Capital	Votes
Lundbergs	85,141,229		8,177,680		93,318,909		45.2	88.0	44.2	87.6
SEB Trygg Liv	24,170,407				24,170,407		11.7	2.4	11.4	2.4
Société Générale	6,519,332				6,519,332		3.2	0.7	3.1	0.6
Robur Fonder	5,404,322				5,404,322		2.6	0.5	2.6	0.5
Skandia Liv	5,339,176				5,339,176		2.6	0.5	2.5	0.5
Fortis Banque	3,329,500				3,329,500		1.6	0.3	1.6	0.3
Försäkringsbolaget Pensionsgaranti	3,202,375				3,202,375		1.5	0.3	1.5	0.3
JP Morgan Chase	2,703,954				2,703,954		1.3	0.3	1.3	0.3
Handelsbanken Fonder	2,657,778				2,657,778		1.3	0.3	1.3	0.3
State Street Bank & Trust	2,419,409				2,419,409		1.2	0.2	1.1	0.2
Mellon	2,342,520				2,342,520		1.1	0.2	1.1	0.2
LF Fastighetsfonden	2,178,375				2,178,375		1.1	0.2	1.0	0.2
KK-Stiftelsen	2,000,000				2,000,000		1.0	0.2	0.9	0.2
Other shareholders	50,582,012		97,864		50,679,876		24.6	5.9	24.0	5.9
Outstanding shares	197,990,389		8,275,544		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	202,996,389		8,275,544		211,271,933				100.0	100.0

Source: VPC

## *Market description*

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

Economic growth in Sweden is concentrated in the city regions, where Stockholm occupies a unique position. During 2005, Stockholm had a strong rate of economic growth. Gothenburg and western Sweden have also developed well.

### **Expanding regions**

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

The Stockholm area has for a long time been the driving force in the country's economy and is one of the most expansive regions in Europe. Growth in the economy during the year has resulted in positive development for the Stockholm area, due mainly to the region's industrial structure and a high proportion of IT, telecom, finance and service companies. Stockholm has developed into the leading financial centre in the Nordic region. The finance sector employs more than 45,000 persons. The gross regional product trend for Stockholm revealed strong growth in 2005. The number of people in employment rose in the county of Stockholm in 2005 whilst in western Sweden the number fell.

A region's size is of major significance to its economic growth and Stockholm must be regarded as the only European city in Sweden. Stockholm normally accounts for a large proportion of the growth in Sweden and it has twenty per cent of the country's population. The region also accounts for over a quarter of Sweden's gross national product. The number of foreign-owned companies is increasing and in the county there are now over 160,000 persons working at companies with international owners. In 2005, the three city regions accounted for almost ninety per cent of the increase in the Swedish population. The Gothenburg region is of increasing importance to the development of western Sweden. Some fifty per cent of the industrial capacity of Scandinavia is to be found within a radius of 300 kilometres and there is a substantial international presence. The number of foreign-owned compa-

nies has increased to almost 1,400 in just a few years. The Gothenburg region has a well-developed infrastructure, the population is increasing more quickly and unemployment is lower than in Sweden as a whole. The largest companies (in terms of the number of employees) are Volvo Cars, Volvo Trucks, Ericsson, Astra Zeneca, SKF and SCA.

### **The property market**

The net operating income trend and direct yield requirements are vitally important to the property market. Property acquisitions made during the year in the most central parts of Stockholm and Gothenburg demonstrated that direct yield requirements have been subject to a slight downward adjustment. The direct yield requirement for modern office and retailing properties in these locations was 5.0 to 6.25 per cent in Stockholm and 6 to 7 per cent in Gothenburg. The availability of commercial property was large during the year. Foreign purchasers showed greater interest in the Swedish property market. Swedish and foreign investors invested over SEK 100 billion in Swedish properties during the year. The liquidity, low transaction costs and a transparent market make the Swedish property market attractive, quite apart from the expected positive economic development in Sweden.

### **Investments in office and retailing premises**

Stockholm has around 13 million square metres of non-residential premises. Investment in office projects was low during the year and amounted to around 50,000 square metres. The availability of premises during 2005 exceeded the demand for modern, well-situated offices. The need for new office premises has fallen although normally it is around 250,000 square metres per year.

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

In Gothenburg, there are six million square metres of office and retailing space, of which 4.7 million square metres are office space. New office construction continued to be low during 2005. There are few new projects in central Gothenburg.

A decision has been reached regarding the conversion



Larger property owners in central Stockholm.

Source: Leimdörfer.

of the Hasselblad building and this will result in 13,000 square metres of office space. An extension to the police headquarters will take place and will result in 15,000 square metres above ground and 15,000 square metres below ground. The Court Centre comprising 15,000 square metres will be built at Gårda. A project that can commence is a building right at Gårda, which is expected to result in 18,000 square metres of office space. At Lindholmen/Norra Älvstranden extensive expansion is planned in the next few years. The area will be adapted mainly to research, automotive, media and telecom companies.

#### Rental market in Stockholm

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

#### Offices

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

tact improved. Market rents for modern offices stabilized during the year. Rents of SEK 3,200-3,800 per square metre per year, excluding the property tax supplement, were noted within the Golden Triangle. In bordering areas – at Stureplan, Hötorget, Drottninggatan, Hamngatan, Regeringsgatan, Vasagatan and the World Trade Center – offices were leased for between SEK 2,500 and 3,500 per square metre per year, excluding the property tax supplement.

The level of vacant space rose during the year to between 10 and 12 per cent (10–13 per cent the previous year) in the inner city and between 12 and 25 per cent (15–20 per cent the previous year) in the ‘Malm’ areas and in neighbouring suburbs, such as Kista, Liljeholmen, Alvik, Värtahamnen and Nacka Strand.

#### Stores

Demand during the year for store premises in prime locations was good although such premises were generally not available. The good level of demand can be attributed to the increased purchasing power of households. The most sought-after retailing areas are in area around Biblioteksgatan and at Norrmalmstorg, Hamngatan, Stureplan, Kungsgatan, Drottninggatan and parts of Grev Turegatan. Biblioteksgatan in the Golden Triangle, the NK department store and Hamngatan have a special position as the most exclusive store locations. The rent for prime retailing space is between SEK 10,000 and 13,000 per square metre per year, excluding the property tax supplement.

### Rental market in Gothenburg

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

#### Offices

The rent trend in the central parts of Gothenburg has been stable although there has been a tendency towards a slight fall in rents. The trend, however, is slightly uncertain, due largely to the fact that vacant space is already in excess of 12 per cent and major new construction projects can be completed in the central areas of the city. Further major office projects could become a reality if the level of vacant space were to fall and the rent levels were to rise or remain at their present level. New construction of office premises is planned over the next few years at a cost of SEK 5 billion. It is uncertain, however, whether these will materialize. In the most attractive locations, market rents are between SEK 1,600 and SEK 1,800 per square metre per year, excluding the property tax supplement. The best positions for offices in central Gothenburg are considered to be the Inom Vallgraven areas, particularly the areas near the Hamngatans, as well as Nordstan, Kungssportsavenyn, Svenska Mässan, Gårda and Gullbergsvass. Vacant space in the central areas of Gothenburg increased

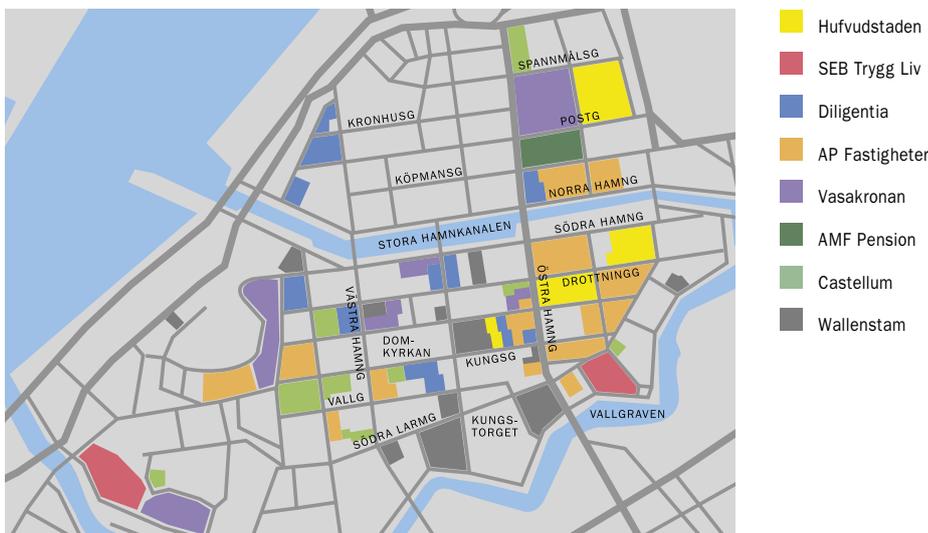
during the year to between 12 and 14 per cent (10–12 per cent the previous year).

#### Stores

Rents for stores in prime locations remained unchanged during the year. In Nordstan, rents of between SEK 5,000 and SEK 8,500 per square metre per year were noted, excluding the property tax supplement. Growth in trade was positive during the year. The availability of vacant retailing space was very limited – the estimate is less than 1 per cent – and demand was high. The transformation of Gothenburg from a traditional industrial centre into a city with a more differentiated, service-oriented business sector has had a positive impact on the retailing trade. The prime positions for stores in central Gothenburg are considered to be Östra Nordstan, Fredsgatan, Arkaden, Kungsgatan between Fredsgatan and Korsgatan and part of Korsgatan.

Market rents December 2005, Stockholm and Gothenburg (excluding the property tax supplement)

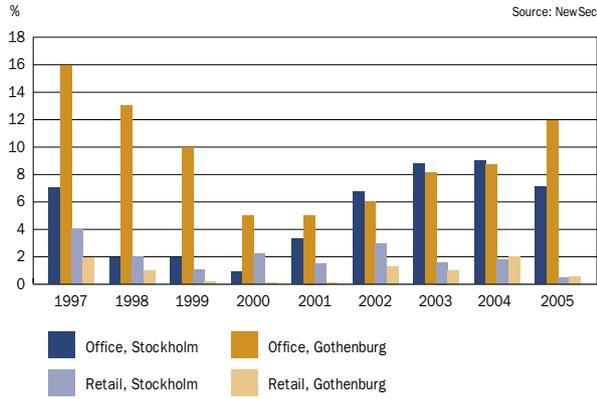
Sub-market	Offices SEK/sq. m./year	Stores SEK/sq. m./year
<i>Stockholm</i>		
Golden Triangle	3,200–3,800	7,500–13,000
Other city areas	2,500–3,500	3,500–10,000
Östermalm	2,000–2,900	3,000–8,500
Gamla Stan	1,600–2,500	2,500–5,000
Slussen/Södermalm	1,600–2,500	2,500–5,000
Kungsholmen	1,500–2,300	2,000–4,500
Liljeholmen	1,200–1,800	1,200–2,500
Globen	1,400–1,800	3,500–4,500
Kista	1,100–1,900	3,500–5,500
<i>Gothenburg</i>		
Central Gothenburg	1,600–1,800	5,000–8,500



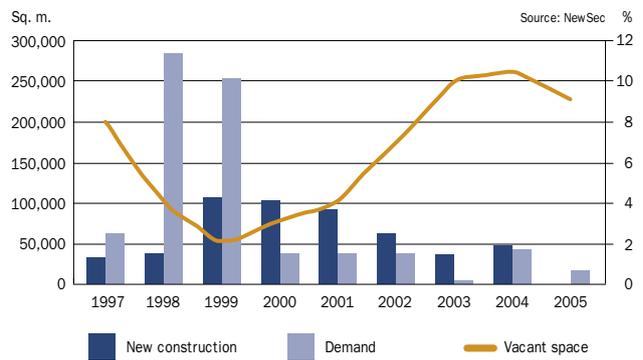
Larger property owners in central Gothenburg.

Source: Forum Fastighetsekonomi.

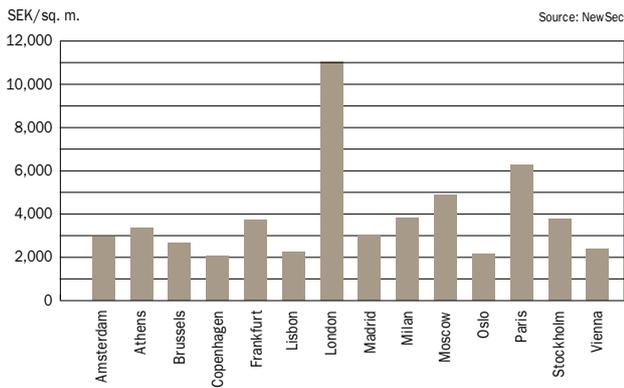
Vacant office and retailing space, Central Stockholm and Central Gothenburg



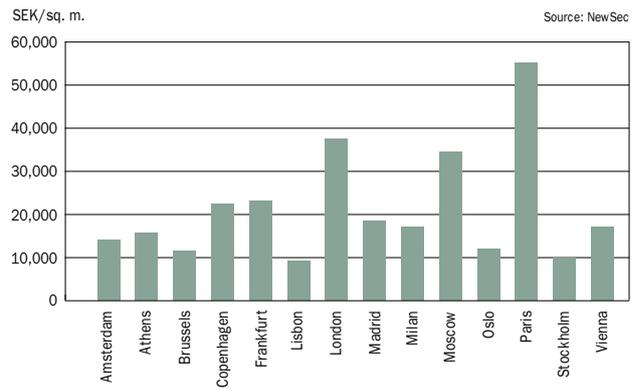
New construction, demand and vacant space, office premises in Central Stockholm



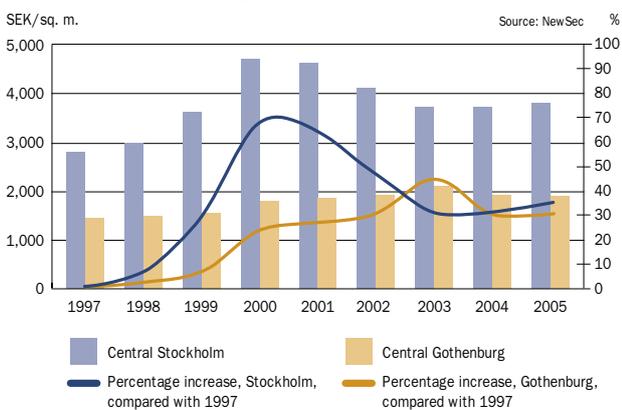
Office rents in European cities  
Prime location premises, December 2005



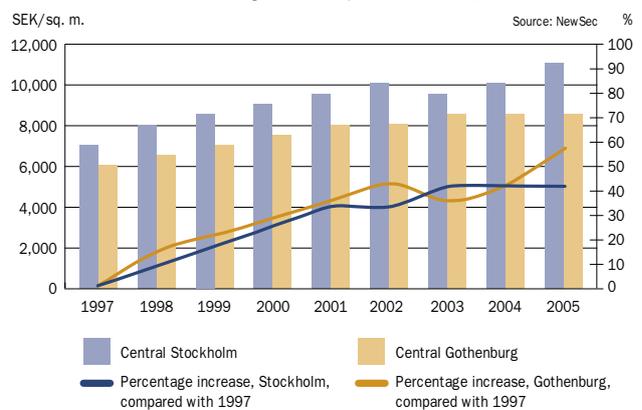
Store rents in European cities  
Prime location premises, December 2005



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



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



## Quality and the environment

Hufvudstaden shall have a quality and environmental system that ensures the highest level of quality possible in all the Company's products and services. During the year Hufvudstaden received the highest rating (five stars) in the Folksam Climate Index. The Company's environmental work has been analyzed and approved for investment in the Robur Environmental Fund. No operations were carried on during 2005 that required a permit or were subject to a reporting obligation under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899).

Hufvudstaden's vision is to lead development in the property industry towards an environmentally sustainable society. In doing so, the conditions are improved for offering Hufvudstaden's customers the best service on the market and contributing to improving the customers' business potential and competitiveness.

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

### Quality and environmental objectives and their fulfilment during 2005

#### *Continue to develop the quality and environmental work*

A review of the management routines proceeded according to plan during the year.

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

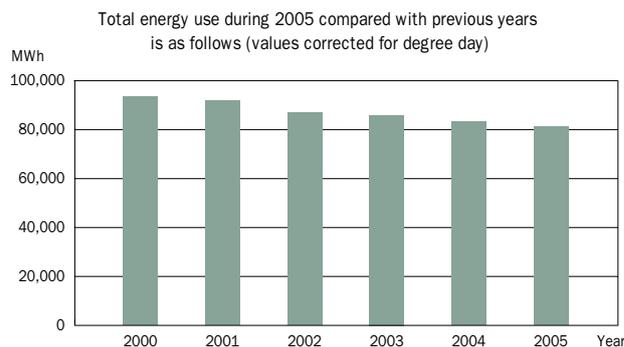
The MilaB database for the environmental assessment of construction materials has contributed to creating the conditions for the whole of the construction industry to reduce the environmental impact of redevelopment. This database is the result of active collaboration between a number of major developers, who account for a large proportion of the construction in Sweden. Hufvudstaden's active involvement means continued collaboration and ongoing development.

#### *Continued improvement in the handling of waste*

The handling of waste has been made more efficient.

#### *Reduce energy consumption by three per cent*

The total energy consumption has been reduced by three per cent by raising the level of efficiency in the properties.

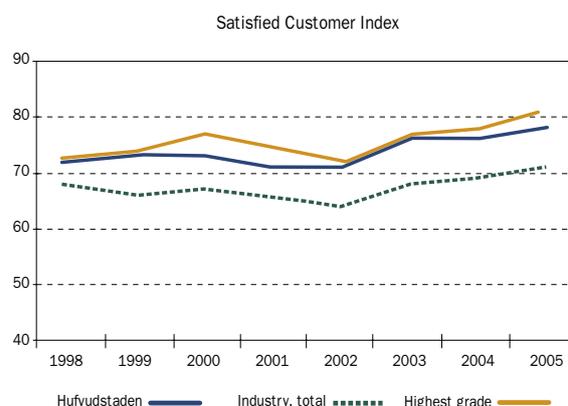


### Quality and environmental objectives 2006

- Continue the development of the quality and environmental work.
- Continue the development of environmentally adapted redevelopment as well as collaboration within MilaB.
- Continue to improve waste handling efficiency.
- Reduce the consumption of energy by three per cent.

### Satisfied Customer Index

Hufvudstaden, like the majority of other leading property companies, takes part in the Fastighetsbarometern Customer Satisfaction Survey, an annual survey of the level of satisfaction among randomly selected office tenants. The tenants are asked to rate a whole series of factors, such as service, handling of fault reports and complaints, location, value for money etc. All the responses are weighed together into a Satisfied Customer Index, which reflects the tenants' overall view of the landlord. The results can be used to compare the different property companies during a single year and to make a comparison over time. Around 15 companies took part in this year's survey and Hufvudstaden improved its result by two points compared with last year and came third overall.



## *Property development*

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

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

During 2005, Hufvudstaden's investments in projects moved away from the larger projects of previously to several smaller projects and adaptation of premises. A major current project is the development of NK Stockholm. Adaptation of premises and minor projects have increased in extent, including adaptation of premises for new tenants at, for example, the World Trade Center.

### **NK Stockholm**

Following the refurbishment of the lower floor of NK and Sergelgängen during 2003–2004 it is now the turn of other parts of the department store. During 2005, the most extensive redevelopment of the department store since the transformation in 1991 got under way with the aim of reinforcing NK as a unique marketplace even further. The stores have been given new locations, new tenants have been brought in and new areas and walkways have been created. The renewal work will continue into 2006.

### **Pumpstocken area**

During the year, planning started for the total renovation of part of the Pumpstocken block in the Golden Triangle in Stockholm. The property, which was built in 1865, will undergo extensive renovation to restore the building more to its original condition and to create flexible office solutions in this 19th century building. This is in line with Hufvudstaden's values related to assuming responsibility for its old buildings, preserving them for the world and giving its tenants the opportunity to work in new, modern offices. The foundation of the building will also be reinforced as part of the redevelopment.

### **Vildmannen 7**

With the aim of further reinforcing the profile of Biblioteksgatan as a leading area for fashion and clothing, conversion of a restaurant into a brand name store commenced during the year. At the same time, plans were made to reinforce the foundation of this building, which will take place during 2006. The property is located in the Golden Triangle in Stockholm.

### **Röda Kvarn**

In December, work commenced on the renovation of the former cinema Röda Kvarn on Biblioteksgatan in Stockholm. The aim, by retaining the floor layout and the original features, is to transform the cinema into a shopping precinct.

### **Adaptation of premises**

Most redevelopment that is taking place in the Hufvudstaden property holdings comprises adaptation of premises to new or existing tenants. The new tenants that have been added during the year include the Swedish Trade Council, TallOil and Almi, which are moving into the World Trade Center, as well as Sand, which will move into the Rännilen 19 property on Biblioteksgatan, and Newphone, which will move into the Kåkenhusen 39 property on Kungsgatan.

## *Stockholm City East Business Area*

### **Property holdings**

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

### **Development of holdings**

The extensive refurbishment of Norrmalmstorg 1, which has been in progress since 2002, was concluded during the year. The aim has been to recreate the character of the building as a leading centre for business, finance and law and for it to regain its significance as a commercial landmark at Norrmalmstorg. Danske Bank, which leases 7,500 square metres, moved into the top five floors of the building in January 2004. The aim of realizing Ivar Tengblom's basic idea of having glazed two-storey shops around the property has virtually reached fruition with Zara, Massimo Dutti and North Face each leasing a corner of the property.

Our task of creating an attractive eastern part of the city has continued. The idea behind the Biblioteksgatan area is to create an area made up of an exciting mixture of small, unique stores in combination with first-class international brand names representing a high level of fashion. Both the stores and the street environment will build on an atmosphere that goes beyond the norm. During the year, five stores have been adapted to the new concept, including Salming, T12 and Casall, all within sports fashion.

During the summer of 2005, planning permission was obtained for change of use at the former cinema Röda Kvarn on Biblioteksgatan. Röda Kvarn will be renovated during 2006. The aim is to retain the old floor layout and recreate the atmosphere from 1915. The new Röda Kvarn will offer a unique shopping environment where the new orientation will be fashion and style.

### **Rental market**

The rental market for office space within the Business Area stabilized during the year. The market rents are on a level of SEK 2,500–3,800 per square metre in central areas.

The market rents during the year for office premises in

prime locations were between SEK 3,200 and SEK 3,800 per square metre per year, excluding the property tax supplement.

The rental market for retailing premises was stable and the market rents for prime locations were between SEK 10,000 and SEK 13,000 per square metre per year, excluding the property tax supplement.

### **Tenants**

The tenant structure for office space within the Stockholm City East Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are banks, finance companies, law firms and consultants within recruitment, management and the media. In total, there are 237 tenants within the Business Area. The ten largest tenants lease 36,500 square metres (37,400), representing annual rent revenue of SEK 171 million (179).

A large majority of the store tenants are smaller operators although the tenants also include a number of larger retailing groups, such as RnB, GANT, IC Company and Inditex, with its brand names Massimo Dutti and Zara.

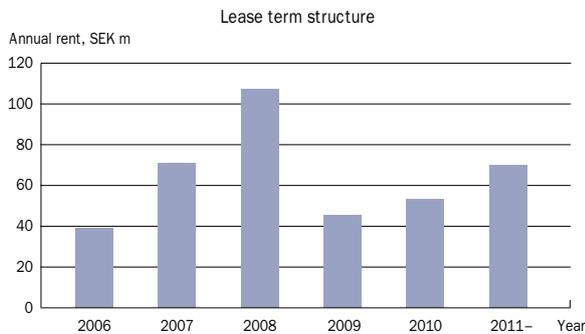
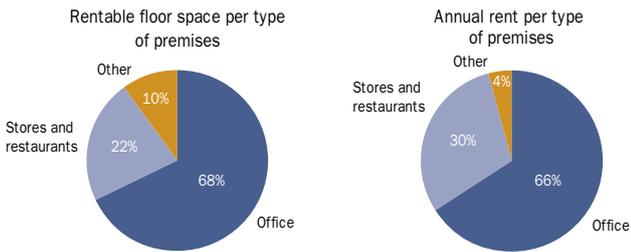
### **Strong brand names within the Business Area**

*Norrmalmstorg 1.* Norrmalmstorg 1 is a unique profile building and following total refurbishment between 2002 and 2004 it has recaptured its splendour and significance as a commercial landmark in central Stockholm. The property reinforces the retailing thoroughfare between Biblioteksgatan and Hamngatan/NK.

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

normalmstorg 1

**BJP**  
BIRGER JARLSPASSAGEN



Property holdings	December 31, 2005	December 31, 2004
Number of properties	16	18
Rentable space, sq. m.	105,596	105,577
– of which office space	71,517	71,477
– of which stores and restaurants	23,557	23,484
Annual rent, SEK m	419	424
Rental vacancy level, %	7.6	10.8
Floor space vacancy level, %	12.1	14.7

Renegotiations and new leases	2005	2004
SEK m		
New leases, sq. m.	9,995	6,938
New leases, annual rent, SEK m.	33	23
Renegotiated leases, sq. m.	12,699	7,319
Renegotiated annual rent, SEK m.	49	28

Financial results, property management – comparable holdings	2005	2004
SEK m		
Net revenue	385.6	374.6
Special projects	-4.4	-22.2
Maintenance	-48.4	-14.7
Operation and administration	-49.2	-47.5
Other costs	-42.6	-34.5
Total costs	-144.6	-118.9
Gross profit	241.0	255.7
Gross profit, excluding special projects	245.4	277.9



***Norrmalmstorg, Stockholm.** The square is a unique hub in the Hamngatan/Biblioteksgatan area and includes the city's most exclusive retailing area. In the background is the building that housed Hufvudstaden's head office until 1999. The tenants today are mainly law firms and investment banks.*



***Norrmalmstorg 1, Stockholm.** Stockholms first purpose-built office complex was designed in the functional style by architect Ivar Tengblom and was completed in 1932. Hufvudstaden undertook an extensive yet careful redevelopment and created space for, among others, the first Zara store in Sweden and office space for Danske Bank.*

# Stockholm City West Business Area

## Property holdings

The Stockholm City West Business Area manages properties in the area around Sveavägen and to the west. At the year-end, the Business Area consisted of eight properties. The holdings are entirely commercial and comprise office and retailing properties as well as the Parkaden property, which has been taken over from the NK Business Area. The properties are located on the corner of Kungsgatan/Sveavägen and on Drottninggatan, Klarabergsgatan and Regeringsgatan.

The holdings include the World Trade Center property, Sweden's most centrally located building with regard to communications. Airport buses and Arlanda Express meet up at the building as do the railway, underground, bus and commuter train networks. The World Trade Center is an international meeting point and is part of the World Trade Center Association (WTCA), the aim of which is to promote and support international trade and business relations. The concept includes offering different types of premises and services, including conference and exhibition premises as well as restaurants. The World Trade Center concept gives the property in Stockholm a unique position on the rental market. Few other properties in Stockholm can offer their tenants such a wide range of services. The conference and restaurant operations are run by a wholly owned subsidiary, see below under Other operations. The property houses approximately 40 office tenants.

## Development of holdings

Refurbishment and adaptation of premises totalling just over 11,500 square metres of office space was completed during the year on behalf of new and existing tenants. This included around 4,400 square metres of redevelopment and adaptation for new tenants at the World Trade Center. New tenants at the World Trade Center include the Swedish Trade Council and TallOil, which moved in in 2005, and Almi, which will move in in spring 2006.

The stores are an important feature in the urban environment and the company is working continuously to development the store mix within this business area. Other new stores in the Business Area include Make Up Store, which opened a new store on Drottninggatan.

## Rental market

The rental market for office space within the Business Area stabilized during the year. The level of vacant space ceased to increase and rents stabilized. However, the level of vacant space is expected to increase within the Business Area as a result of vacation of premises already known.

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

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

## Tenants

The tenant structure within the Stockholm City West Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are organisations, law firms, advertising agencies, computer and media companies and international companies. In total, there are 201 tenants within the Business Area. The ten largest tenants lease 39,700 square metres (38,000), representing annual rent revenue of SEK 155 million (149).

## Strong brand names in the business area

*World Trade Center.* The World Trade Center is known all over the world and stands for centrally located, high-class office and conference facilities with high-quality service in international trade. It is the symbol of credibility and quality. The strength of the brand name allows the World



World Trade Center  
Stockholm



Trade Center in Stockholm to profile itself as an international, high-class workplace and meeting point.

*Parkaden.* The Parkaden multi-storey car park is a well-known building in Stockholm and offers secure, easily accessible parking in the best location.

### Other operations

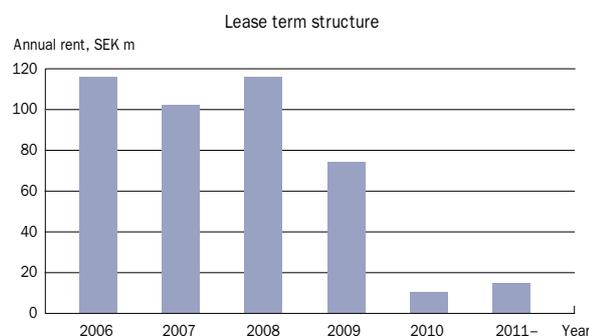
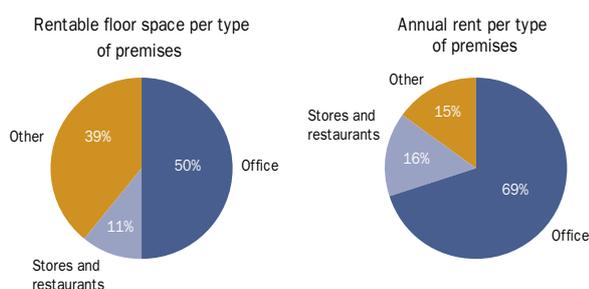
*World Trade Center.* In the World Trade Center conference, exhibition and restaurant operations are run by a wholly owned subsidiary, WTC Stockholm AB. Renovation and refurbishment of the exhibition and restaurant facilities took place during the first six months of 2005 and the World Trade Center Restaurant was reopened in May 2005. Operations at the World Trade Center have developed positively during the year.



*Parkaden.* The wholly owned subsidiary Parkaden AB runs parking operations in two properties owned by Hufvudstaden in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget on the Orgelpipan 7 property, near the World Trade Center and the Central Station, which has 431 spaces. Parking operations are an important service function for customers in the Hufvudstaden market areas. The entrance to Continentalgaraget at Mäster Samuelsgatan/Vasagatan was reconstructed during the year to provide improved access to the garage. Parkadengaraget has been refurbished, including resurfacing of the roadways. Operations at Parkaden have developed positively during the year.

Property holdings <sup>(1)</sup>	December 31, 2005	December 31, 2004
Number of properties	8	7
Rentable space, sq. m.	189,086	152,690
– of which office space	94,284	92,879
– of which stores and restaurants	20,882	19,046
Annual rent, SEK m	497	453
Rental vacancy level, %	7.7	9.9
Floor space vacancy level, %	8.0	11.3

(1) The property Hästskon 10 was transferred from the NK Business Area with effect from 2005.



Renegotiations and new leases	2005	2004
SEK m		
New leases, sq. m.	7,118	10,439
New leases, annual rent, SEK m	20	32
Renegotiated leases, sq. m.	7,845	17,783
Renegotiated annual rent, SEK m	25	52

Financial results, property management – comparable holdings	2005	2004
SEK m		
Net revenue	469.6	462.8
– of which turnover supplement	2.8	3.8
Special projects	–	–
Maintenance	-22.4	-17.6
Operation and administration	-60.5	-60.0
Other costs	-70.2	-74.0
Total costs	-153.1	-151.6
Gross profit	316.5	311.2
Gross profit, excluding special projects	316.5	311.2
Other operations		
Income	86.0	83.8
Costs	-72.3	-73.8
Operating profit	13.7	10.0



***Slussplan/Kornhamnstorg 61, Stockholm.*** The property, which from the beginning housed a bank, is today almost exclusively office space. On the ground floor, however, there are restaurants and stores. The classic neon signs on the roof are well-known landmarks and the location of the property marks a natural entrance to Gamla Stan.



***WTC, Stockholm.** This the most central meeting point in Sweden. A modern profile building with a focus on creating business. Here there is access to offices, conference facilities, restaurants and, above all, communications. Arlandabanan takes you to and from the airport in less than 20 minutes. Rail, underground and bus traffic are also integrated with the building.*

# *NK Business Area*

## **Property holdings**

At the year-end, the NK Business Area consisted of the NK department stores in Stockholm and Gothenburg. The Parkaden property has been transferred to the Stockholm City West Business Area.

## **Development of holdings**

At NK Stockholm an extensive rearrangement of stores is taking place with the purpose of creating an even more attractive department store and a clearer structure. A new cosmetics department was opened in September and in time for Christmas the NK Jewellery Salon opened a new store directly inside the Hamngatan entrance and a champagne bar beside it. A large number of departments are moving to new locations within the department store and several new departments with exclusive brand names will open in spring 2006. This renewal process is expected to be completed during the first half of 2006.

During the year, NK Gothenburg completed extensive restructuring of the department store. Several new departments, including NK Sport Fashion, NK Delicatessen and NK Flowers, opened during the year and other departments were relocated or rebuilt. The aim is to make it much clearer for customers to find their way around the department store.

## **Rental and retailing markets**

The rental market for store premises continued to be good during the year. The NK department stores are in the very best positions in both Stockholm and Gothenburg.

In conjunction with renegotiation and new leases, agreements were signed with rent levels for prime retailing space of between SEK 10,000 and 13,000 per square metre per year, excluding the property tax supplement.

The retail trade in Sweden reported a good year. According to the Retail Survey Index (DHI), sales at current prices increased within the non-daily products sector by 6.6 per cent. Ready-to-wear clothing sales increased by 5.7 per cent. Sales at NK Stockholm increased by 3.1 per cent and at NK Gothenburg by 6.4 per cent.

## **Tenants**

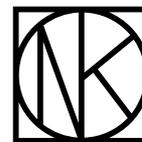
The Business Area's tenants represent strong, well-known brands that place considerable emphasis on establishing operations in attractive marketplaces. Many of the strongest international and Swedish brands are represented at the NK department stores. The office tenants include advertising agencies, banks, management consultants and law firms. In total, there are 115 tenants within the Business Area. The ten largest tenants lease 21,750 square metres (17,900), representing annual rent revenue of SEK 140 million (101).

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

## **The NK brand name**

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

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



**NORDISKA KOMPANIET**

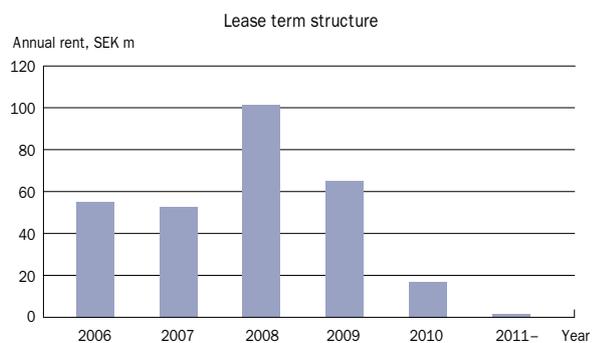
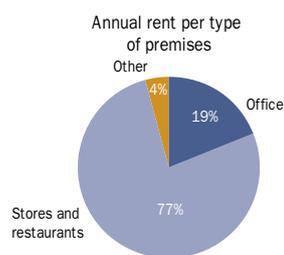
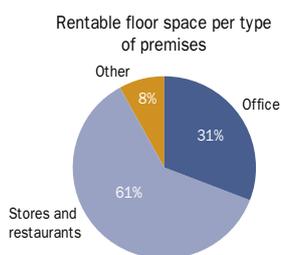
Property holdings (1)	December 31, 2005	December 31, 2004
Number of properties	2	3
Rentable space, sq. m.	54,082	90,196
– of which office space	16,896	16,971
– of which stores and restaurants	32,681	36,176
Annual rent, SEK m	263	309
Rental vacancy level, %	7.4	5.1
Floor space vacancy level, %	9.9	4.8

(1) The property Hästskon 10 was transferred to the Stockholm City West Business Area with effect from 2005.

Financial results, property management – comparable holdings	2005	2004
SEK m		
Net revenue	262.2	279.2
– of which turnover supplement	6.7	5.3
Special projects	-0.1	-0.8
Maintenance	-18.1	-8.2
Operation and administration	-83.5	-81.6
Other costs	-16.8	-22.1
Total costs	-118.5	-112.7
Gross profit	143.7	166.5
Gross profit, excluding special projects	143.8	167.3

Renegotiations and new leases	2005	2004
SEK m		
New leases, sq. m.	4,629	2,399
New leases, annual rent, SEK m	27	11
Renegotiated leases, sq. m.	10,740	7,163
Renegotiated annual rent, SEK m	62	28

NK department stores	2005	2004
SEK m		
<i>NK Stockholm</i>		
Rentable retailing space, sq. m.	26,073	26,251
Number of departments	104	106
Number of restaurants	7	9
Sales, including VAT, SEK m	1,736	1,683
<i>NK Gothenburg</i>		
Rentable retailing space, sq. m.	11,113	10,617
Number of departments	48	41
Number of restaurants	3	4
Sales, including VAT, SEK m	466	438





***NK, Stockholm.** The major department store where you will find everything. Built in 1915 and owned by Hufvudstaden since 1998. NK creates trends in everything from fashion and design to food and home decoration, which means that the building must be in a constant state of transformation. The building also houses Hufvudstaden's head office.*



***Sveavägen/Kungsgatan, Stockholm.** Hufvudstaden owns all the properties at this junction apart from the concert hall. This is a hub for Stockholm's communications – on foot, by underground, bus or car. The neon signs on our properties are nowadays synonymous with the image of Stockholm's inner city.*

# Gothenburg Business Area

## Property holdings

At the year-end, the Gothenburg Business Area covered four properties, located in the very heart of the Gothenburg business district. The holdings are entirely commercial and comprise office and retailing properties. The largest building houses the Femman shopping precinct, which is in turn part of the Nordstan shopping centre. Nordstan receives more than 30 million visitors each year, of whom more than 10 million visit Femman. Revenue is approximately SEK 3 billion, of which Femman accounts for almost SEK 800 million. Hufvudstaden is the largest individual partner in the Östra Nordstaden Co-operative Association, which owns and manages the Nordstan Car Park as well as the square and pedestrianized streets.

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

## Development of the holdings

Redevelopment took place during the year on the premises of Advokatfirman Vinge and the Swedish Customs Authority. Two smaller office premises have been completed for two new tenants, Cosy House AB and Cadcom Umeå AB. Two existing office tenants have moved within the holdings.

In Femman, two new stores were opened during the year, Ginatricot and Smycka.

## Rental market

The rental market for office premises during the year was marked by an increase in vacant space although despite this rent levels have been stable. The market rent for office premises in prime locations was between SEK 1,600 and SEK 1,800 per square metre per year, excluding the property tax supplement, with top rents of over SEK 2,000 per square metre per year in newly built properties. In the case of stores, the market rent trend continued to be good. Prime location premises attracted rents of between SEK 5,000 and SEK 8,500 per square metre per year, excluding the property tax supplement, depending on the size and location.

## Tenants

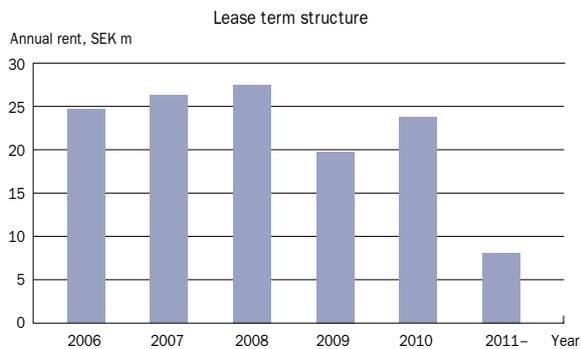
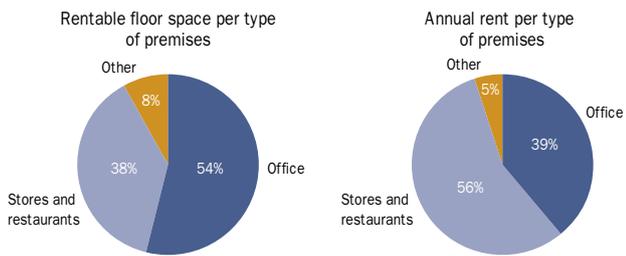
The tenant structure within the Business Area consists principally of companies that require centrally located, high-quality premises. The dominant sectors are law firms, accountants, the media, telecommunications companies, public authorities and organisations. There are 126 tenants within the Business Area. The ten largest tenants lease 28,700 square metres (29,300), representing annual rent revenue of SEK 51 million (52).

## Brand names within the Business Area

*Femman Shopping Precinct.* The Femman shopping precinct in Gothenburg is one of the strongest brand names in Western Sweden in the non-food retailing sector.



**Femmanhuset**



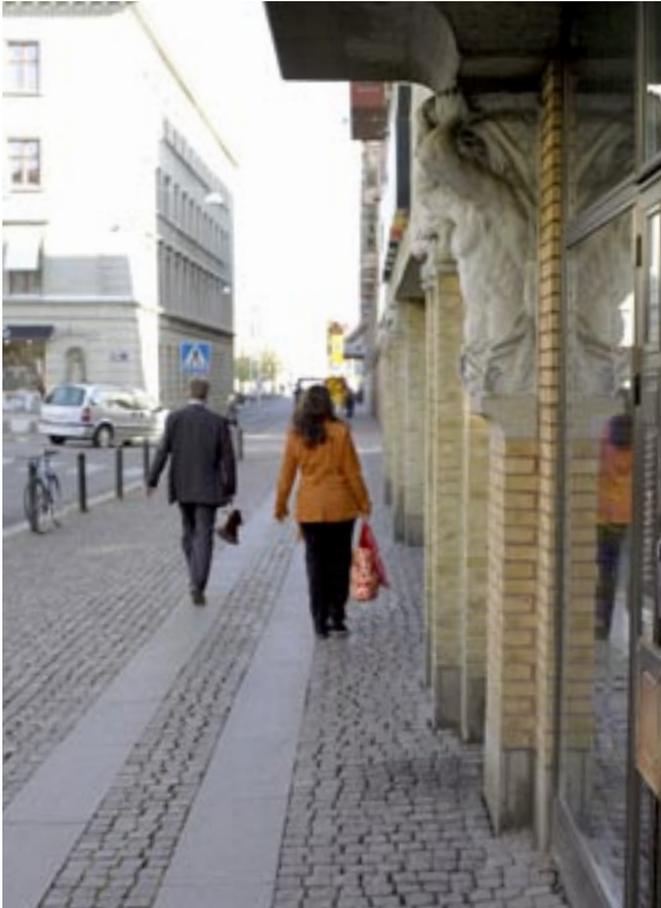
Property holdings		
	December 31, 2005	December 31, 2004
Number of properties	4	4
Rentable space, sq. m.	58,930	58,912
– of which office space	31,703	31,700
– of which stores and restaurants	22,403	22,382
Annual rent, SEK m	133	133
Rental vacancy level, %	2.5	1.9
Floor space vacancy level, %	3.8	3.1

Renegotiations and new leases		
SEK m	2005	2004
New leases, sq. m.	1,435	2,700
New leases, annual rent, SEK m	3	8
Renegotiated leases, sq. m.	14,536	7,769
Renegotiated annual rent, SEK m	25	21

Financial results, property management – comparable holdings		
SEK m	2005	2004
Net revenue	141.1	135.6
Special projects	–	–
Maintenance	-3.4	-5.1
Operation and administration	-27.3	-25.5
Other costs	-10.6	-10.6
Total costs	-41.3	-41.2
Gross profit	99.8	94.4
Gross profit, excluding special projects	99.8	94.4



- 1. **Victoria, Kungsgatan 46, Gothenburg.** The building was originally constructed in 1914 as a cinema and theatre. In 2004, Hufvudstaden converted the property into stores although the careful redevelopment means that it could be restored to a cinema again. The building houses the lifestyle store Victoria Arena. Kungsgatan is the oldest and longest pedestrianized street in Sweden with some 80 stores and restaurants.*
- 2. **Femmanhuset, Gothenburg.** With 40,000 square metres of rentable floor space, Femmanhuset is one of the Hufvudstaden's largest properties. The property has several offices and restaurants and 63 stores. Femman is located on the Nordstan business complex and has more than 30 million visitors each year, of whom 12 million find their way to Femmanhuset.*



*3. **Södra Hamngatan 49–57, Gothenburg.** This was once the location of Grand Hotel Haglund, which was demolished in 1967. In 1975, Hufvudstaden built the present property with stores and offices. The building was designed by Johannes Olivegren, a professor at Chalmers University of Technology. One of the tenants, the Confederation of Swedish Enterprise, has been in the building from the very beginning.*

*4. **NK, Gothenburg.** As is the case in Stockholm, NK Gothenburg offers the very latest in most areas. The property is really made up of several buildings that have been merged, all dating from different eras. This represented a challenge with regard to the floor arrangement and recently themes were created to make it easier for visitors to find their way around: menswear on the first floor, women's wear on the second floor and so on.*

## *Corporate governance*

Hufvudstaden is a Swedish listed company and is controlled in accordance with Swedish corporate law, Hufvudstaden's Articles of Association and the listing agreement with the Stockholm Stock Exchange. With effect from July 1, 2005, the Swedish Corporate Governance Code has been applied.

### **Annual general meeting**

At the Annual General Meeting, the supreme decision-making body, the shareholders reach decisions on key issues, such as the adoption of the Income Statement and Balance Sheet, discharge of liability for the members of the Board and the President, a dividend to the shareholders and the composition of the Board. The Annual General Meeting shall be held in Stockholm no later than June and is normally held at the end of March. Notification of the Meeting is issued a minimum of four and a maximum of six weeks prior to the Meeting and includes information about the agenda and the notification procedure. Shareholders can take part in and vote at the Meeting personally or by proxy. Each shareholder may make use of all the votes that correspond to the shareholder's holding whereupon series A shares carry entitlement to one vote per share and series C to 100 votes per share. Information about the Annual General Meeting can be found on the website.

At the Annual General Meeting the shareholders have the opportunity to ask questions about the Company and the results for the year in question. The Board, the Company management and the auditors are normally all present in order to answer such questions.

The Annual General Meeting in 2005 was held on March 17. A total of 235 shareholders, who represented 135,024,793 A shares and 8,252,663 C shares, were present and they represented a total of 960,291,093 votes, equivalent to 93.6 per cent of the total number of votes. The Annual General Meeting for 2006 will be held on March 23 in Stockholm.

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

In the light of the concentrated ownership structure (see page 13) there is no formally appointed nominations committee. The main shareholders are contacted by the Chairman of the Board well in advance of the Annual General Meeting regarding suggestions for the composition of the Board of Directors. Other shareholders have the opportunity to submit suggestions to the Chairman of the Board as stated on the Company's website. Proposals for the Board and the fee to the Board and the Chairman of the Board are presented for a decision at the meeting. In conjunction with the election of auditors the main shareholders present

a proposal which is presented to the meeting as well as a proposal for a fee. The meeting also elects a chairman for the meeting.

### **The Board**

According to the Articles of Association, the Board shall comprise a minimum of three and a maximum of nine members and a maximum of three deputies. The members of the Board are elected at the Annual General Meeting for a period of one year. During 2005, there were nine members of the Board, including the President. No deputies were elected. Three of the members have a position of dependence on the largest shareholder Lundbergs (Fredrik Lundberg, Claes Boustedt and Bo Waldemarson) and one of the members on the second largest shareholder SEB Trygg Liv (Hans Mertzig). The President Ivo Stopner is the only Board member who is also a member of the Hufvudstaden executive management and therefore has a position of dependence on the Company. The above persons are defined as persons in a position of dependence, both according to the Stockholm Stock Exchange listing requirements and according to the Swedish Corporate Governance Code. For information about individual Board members, see page 72. An external lawyer is engaged to act as secretary to the Board.

### **The work of the Board**

The Board shall confirm the overall objectives for the Company's operations, decide on the Company's strategy and ensure that there are effective systems in place for the follow-up and control of the Company's operations and financial position and to remain continuously informed about and evaluate the Company's internal control systems.

During the 2005 financial year, the Board held seven meetings, of which one was a statutory meeting. The work of the Board follows the rules of procedure adopted by the Board, which provide the framework for decisions regarding investments, financing, financial reports and other matters of a strategic nature. The rules of procedure also govern the undertakings of the Board and the President and the allocation of duties between the Board and the President. The relevance and validity of the rules of procedure are reviewed each year.

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

Economic and financial reporting and reporting of operations in the business areas is presented at each Board meeting. In addition, key issues of principal or major eco-

conomic significance are taken up at each ordinary meeting. Officials in the Company attend the Board meetings as presenters. The Board has examined the matter of establishment of an audit committee but has chosen not to appoint such a committee and will instead handle the matter within the framework of the ordinary work of the Board. This means that the whole Board, apart from the President, make up the audit committee.

*Attendance at Board meetings 2005:*

Fredrik Lundberg, Chairman	7
Claes Boustedt	7
Bengt Braun	6
Peter Egardt	6
Mats Jansson	4
Anna Klingspor	7
Hans Mertzig	7
Bo Waldemarson	7
Ivo Stopner	7

**Evaluation of the Board and the President**

Once a year, the Board makes an evaluation of its work and the forms for implementation of the work of the Board. The Board also evaluates the work of the President without the person in question being present.

**Audit**

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

The Board meets the auditor twice a year, of which one meeting is in the absence of the President. On these occasions the auditor presents an account, and there is a discussion about the audit orientation and observations made. Internal routines and control systems are examined continuously during the year. Examination and audit of the annual accounts and the Annual Report take place in January–February. The mid-year accounts are examined on a general basis. The reporting of the fee to the auditors, including a fee for consultancy services is given in Note 10.

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

**President and executive management**

The President leads the work of the Company in accordance with the adopted rules of procedure for the Board and the President and the Board's instructions. The President is responsible for ensuring that the Board receives the relevant information and documentation, which is as factual, comprehensive and relevant as possible, in order for the

Board to be able to reach well-informed decisions.

The executive management holds management meetings approximately once a month. The executive management comprises seven persons, including one woman. For information about individual members, see page 74.

**Remuneration to the Board**

Remuneration to the Board is decided by the Annual General Meeting. At the Annual General Meeting in 2005 it was decided that payment for Board work in 2005 should be SEK 1,350,000, to be divided among the members with the exception of President Ivo Stopner, who does not receive any remuneration for his Board work. The Chairman received SEK 300,000 and the other seven non-employed members received SEK 150,000 each.

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

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

The Chairman of the Board has been assigned the task by the Board of negotiating with the President regarding his remuneration whereupon a decision is reached by the Board. The President has been assigned the task by the Board of negotiating with the other leading executives regarding their remuneration, whereupon a report is presented to the Chairman of the Board.

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

Information regarding the principles for remuneration is presented at the Annual General Meeting of the shareholders and an examination takes place of the adopted remuneration levels. For further information about salaries and remuneration, see Note 9.

**Internal control**

In accordance with a statement from the Swedish Corporate Governance Board, the Board's report is limited to a description of internal control in respect of how internal controls are organized with regard to the financial reports without a statement on how well it functioned during the year and without an examination by the auditors, see page 38.

## *Internal control*

The Board is responsible according to the Swedish Companies Act and the Swedish Corporate Governance Code for internal control. This report has been prepared in accordance with sections 3.7.2 and 3.7.3 and is thus limited to internal control regarding the financial reporting. In accordance with a statement from the Swedish Corporate Governance Board no statement has been issued regarding how well internal control has functioned during the year.

### **Description**

The control environment is the basis for internal control regarding financial reporting. It covers organisation, decision-making processes, authority and responsibility and the culture which the Board and management promote and work according to and which creates a structure for other parts. The management and the Board continuously evaluate which policies and guidelines are required for the Company. These controlling documents are communicated via established information and communication channels and are thus made available and known to the personnel concerned.

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 management takes place, among other things, by the management holding regular information meetings, both for the whole Company and for individual units. Another important channel of communication is Hufvudstaden's intranet. Through this all employees have access to updated information. Internal policies, guidelines, instructions and corresponding documents which control and support operations are published on the intranet.

Hufvudstaden identifies, analyses and decides on the handling of risks regarding faults in the financial report-

ing. The risk analysis also involves the identification of the processes that are considered to be material to efficient financial reporting are identified. The Board examines the outcome of the Company's risk assessment and risk management process to ensure that it covers all material areas and identifies necessary measures as required.

Hufvudstaden's control structure also comprises a clear allocation of responsibility, where responsibility and roles regarding the financial reporting have been defined and communicated. These comprise in part control activities aimed at handling the risk of errors in the financial reporting. For key processes, both risks and controls are documented in the process descriptions.

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

The Board receives quarterly reports with financial outcomes, including comments from the management on operations. The financial situation is dealt with at each Board meeting.

### **Statements**

The existing structures for the evaluation of internal control, including the work of the controller function, has been deemed to provide a sufficient basis for the assessment of internal control. The Board has therefore decided not to establish an internal audit function. This decision will be reviewed annually.

Stockholm, February 9, 2006

*Board of Directors*



***Skandia cinema, Drottninggatan 82, Stockholm.** In 1851, the Warodellska Building was built by merchant Lars Johan Warodell. It was a residential building until 1921, when it was purchased and converted into a cinema. Skandia was designed by architect Erik Gunnar Asplund and was voted the most beautiful cinema in Europe, which is perhaps still the case today.*

# Administration Report

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

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

It is proposed that the Income Statement and Balance Sheet be adopted at the Annual General Meeting on March 23, 2006.

## Operations

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

## Property holdings

At the end of the year Hufvudstaden owned 30 properties (32). The rentable floor space was 332,455 square metres in Stockholm and 75,239 square metres in Gothenburg, making a total of 407,694 square metres.

The total rental vacancy level in the Group as of December 31, 2005 was 7.1 per cent (8.2) and the floor space vacancy level was 8.7 per cent (9.5). In Stockholm, the rental vacancy level was 7.9 per cent and in Gothenburg it was 2.2 per cent.

A total of 23,177 square metres (22,476) were let on new leases and 45,820 square metres (40,034) were renegotiated at a total value of SEK 244 million.

### Property purchases and sales

No purchases or sales of properties took place during the year. The fall in number can be explained by property regulation in the so-called Golden Triangle in Stockholm, where the Pumpstocken 11 and 12 properties were merged with Pumpstocken 10 in 2005.

## Property value and net asset value

Hufvudstaden has made an internal valuation of all the Company's properties. The aim of the valuation is to assess the fair value of the property holdings as of December 31, 2005. The valuation was made using the properties' earning capacity and the yield requirements of the market as a starting point.

The fair value of the property holdings as of December 31, 2005 was set at SEK 16.3 billion (15.0).

### Valuation method

Valuation of the property holdings was done by assessing each individual property's fair value. The valuation took place on the basis of a valuation according to the direct yield method. To assure the valuation, external valuations were commissioned from two valuation companies. A description of the valuation method and assumptions can be found in Note 19 Investment properties.

Sensitivity analysis, property valuation		
	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq. m	SEK 700 million
Property costs	SEK 50/sq. m	SEK 350 million
Rental vacancy level	1.0 per cent	SEK 230 million
Yield requirement	0.5 per cent	SEK 1 500 million

### Net asset value

The calculated fair value of the property holdings as of December 31, 2005 was SEK 16.3 billion. Based on the property valuation reported above, the net asset value is SEK 11.0 billion or SEK 53 per share after tax. When calculating the net asset value, calculated deferred tax has been used. This has been calculated at 10 per cent of the difference between the assessed fair value and the fiscal residual value of the properties. This has been assessed in the light of current tax legislation, which means that properties can be sold via a limited company without tax implications. The purchaser, however, loses the basis for depreciation, which is reason for payment of compensation, which has been set at 10 per cent. If the tax rate according to the Balance Sheet (28 per cent) is used in the calculation, the net asset value would have been SEK 8.6 billion, or SEK 42 per share.

Net asset value, December 31, 2005	
SEK billion	
Reported equity	8.6
Reversal of book deferred tax	3.7
Net asset value before tax	12.3
Calculated deferred tax of 10 per cent	-1.3
Net asset value after tax	11.0
Net asset value per share	SEK 53

### Opportunities and risks

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

#### *Rent trend*

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

#### *Property tax*

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

#### *Rent loss on vacant premises*

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

#### *Lease terms*

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

#### *Turnover-based rent*

Turnover-based rent is mainly applied at the NK department stores. Hufvudstaden is striving to increase the proportion of turnover-based rent as it offers upward potential while at the same time the guaranteed minimum rent in turnover-based leases limits the risk of a fall in rents.

#### *Operation and maintenance*

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

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

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

The concentration of a property portfolio on a geographical market area could involve a potential increase in risk as a result of reduced diversification. In Hufvudstaden's case, however, the risk is limited as over time Stockholm and Gothenburg are the country's strongest market areas and Sweden's most attractive growth markets.

### Financial risks

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

### Insurance

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

### Sensitivity analysis

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

The reported effects on profit in conjunction with changes in the rent level, level of vacant space, operating and maintenance costs and property tax, refer to the effects that would have occurred during the 2005 financial year if the changes had occurred at the beginning of 2005.

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

Change in profit before tax, excluding changes in value		
	Change	Impact on profit before tax, excluding changes in value, SEK m
Rent level	+/- SEK 100 per sq. m	41
Vacancy level <sup>(1)</sup>	+/- 1 percentage point	12
Operation and maintenance	+/- 10 per cent	22
Property tax <sup>(2)</sup>	+/- 1 percentage point	15
Interest level <sup>(3)</sup>	+/- 1 percentage point	35

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

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

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

### Environmental impact

No operations were carried on during 2005 that required a permit or were subject to a reporting obligation under the Environmentally Hazardous Operations and Health Protection Ordinance (1998:899).

### Buy-back of Company shares

No shares were bought back during the year or after the reporting period (up to and including February 8, 2006). The total holding as of December 31, 2005 was 5,006,000 Series A shares, equivalent to 2.4 per cent of the issued shares. At the 2005 Annual General Meeting the Board were given a renewed mandate to repurchase a maximum of ten per cent of all shares with the aim of giving the Board the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders.

### Board

A description of the work of the Board, remuneration to executive managers etc. can be found under Corporate Governance on page 36.

### Bonus

Permanent employees in the Group were included in a bonus system during the year. The bonus system is decided by the Board one year at a time and is subject to a ceiling. If the Company reports a negative result, no bonus is paid. The bonus payment criteria are 'operating results' and 'tenant satisfaction'. In the case of managers with responsibility for personnel, there is also a personal assessment with individual objectives. In 2005, the bonus cost amounted to SEK 3.2 million (3.8) or an average of SEK 11,363 per employee. For the executive management, including the President, the average was SEK 260,620 per person. The bonus is not pensionable.

### **Stock market information**

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

Reports and press releases are available on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se) where subscription applications can be made as well as requests for information.

### **Transition to IFRS**

With effect from 2005, all companies within the European Union that have securities registered on a regulated market are obliged to prepare their consolidated accounts in accordance with the International Financial Reporting Standards (IFRS), which also includes the current International Accounting Standards (IAS). Hufvudstaden AB (publ) is listed on the Stockholm Stock Exchange, which is a Swedish regulated market.

In conjunction with the transition to IFRS 2005, an opening balance as of January 1, 2004 was drawn up, which explains how a transition from national accounting principles to IFRS affects equity. There is also an explanation of how the financial position, profit and cash flow are affected during the comparison year 2004 if IFRS is applied instead of national accounting principles.

#### *Impact on the Hufvudstaden Group*

The most significant effects for the Group which arise in conjunction with the transition to IFRS are in respect of the reporting of investment properties and deferred tax. In addition, the reporting of payments to employees and financial instruments is affected by the transition to IFRS.

In conjunction with the transition to IFRS equity increased by SEK 2,824 billion after taking into account the tax effects in the opening balance as of January 1, 2004. The profit for 2004 increased by SEK 107 million following recalculation according to IFRS, which means that equity at the end of 2005 increased by SEK 2,931 billion. For information regarding the transition to IFRS, see Note 40.

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

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

### **Future prospects**

Hufvudstaden will continue in 2005 to devote its efforts mainly to its core operations, i.e. managing and developing the property holdings to ensure the highest possible yield. Economic growth in Sweden is expected to increase slightly during 2006, which it is considered will in time lead to a fall in rental losses and more new leases. This will entail increased costs for the adaptation of premises. Strategic acquisitions and sales of individual properties cannot be excluded.

### **Proposed dividend and allocation of profits**

The Board has proposed a dividend of SEK 1.45 per share or a total of SEK 299.1 million. The Board's proposed profit allocation is presented in full on page 70.

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

## *Income statements and comments*

SEK m	Note	Group		Parent Company	
		2005	2004	2005	2004
<i>Net revenue</i>					
Property management		1,258.5	1,273.4	709.5	717.7
Other operations		86.0	85.1	–	–
	4	<b>1,344.5</b>	<b>1,358.5</b>	<b>709.5</b>	<b>717.7</b>
<i>Property management costs</i>					
– Special projects		-4.5	-23.0	-5.1	-5.6
– Maintenance		-92.3	-46.3	-50.1	-26.0
– Operations and administration	7	-220.5	-219.5	-96.2	-92.5
– Ground rents		-30.4	-35.7	-7.4	-7.5
– Property tax		-109.3	-106.1	-62.2	-66.4
– Depreciation	7	-0.5	-0.8	-36.7	-35.7
<b>Property management expenses</b>		<b>-457.5</b>	<b>-431.4</b>	<b>-257.7</b>	<b>-233.7</b>
Other operations, costs	4, 7	-72.3	-74.4	–	–
<b>Cost of operations</b>		<b>-529.8</b>	<b>-505.8</b>	<b>-257.7</b>	<b>-233.7</b>
<b>Gross profit</b>		<b>814.7</b>	<b>852.7</b>	<b>451.8</b>	<b>484.0</b>
– of which Property management	4, 6	801.0	842.0	451,8	484.0
– of which Other operations	4	13.7	10.7	–	–
Central administration		-30.6	-29.4	-30.6	-29.3
<b>Operating profit before changes in value</b>		<b>784.1</b>	<b>823.3</b>	<b>421.2</b>	<b>454.7</b>
Changes in value, investment properties	14	1,200.0	297.4	–	460.2
<b>Operating profit</b>	8–13	<b>1,984.1</b>	<b>1,120.7</b>	<b>421.2</b>	<b>914.9</b>
<i>Financial income and expense</i>					
Financial income	15	8.2	11.3	0.2	1.9
Financial expense	16	-140.1	-235.7	-140.1	-233.3
		<b>-131.9</b>	<b>-224.4</b>	<b>-139.9</b>	<b>-231.4</b>
<b>Profit after financial items</b>		<b>1,852.2</b>	<b>896.3</b>	<b>281.3</b>	<b>683.5</b>
Appropriations	17	–	–	-116.6	-101.5
<b>Profit before tax</b>		<b>1,852.2</b>	<b>896.3</b>	<b>164.7</b>	<b>582.0</b>
Tax	18	-518.3	-124.9	-47.7	-34.4
<b>PROFIT FOR THE YEAR</b>		<b>1,333.9</b>	<b>771.4</b>	<b>117.0</b>	<b>547.6</b>
Average number of outstanding shares following buy-backs during the period					
		206,265,933	206,265,933		
Profit per share before and after dilution, SEK		6.47	3.74		
Dividend per share, SEK (proposed)		1.45	4.00		

### Property management

Property management net rents during the year totalled SEK 1,258.5 million (1,273.4), which is equivalent to a decrease of 1.2 per cent. During the year Hufvudstaden renegotiated approximately 21 per cent of its leases, equivalent to approximately SEK 161 million. The renegotiations meant an average reduction in rent of approximately 2 per cent (-20). The reduction can be explained by the fact that the lease stock still contains a number of leases that were signed at the beginning of the century when market rents were at their highest.

The costs totalled SEK 457.5 million (431.4), of which SEK 4.5 million (23.0) refers to special projects. The increase can be attributed mainly to costs for the adaptation of premises for new tenants and for store relocations at NK.

The gross profit during the year was SEK 801.0 million (842.0), which is a decrease of 4.9 per cent or 3.2 per cent for comparable holdings.

### Other operations

Other operations include parking operations at Parkaden and conference operations at the World Trade Center in Stockholm.

Net revenue was SEK 86.0 million (85.1). Costs totalled SEK 72.3 million (74.4) and the gross profit SEK 13.7 million (10.7).

### Changes in value, investment properties

The change in value of investment properties was SEK 1,200 million (297.4). The value has been assessed on the basis of an internal valuation of the property holdings. The unrealized change in value can be attributed mainly to an estimated lower direct yield requirement as a result of the considerable interest in commercial properties on the part of both Swedish and international investors and an historically low interest level. The average direct yield requirement in conjunction with the above valuation was 5.7 per cent (6.0).

### Financial items

The financial items result for the year was SEK -131.9 million (-224.4). Interest income was SEK 7.4 million (11.3), interest expense SEK -139.3 million (-235.7). The lower interest costs can be attributed to a lower interest level in 2005 and to costs for closed/realized derivative agreements during 2004. The realization of derivative agreements caused by the adaptation to the requirements in IAS 39 for hedge accounting were charged to the profit for 2004 to the amount of SEK 57 million.

### Tax and current tax disputes

The Group's tax expense was SEK 518.3 million (124.9), of which SEK 108.8 million was actual tax and SEK 409.5 million deferred tax.

The subsidiary company Fastighets AB Stockholms City has, through a Swedish Tax Agency decision in December 2005, not been granted a deduction for certain costs related to the renovation of Norrmalmstorg 1. The Tax Agency is of the opinion that these costs should be capitalized as a building, with annual depreciation of 2 per cent. As the company does not share the view of the Swedish Tax Agency, an appeal against the decision has been lodged with the County Administrative Court. The amount for taxes and charges is approximately SEK 25 million. Should the court find in favour of the Tax Agency, this will not have any impact on the total reported tax expense for the Group.

### Profit for the year

The profit for the year was SEK 1,333.9 million (771.4), an increase of SEK 562.5 million compared with 2004. The increase can be attributed mainly to unrealized changes in value.

### Fourth quarter

Property management's gross profit totalled SEK 193.3 million (197.3).

Net rents totalled SEK 320.7 million (313.9). The increase can be attributed mainly to lower rent losses. Property management costs totalled SEK 127.4 million (116.6).

The gross profit for Other operations totalled SEK 6.9 million (5.7). Net revenue totalled SEK 26.0 million (26.0) and operating costs totalled SEK 19.1 million (20.3).

The tax cost for the period totalled SEK 237.3 million (103.5). See Note 5 for a summary of the profit trend per quarter.

### Parent Company

Net revenue in the Parent Company totalled SEK 709.5 million (717.7). Operating costs totalled SEK 257.7 million (233.7). The gross profit was SEK 451.8 million (484.0).

Central administration totalled SEK 30.6 million (29.3). The operating profit totalled SEK 421.2 million (914.9). The profit for the year after tax was SEK 117.0 million (547.6).

Of the Parent Company's total net revenue and property costs, SEK 12.3 million of the net revenue and SEK 9.3 million of the property costs refer to Intra-Group transactions.

## Balance sheets and comments

SEK m	Note	Group		Parent Company	
		31-12-2005	31-12-2004	31-12-2005	31-12-2004
<b>ASSETS</b>					
<b>Fixed assets</b>					
Tangible fixed assets	20	7.5	8.1	3.9	4.2
Investment properties	19	16,276.0	15,000.0	5,632.6	5,643.7
		<b>16,283.5</b>	<b>15,008.1</b>	<b>5,636.5</b>	<b>5,647.9</b>
<i>Financial fixed assets</i>					
Participations in Group companies	21	–	–	4,329.3	4,329.3
Other non-current receivables	22	61.6	75.5	5.9	5.3
<i>Total financial fixed assets</i>		<i>61.6</i>	<i>75.5</i>	<i>4,335.2</i>	<i>4,334.6</i>
<b>Total fixed assets</b>		<b>16,345.1</b>	<b>15,083.6</b>	<b>9,971.7</b>	<b>9,982.5</b>
<b>Current assets</b>					
<i>Current receivables</i>					
Accounts receivable	24	15.9	13.4	2.9	1.0
Receivables from Group companies		–	–	4.4	25.9
Other receivables		14.4	13.8	–	0.9
Prepaid expenses and accrued income	25	20.3	17.1	9.9	11.7
<i>Total current receivables</i>		<i>50.6</i>	<i>44.3</i>	<i>17.2</i>	<i>39.5</i>
Cash and bank balances	26	92.8	14.3	92.3	11.7
<b>Total current assets</b>		<b>143.4</b>	<b>58.6</b>	<b>109.5</b>	<b>51.2</b>
<b>TOTAL ASSETS</b>		<b>16,488.5</b>	<b>15,142.2</b>	<b>10,081.2</b>	<b>10,033.7</b>

### Investment properties

The properties' reported value was SEK 16,276.0 million (15,000.0). The increase in the properties' unrealized change in value is explained in the comments on the Income Statement on page 45. Investment properties are reported at fair value according to IAS 40, which does not permit depreciation. The valuation method is described on page 53. The properties' fiscal residual value was SEK 2.4 billion. Investments for the year totalled SEK 79.4 million (72.3), of which SEK 3.4 million referred to equipment, SEK 13.7 million to redevelopment and extensions in progress and SEK 62.3 million to buildings, including building equipment.

### Cash and bank holdings

Cash and bank holdings amounted to SEK 92.8 million (14.3). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is used mainly for the amortization of loans. There are no limits on the right of use of liquid funds. In addition to liquid funds there are unutilized overdraft facilities of SEK 40 million (40).

### Interest-bearing liabilities

The Group's liabilities to credit institutions increased to SEK 3,525.0 million (3,135.0). The average fixed interest term was 30 months (27), the capital tie-up period was 32 months (19) and the average interest cost 3.9 per cent (4.2). The increase in the loan liability can be attributed to the extra dividend of SEK 2.70 per share, which was decided at the Annual General Meeting in 2005. Net debt totalled SEK 3,432.2 million (3,120.7).

### Other liabilities

Other liabilities that are non-interest bearing increased during the year by SEK 84.3 million to SEK 435.0 million (350.7).

### Equity ratio

The equity ratio as of December 31, 2005 was 52.2 per cent (53.8).

### Parent Company

Investment properties are valued at cost with a deduction for accumulated depreciation. For details of the properties' fair value, see Note 19.

SEK m	Note	Group		Parent Company	
		31-12-2005	31-12-2004	31-12-2005	31-12-2004
<b>EQUITY AND LIABILITIES</b>					
<b>Equity, Group</b>					
Share capital	27	1,056.4	1,056.4		
Other contributed capital		628.1	628.1		
Reserves	28	-34.0	-		
Profit brought forward, including profit for the year		6,964.2	6,455.3		
<b>Total equity</b>		<b>8,614.7</b>	<b>8,139.8</b>		
<b>Equity, Parent Company</b>					
<i>Restricted equity</i>					
Share capital	27			1,056.4	1,056.4
Share premium reserve				-	628.1
Revaluation fund				152.2	166.2
Statutory reserve				798.1	170.0
<b>Total restricted equity</b>				<b>2,006.7</b>	<b>2,020.7</b>
<i>Non-restricted equity</i>					
Profit brought forward				1,961.9	2,068.3
Profit for the year				117.0	547.6
<b>Total non-restricted equity</b>				<b>2,078.9</b>	<b>2,615.9</b>
<b>Total equity</b>				<b>4,085.6</b>	<b>4,636.6</b>
<i>Untaxed reserves</i>					
		-	-	436.6	319.9
<i>Non-current liabilities</i>					
Liabilities to credit institutions	32	2,590.0	2,180.0	2,590.0	2,180.0
Liabilities to Group companies		-	-	0.7	0.7
Other non-current liabilities		2.0	1.1	1.6	1.1
Provisions for pensions and other similar obligations	29	5.6	4.8	4.9	4.1
Deferred tax liabilities	30	3,838.1	3,441.8	1,219.5	1,219.2
<b>Total non-current liabilities</b>		<b>6,435.7</b>	<b>5,627.7</b>	<b>3,816.7</b>	<b>3,405.1</b>
<i>Current liabilities</i>					
Liabilities to credit institutions	32	935.0	955.0	935.0	955.0
Accounts payable		68.0	72.9	28.2	28.3
Liabilities to Group companies		-	-	600.1	504.3
Tax liabilities		41.4	19.3	35.8	25.7
Other liabilities	33	51.6	56.3	20.3	25.6
Accrued expenses and prepaid income	34	272.0	201.1	122.9	133.2
Provisions	31	70.1	70.1	-	-
<b>Total current liabilities</b>		<b>1,438.1</b>	<b>1,374.7</b>	<b>1,742.3</b>	<b>1,672.1</b>
<b>Total liabilities</b>		<b>7,873.8</b>	<b>7,002.4</b>	<b>5,995.6</b>	<b>5,397.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,488.5</b>	<b>15,142.2</b>	<b>10,081.2</b>	<b>10,033.7</b>
<b>Pledged assets</b>	35	<b>1,719.9</b>	<b>1,519.3</b>	<b>1,719.9</b>	<b>1,519.3</b>
<b>Contingent liabilities</b>	35	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>

## *Changes in equity*

SEK m	Share capital	Other contributed capital	Reserves	Profit brought forward, incl. Profit for the year	Total
<i>Group</i>					
Opening balance 1-1-2004	1,056.4	628.1	–	3,107.8	4,792.3
Adjustment for change in accounting principle				2,823.7	2,823.7
<b>Adjusted equity 1-1-2004</b>	<b>1,056.4</b>	<b>628.1</b>	<b>–</b>	<b>5,931.5</b>	<b>7,616.0</b>
Profit for the year				771.4	771.4
Total changes in wealth	1,056.4	628.1	–	6,702.9	8,387.4
Dividends				-247.5	-247.5
<b>Closing equity 31.12.2004</b>	<b>1,056.4</b>	<b>628.1</b>	<b>–</b>	<b>6,455.3</b>	<b>8,139.8</b>
Opening balance 1-1-2005	1,056.4	628.1	–	6,455.3	8,139.8
Adjustment for change in accounting principle			-41.0	–	-41.0
<b>Adjusted equity 1-1-2005</b>	<b>1,056.4</b>	<b>628.1</b>	<b>-41.0</b>	<b>6,455.3</b>	<b>8,098.8</b>
Change for the year in the hedging reserve			9.8		9.8
Tax attributable to the hedging reserve			-2.8		-2.8
Total changes in wealth, reported directly against equity, excluding dividends	1,056.4	628.1	-34.0	6,455.3	8,105.8
Profit for the year				1,333.9	1,333.9
Total changes in wealth	1,056.4	628.1	-34.0	7,789.2	9,439.7
Dividends				-825.1	-825.1
<b>Closing equity 31.12.2005</b>	<b>1,056.4</b>	<b>628.1</b>	<b>-34.0</b>	<b>6,964.2</b>	<b>8,614.7</b>

SEK m	Share capital	Statutory reserve	Revaluation reserve	Share premium reserve	Non-restricted reserves	Total
<i>Parent Company</i>						
<b>Opening equity 1-1-2004</b>	<b>1,056.4</b>	<b>170.0</b>	<b>180.2</b>	<b>628.1</b>	<b>2,182.1</b>	<b>4,216.8</b>
Parent Company dividend					-247.5	-247.5
Group contribution received					166.3	166.3
Tax effect, group contribution					-46.6	-46.6
Transfer between restricted and non-restricted reserves			-14.0		14.0	0.0
Profit for the year					547.6	547.6
<b>Closing equity 31-12-2004</b>	<b>1,056.4</b>	<b>170.0</b>	<b>166.2</b>	<b>628.1</b>	<b>2,615.9</b>	<b>4,636.6</b>
<b>Opening equity 1-1-2005</b>	<b>1,056.4</b>	<b>170.0</b>	<b>166.2</b>	<b>628.1</b>	<b>2,615.9</b>	<b>4,636.6</b>
Parent Company dividend					-825.1	-825.1
Group contribution received					218.2	218.2
Tax effect, group contribution					-61.1	-61.1
Transfer between restricted and non-restricted reserves			-14.0		14.0	0.0
Reversal of share premium reserve to statutory reserve		628.1		-628.1		0.0
Profit for the year					117.0	117.0
<b>Closing equity 31-12-2005</b>	<b>1,056.4</b>	<b>798.1</b>	<b>152.2</b>	<b>0.0</b>	<b>2,078.9</b>	<b>4,085.6</b>

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all shares. At the Annual General Meeting held on March 17, 2005, the Board were given a renewed mandate to buy back a maximum of 10 per cent of all shares with the aim of giving the Board the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders. No buy-backs took place during 2005.

The dividend proposed according to the allocation of unappropriated earnings is SEK 299.1 million. <sup>(1)</sup>

*(1) See Definitions, page 81, Dividend amount.*

## *Cash flow statements and comments*

SEK m	Group		Parent Company	
	2005	2004	2005	2004
<b>Current operations</b>				
Profit after financial items	1,852.2	896.3	281.3	683.5
Depreciation and impairment of assets	3.9	9.2	38.1	38.4
Capital gain on sales of fixed assets	–	–	–	-460.2
Change in other provisions	–	–	0.8	0.3
Change in value, investment properties	-1,200.0	-297.4	–	–
Change in provision, property tax etc.	0.7	-92.6	–	–
Tax paid	-86.6	-87.7	-30.3	-33.6
<b>Cash flow from current operations before changes in working capital</b>	<b>570.2</b>	<b>427.8</b>	<b>289.9</b>	<b>228.4</b>
Cash flow from changes in working capital:				
Decrease (+) / Increase (-) in operating receivables	-6.1	-8.3	154.5	8.3
Increase (+) / Decrease (-) in operating liabilities	15.0	-106.8	99.6	36.7
<b>Cash flow from current operations</b>	<b>579.1</b>	<b>312.7</b>	<b>544.0</b>	<b>273.4</b>
<b>Investments</b>				
Sale of subsidiaries	–	463.5	–	462.8
Investment in investment properties	-76.0	-68.6	-25.6	-23.6
Investment in equipment	-3.4	-3.7	-2.1	-2.4
Investment in financial assets	–	–	-0.6	-0.2
Amortization, non-current receivable	13.9	11.1	–	–
<b>Cash flow from investments</b>	<b>-65.5</b>	<b>402.3</b>	<b>-28.3</b>	<b>436.6</b>
<b>Financing</b>				
Loans raised	740.0	290.0	740.0	290.0
Amortization of loan liability	-350.0	-905.6	-350.0	-900.0
Dividend paid	-825.1	-247.5	-825.1	-247.5
<b>Cash flow from financing</b>	<b>-435.1</b>	<b>-863.1</b>	<b>-435.1</b>	<b>-857.5</b>
<b>Cash flow for the year</b>	<b>78.5</b>	<b>-148.1</b>	<b>80.6</b>	<b>-147.5</b>
<b>Liquid funds at the beginning of the year</b>	<b>14.3</b>	<b>162.4</b>	<b>11.7</b>	<b>159.2</b>
<b>Liquid funds at the year-end</b>	<b>92.8</b>	<b>14.3</b>	<b>92.3</b>	<b>11.7</b>
<b>Supplementary information, cash flow statements</b>				
Interest received	7.4	2.7	0.2	1.5
Interest paid	140.1	242.0	140.1	241.6

Hufvudstaden reports the Cash Flow Statements according to IAS 7.

The result from property sales and/or disposal of shares in subsidiaries is reported within cash flow from investment operations.

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

The cash flow from current operations before changes in operating capital increased by SEK 142.4 million to SEK 570.2 million (427.8), which can be attributed mainly to payments during the previous year of reserved property tax and interest rate difference compensation in conjunction with the realization of derivatives. Changes in working capital increased the cash flow by SEK 8.9 million (decreased by 115.1). Cash flow from current operations thus totalled SEK 579.1 million (312.7).

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

The cash flow from investments decreased by SEK 467.8 million and totalled SEK -65.5 million (402.3). The decrease can be attributed to the previous year's property sales, which had a positive effect on cash flow of SEK 463.5 million. Investments in the existing property holdings increased by SEK 7.4 million compared with the preceding year.

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

Cash flow from financing increased by SEK 428.0 million to SEK -435.1 million (-863.1). The net change in interest-bearing liabilities was SEK 390.0 million (-615.6). The increase in the loan liability can be attributed to the extra dividend decided at the Annual General Meeting in 2005. The dividend paid totalled SEK 825.1 million (247.5). No buy-back of Company shares took place during the year (0).

The cash flow for the year was SEK 78.5 million (-148.1).

#### **Liquid funds**

The Group's liquid funds, comprising cash and bank holdings, as of December 31, 2005, totalled SEK 92.8 million (14.3). Including unutilized overdraft facilities, the liquidity was SEK 132.8 million (54.3). As of December 31, 2005, Hufvudstaden had loan assurances that fall due within 12 months of SEK 700 million. At the turn of the year SEK 145 million had been utilized.

The Parent Company's liquidity was SEK 132.3 million (51.7), including an unutilized overdraft facility of SEK 40 million (40).

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

# Notes and supplementary information

## Note 1. Accounting principles

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), which has been approved by the EU Commission for application within the EU. This financial report is the first complete financial report to be prepared in accordance with IFRS. In conjunction with the transition from the previously applied accounting principles to accounting according to IFRS, the Group has applied IFRS 1, which is the standard for how the transition to IFRS should be reported. In addition, the Swedish Financial Accounting Standards Board recommendation RR 30, Supplementary Rules for Consolidated Financial Statements, has been applied. Hufvudstaden's Income Statements are classified according to function and are adapted to the Company's operations.

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

### Prerequisites in conjunction with the drawing up of the financial reports for the Group and the Parent Company

The Group's functional currency is Swedish kronor, which is also the reporting currency for the Group and the Parent Company. Assets and liabilities are reported at the historical acquisition values, apart from in the Group, where investment properties and certain financial assets and liabilities are valued at the fair value. Financial assets and liabilities which are valued at the fair value comprise derivative instruments or assets classified as financial assets valued at the fair value.

The accounting principles stated below for the Group have been applied to all periods which are presented in the Group's financial reports unless stated otherwise below and in conjunction with the drawing up of the Group's opening balance sheet according to IFRS as of January 1, 2004, which explains the transition from the previously applied accounting principles to accounting principles according to IFRS. The Group's accounting principles have been applied to reporting and consolidation of the Parent Company and subsidiaries. In Note 40 there is a list of explanations regarding how the transition to IFRS has affected the Group's financial results and position and the reported cash flows.

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

## THE GROUP'S ACCOUNTING PRINCIPLES

### Classification etc.

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

### Consolidated accounts

The consolidated accounts cover the Parent Company and those companies in which the Parent Company, directly or indirectly, has a controlling interest. The consolidated accounts have been prepared in accordance with the acquisition method, which means that assets and liabilities that have been taken over are valued at the fair value according to the acquisition analysis. The Income Statement has been translated at the average exchange rate. There are no foreign subsidiaries in the Group. Untaxed reserves have been divided

into a deferred tax liability and equity. Intra-Group receivables, liabilities and unrealized profits or losses that arise from intra-Group transactions have been eliminated in conjunction with the preparation of the consolidated accounts. Common accounting principles are applied in all companies in the Group. Consolidation in conjunction with acquisitions takes place from the date on which we acquire a controlling influence and in conjunction with disposals the date on which the controlling influence ceases.

### Reporting of income and costs

Rental income is allocated to a specific period in accordance with the lease agreement. Rent paid in advance is thus reported as prepaid rental income. Discounts granted as compensation for gradual moving in, for example, are reported for the period in which they are granted. Other discounts are allocated over the full term of the lease. Gross rent includes costs passed on, e.g. property tax and media costs. In conjunction with the sale of properties, the result of the sale is reported on the completion date and income and costs up to the completion date. In conjunction with acquisitions, the purchase transaction is reported on the completion date and income and costs from the completion date.

### 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.

### Employee benefits

Hufvudstaden applies IAS 19, Employee benefits.

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

### The ITP plan mainly includes the following benefits:

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

Undertakings for retirement pensions and family pensions for white-collar workers in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Accounting Standards Council Emerging Issues Task Force, URA 42, this is a defined benefit plan covering several employers. During the 2005 financial year, the Company did not have access to information that made it possible to report this plan as a defined benefit plan. The pension plan according to ITP, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan. The commitments regarding charges to defined benefit plans are reported as a cost in the Income Statement when they arise.

The Group's net commitment regarding defined benefit plans is calculated separately for each plan by means of an estimate of the future payment, which is discounted at a current value and the fair value of any plan assets is deducted. All defined benefit plans refer to former personnel.

### Tax

Tax is reported in the Income Statement except when the underlying transaction is reported directly against equity, whereupon the associated tax effect is reported under equity. Actual tax is the tax to be paid or received for the year in question. This also includes an adjustment of actual tax attributable to previous periods. Deferred tax is calculated according to the balance sheet method, using temporary differences between carrying amounts and tax values of assets and liabilities as a starting point. The amounts are calculated based on how the temporary differences are expected to be realized and on

Continuation Note 1, see page 53.

application of the tax rates and tax rules that had been decided or notified as of the year-end. In the Parent Company, untaxed reserves are reported inclusive of the deferred tax liability.

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

#### Financial instruments

Financial instruments are valued and reported in the consolidated accounts in accordance with the rules in IAS 39 from January 1, 2005 without retrospective recalculation of the comparison year.

A financial instrument is valued initially at the fair value with a supplement for transaction costs, with an exception for the 'financial asset or financial liability' categories valued at the fair value in profit or loss.

Financial assets and liabilities are recorded on application of the business date principle. A financial asset or financial liability is recorded in the Balance Sheet when the Company becomes a party to the contractual terms and conditions of the instrument. A liability is taken up when the counter-party has performed and a contractual obligation exists to pay even if an invoice has not yet been received. A financial asset (or part thereof) is removed from the Balance Sheet when the rights in the agreement are realized, fall due or the Company transfers in all material respects the risks and benefits that are linked to ownership. A financial liability (or part thereof) is removed from the Balance Sheet when the obligation in the agreement is performed or is in some other manner extinguished.

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

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

#### Rental receivables, accounts receivable and other receivables.

Receivables are reported at the accrued acquisition value. A receivable is examined individually with regard to assessed loss risk and is recorded at the amount it is expected to be paid. Receivables with a remaining term of less than 12 months are classified as other receivables and are valued at the accrued acquisition value.

#### Cash and bank balances.

Liquid funds include cash and bank balances that are accessible immediately. Overdraft facilities come under loan liabilities, under current liabilities. Cash and bank balances are reported at the nominal value.

#### Other non-current receivables.

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

#### Interest-bearing loans and borrowing.

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

#### Receivables and liabilities in foreign currency.

Receivables and liabilities in foreign currency are recalculated at the year-end rate.

#### Accounts payable and other liabilities.

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

#### Derivative instruments and hedge accounting.

The group uses derivatives of financial instruments to reduce interest risks. Borrowing at a variable rate of interest is switched to fixed interest loans through interest swap contracts and the Group has designated all interest swap contracts entered into as cash flow hedging as protection against changes in future cash flows regarding interest payments on liabilities to credit institutions. Through these hedging transactions the desired fixed interest structure is achieved, which can be seen in the table in Note 32.

Derivative instruments are reported at the fair value with changes in value against profit and loss. The derivative instruments that are hedged (cash flow hedging) are reported at the fair value in the Balance Sheet and the effective part of the change in value is reported on an ongoing basis against equity. The ineffective part is reported in the Income Statement. If a derivative instrument no longer satisfies the requirements for hedge accounting or if hedging instruments run out, are sold or are closed, the possible profit or loss that has arisen is reported as an adjustment of interest costs at the same time that the hedged future interest payments are reported in the Income Statement. If the hedged future interest payments are not expected to take place any accumulated losses are reported directly against profit and loss and any profits are reported as income when the derivative runs out, is sold or is closed.

#### 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.

#### Depreciation of fixed assets

##### Property management.

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

##### Other operations.

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

##### Depreciation principles.

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

#### Investment properties

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

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

##### Additional expenses.

Additional expenses are added to the carrying amount only if it is probable that the future financial advantages that are associated with the asset will be to the benefit of the company and the acquisition value can be calculated reliably. All other additional expenses are reported as a cost in the period in which they arise. Crucial to the assessment when an additional charge is added to the

Note 1 continued.

acquisition value is whether the expense refers to the replacement of identified components, or parts thereof, whereupon such expenses are capitalized. Even in the case of a new component that has been created the expense is added to the acquisition value.

#### Impairments

The carrying amounts for the Group's assets – with the exception of investment properties and assets held for sale – are examined at each period-end to assess whether there is an indication of an impairment requirement. If there is such an indication the recovery value of the asset is calculated.

#### Provisions

Provisions are reported in the Balance Sheet when there is an obligation (legal or informal) arising from an event and where it is likely that the obligation will be fulfilled and the amount can be calculated reliably. If the effect of the time value for the future payment is deemed to be material, the value of the provision is determined by calculating the current value of the expected future cash flow using a discounting factor (before tax) that reflects the market's current valuation of the time value and any risks that are attributable to the obligation. The gradual increase in the amount of the provision the current value calculation entails is reported as an interest cost in the Income Statement.

#### Contingent liabilities

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

#### Cash Flow Statements

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

#### Segment report

A segment is, from an accounting point of view, an identifiable part of the Group, which provides services that are exposed to risks and opportunities that are different from other segments.

### PARENT COMPANY ACCOUNTING PRINCIPLES

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

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

In accordance with the transition rules in RR 32, the Company has chosen not to apply the Annual Accounts Act, Section 4, sub-sections 14 a-e, which

permits valuation of certain financial instruments at the actual value. With effect from January 1, 2006, the rules in the Annual Accounts Act, Section 4, sub-sections 14 a–e will be applied. This will entail a change of accounting principle.

#### Investment properties

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

#### Valuation of investment properties and tangible fixed assets

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

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

Information about the properties' fair values as of the year-end can be found in Note 19.

#### Depreciation – investment properties

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

Depreciation of properties with mixed operations has been calculated through a weighing up of each floor space category's percentage for depreciation. For a property with a dominant (75%) category the percentage for the category in question is applied to the whole property. Revaluation is depreciated on the underlying asset's remaining depreciation period. Percentages for depreciation are reported in Note 19.

#### Amended accounting principles

The main rule is that IFRS is applied retrospectively and that comparison figures for 2004 are recalculated. The transition to reporting according to IFRS has been reported for the Group according to IFRS 1 and is described in Note 40. In accordance with the voluntary exception in IFRS 1, IAS 39 is not applied to the comparison figures for 2004 but are directed forward to January 1, 2005. The application of IAS 39 has meant that equity, after taking into account tax effects, has been affected to the amount of SEK -41 million as of January 1, 2005. There are no effects of IAS 39 in the Income Statement.

### Note 2. Company information

The Annual Report and Annual Consolidated Accounts for Hufvudstaden AB (publ) for 2005 have been approved for publication according to a decision reached by the Board on February 9, 2006. The Parent Company is a limited liability company with its registered office in Sweden. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm.

The Group's principle area of business is the ownership, development and management of commercial properties. See also Administration Report, page 40.

It is proposed that the Annual Report and consolidated accounts be adopted at the Annual General Meeting on March 23, 2006.

### Note 3. Handling of financial risks

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

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

Hufvudstaden's aim is to use surplus liquidity to amortize existing loans. Surplus liquidity not used for amortization may only be invested in instruments with high liquidity and a low risk. Information regarding borrowing, loan frameworks and terms and conditions are to be found in Note 32 and information about actual values, financial instruments, is to be found in Note 36.

#### Financing risk.

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. To minimize the cost of Group borrowing and to ensure that financing can be secured, the finance function must have loan assurances that cover the Group's operating loan requirements. The Board establishes the level of capital tie-up on an ongoing basis.

#### Interest risk.

The interest risk refers to the impact on profit that a permanent change in the interest rate has on the Group's net financial income/expense. Hufvudstaden's financing sources are primarily equity, cash flow from current operations, the raising of loans and loan assurances.

The raising of interest-bearing loans means that the Group is exposed to an interest risk. Hufvudstaden's finance policy states the framework for how interest risks are to be handled. An overall aim is that the due date structure in the leases should be taken into account when determining the fixed interest period and that a balance is struck between the assessed current cost of borrowing and the risk of a significant negative impact on profit in the event of a sudden, major increase in the interest rate. Derivative instruments are used to achieve the desired fixed interest period. A change in the interest level of +/- 1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would affect Hufvudstaden's interest expense to the amount of +/- SEK 10 million. Changes in value in contracted derivative agreements have not been taken into account.

#### Credit risk.

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

Losses on accounts receivable/rent receivables occur when tenants are

put into receivership or for other reasons are unable to meet their payment commitments. The risks are limited by Hufvudstaden deliberately selecting tenants with documented business skills and competitive operations. As a rule, Hufvudstaden demands a bank guarantee or guarantee undertaking in conjunction with new leases. Changes in rent are invoiced in advance.

Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a very good rating. In addition, there are general agreements with these institutions regarding the setting off of different derivative agreements, which further reduces the credit risk exposure.

#### Financing structure.

Hufvudstaden's borrowing at the turn of the year was SEK 3,525.0 million compared with SEK 3,135.0 million at the end of 2004. The average fixed interest period was 30 months (27), the average capital tie-up period 32 months (19) and the average interest cost 3.9 per cent (4.2). Net liabilities were SEK 3,432.2 million compared with SEK 3,120.7 million at the end of 2004.

#### Capital tie-up structure, December 31, 2005

Due date	Volume, SEK m	Proportion, %
2006	935.0	27
2007	790.0	22
2008	600.0	17
2009	-	-
2010	500.0	14
2011	350.0	10
2012	-	-
2013	350.0	10
Total	3,525.0	100

#### Fixed interest structure, December 31, 2005

Due date	Volume, SEK m	Proportion, %	Average APR, %
2006	1,525.0	43	3.6
2007	200.0	6	3.5
2008	600.0	17	4.8
2009	-	-	-
2010	500.0	14	4.1
2011	350.0	10	3.9
2012	-	-	-
2013	350.0	10	4.1
Total	3,525.0	100	3.9

Note 4. Segment information

**Property management**

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. The following table shows the income, costs, assets, liabilities and investments for the different business areas in 2005 and the comparison year 2004.

SEK m	Stockholm City East Business Area	Stockholm City West Business Area <sup>(1)</sup>	NK Business Area <sup>(1)</sup>	Gothenburg Business Area	Total
<b>GROUP</b>					
<b>2005</b>					
<i>Income and costs</i>					
Net revenue	385.6	469.6	262.2	141.1	1,258.5
(of which turnover-based rent supplement)	(-)	(2.8)	(6.7)	(-)	(9.5)
Special projects	-4.4	-	-0.1	-	-4.5
Maintenance	-48.4	-22.4	-18.1	-3.4	-92.3
Operations and administration	-49.2	-60.5	-83.5	-27.3	-220.5
Ground rent	-0.2	-31.1	0.9	-	-30.4
Property tax	-42.4	-38.8	-17.5	-10.6	-109.3
Depreciation	-	-0.3	-0.2	-	-0.5
Gross profit	241.0	316.5	143.7	99.8	801.0
<i>Assets</i>					
Investment properties	5,777.2	5,419.5	3,384.3	1,695.0	16,276.0
Tangible fixed assets <sup>(2)</sup>	2.4	2.9	1.5	0.8	7.5
Total	5,779.6	5,422.4	3,385.7	1,695.8	16,283.5
Financial assets	5.9	55.7	-	-	61.6
Current receivables <sup>(2)</sup>	16.1	19.3	9.9	5.3	50.6
<i>Liabilities</i>					
Current liabilities <sup>(2)</sup>	124.6	149.7	76.4	40.9	391.6
<i>Investments</i>					
Tangible investments for the period	27.9	13.9	29.3	8.3	79.4
<b>GROUP</b>					
<b>2004</b>					
<i>Income and costs</i>					
Net revenue	380.3	478.3	279.2	135.6	1,273.4
(of which turnover-based rent supplement)	(-)	(3.8)	(5.3)	(-)	(9.1)
Special projects	-22.2	-	-0.8	-	-23.0
Maintenance	-15.0	-18.0	-8.2	-5.1	-46.3
Operations and administration	-49.0	-63.4	-81.6	-25.5	-219.5
Ground rent	-0.2	-31.3	-4.2	-	-35.7
Property tax	-34.7	-43.3	-17.5	-10.6	-106.1
Depreciation	-	-0.4	-0.4	-	-0.8
Gross profit	259.2	321.9	166.5	94.4	842.0
<i>Assets</i>					
Investment properties	5,525.8	5,128.5	2,876.0	1,469.7	15,000.0
Tangible fixed assets <sup>(2)</sup>	2.6	2.8	1.9	0.8	8.1
Total	5,528.4	5,131.3	2,877.9	1,470.5	15,008.1
Financial assets	5.4	70.1	-	-	75.5
Current receivables <sup>(2)</sup>	14.0	15.8	10.2	4.3	44.3
<i>Liabilities</i>					
Current liabilities <sup>(2)</sup>	104.5	117.8	75.7	32.3	330.3
<i>Investments</i>					
Tangible investments for the period	34.4	5.0	18.2	14.7	72.3

(1) The Håstskon 10 property has been transferred from the NK Business Area to the Stockholm City West Business Area with effect from 2005.

(2) Equipment, part of the current liabilities and receivables that arose in current operations, is divided according to a division key.

Continuation Note 4, see page 57.

Note 4 continued.

<b>Other operations</b>			
The other operations segment includes parking operations at Parkaden AB and conference and restaurant operations at World Trade Center Stockholm AB.			
SEK m	Parking operations	Conference and restaurant operations	Total operations
<b>GROUP</b>			
<b>2005</b>			
Net revenue	56.5	29.5	86.0
Rental costs	-35.6	-4.5	-40.1
Operation and administration	-7.5	-23.3	-30.8
Depreciation	-0.6	-0.8	-1.3
Gross profit	12.8	0.9	13.7
<b>GROUP</b>			
<b>2004</b>			
Net revenue	54.2	30.9	85.1
Rental costs	-36.0	-5.7	-41.7
Operation and administration	-8.0	-23.5	-31.5
Depreciation	-0.5	-0.7	-1.2
Gross profit	9.7	1.0	10.7

Note 5. Profit trend – summary										
SEK m	January–March		April–June		July–September		October–December		January–December	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Property management</b>										
Net revenue	313.6	325.3	313.3	321.4	310.9	312.8	320.7	313.9	1,258.5	1,273.4
Special projects	-1.4	-9.8	-0.4	-1.9	-0.1	-6.5	-2.6	-4.8	-4.5	-23.0
Maintenance	-8.0	-7.0	-29.7	-11.9	-21.2	-13.5	-33.4	-13.9	-92.3	-46.3
Operation and administration	-62.7	-54.9	-47.0	-54.6	-54.6	-47.3	-56.2	-62.7	-220.5	-219.5
Other costs	-37.7	-37.0	-37.0	-37.0	-30.3	-33.4	-35.2	-35.2	-140.2	-142.6
Property management costs	-109.8	-108.7	-114.1	-105.4	-106.2	-100.7	-127.4	-116.6	-457.5	-431.4
Other operations, net	2.2	2.4	2.6	1.4	2.0	1.2	6.9	5.7	13.7	10.7
Gross profit	206.0	219.0	201.8	217.4	206.7	213.3	200.2	203.0	814.7	852.7
Central administration	-6.4	-6.1	-7.3	-7.3	-5.1	-5.1	-11.8	-10.9	-30.6	-29.4
Changes in value, investment properties	-	-	500.0	17.6	-	-	700.0	279.8	1,200.0	297.4
Net financial income/expense	-27.6	-46.5	-37.0	-43.9	-33.9	-40.4	-33.4	-93.6	-131.9	-224.4
Tax	-49.2	-47.8	-184.4	74.2	-47.4	-47.8	-237.3	-103.5	-518.3	-124.9
Profit for the period	122.8	118.6	473.1	258.0	120.3	120.0	617.7	274.8	1,333.9	771.4

Note 6. Operational lease agreements – Group as lessor

The Group has commercial lease agreements for the investment property holdings, which comprise offices, stores, warehouses and other non-residential premises. The remaining term is between 1 and 13 years.

Annual rent according to size category  
(according to agreements valid on December 31, 2005) <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

	Number of agreements	Annual rent, SEK K	Proportion, %
0 – 99	714	18,896	1.6
100 – 499	233	64,985	5.4
500 – 999	203	149,398	12.5
1 000 – 2 499	171	269,295	22.6
2 500 – 4 999	88	307,298	25.7
5 000 – 9 999	19	129,118	10.8
10 000 –	14	255,196	21.4
Total	1,442	1 194,187	100.0

Renewal structure <sup>(4)</sup> <sup>(5)</sup> <sup>(6)</sup>

Number of agreements	2006	2007	2008	2009	2010	2011 –	Total
Offices	68	78	95	49	21	6	317
Stores	81	102	114	43	11	7	358
Other	361	178	186	37	13	20	795
Total	510	358	395	129	45	33	1,470
Proportion, %	34.7	24.3	26.9	8.8	3.1	2.2	100.0

Annual rent, SEK m

Offices	126.8	103.8	185.2	100.1	80.4	59.9	656.2
Stores	90.8	116.1	140.0	76.8	20.3	25.0	469.0
Other	15.2	30.6	24.7	26.0	2.7	7.2	106.4
Total	232.8	250.5	349.9	202.9	103.4	92.1	1,231.6
Proportion, %	18.9	20.3	28.4	16.5	8.4	7.5	100.0

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

(2) Including residential contracts.

(3) Contracts with an annual rent as of 31.12.2005.

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

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

(6) Excluding residential contracts.

Note 7. Depreciation, tangible assets and investment properties

SEK m	Group		Parent Company	
	2005	2004	2005	2004
<i>Depreciation per type of asset</i>				
Properties	– (1)	– (1)	36.7	35.6
Equipment	4.0	3.9	2.4	2.3
Total	4.0	3.9	39.1	37.9
<i>Depreciation per function/operating area</i>				
Property management	0.5	0.8	36.7	35.7
Administration	2.1	1.9	2.4	2.2
Other operations	1.4	1.2	–	–
Total	4.0	3.9	39.1	37.9

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

Note 8. Average number of employees and sickness statistics

Average number of employees calculated on an annual basis	Of which 2005		Of which 2004	
	men, %		men, %	
Parent Company	95	48	91	49
<i>Wholly owned subsidiaries</i>				
Parkaden AB	4	50	5	40
WTC Stockholm AB	23	36	26	27
Total, Group	122	45	122	44

Of the Group's 25 managers (24), nine are women (8) or 36 per cent (33).

Absenteeism due to sickness in relation to normal working hours

Per cent	2005		2004	
	Total absenteeism due to sickness	Long-term absenteeism due to sickness	Total absenteeism due to sickness	Long-term absenteeism due to sickness
<b>GROUP</b>				
Men, total	6	68	5	72
of which: 20–29 years <sup>(1)</sup>	–	–	–	–
30–49 years	3	57	1	–
50– years	14	76	12	86
Women, total	6	68	6	54
of which: 20–29 years	7	65	5	47
30–49 years	5	60	5	38
50– years	9	87	9	92
Group total	6	68	5	62
<b>PARENT COMPANY</b>				
Men, total	7	71	5	73
of which: 20–29 years <sup>(1)</sup>	–	–	–	–
30–49 years	4	59	1	–
50– years	14	78	13	86
Women, total	4	60	5	50
of which: 20–29 years	1	–	2	–
30–49 years	3	35	3	9
50– years	11	89	10	93
Parent Company, total	6	67	5	63

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

Note 9. Salaries and remuneration

SEK K	Group		Parent Company	
	2005	(of which bonus)	2004	(of which bonus)
<i>Salaries and other remuneration</i>				
Fee to the Chairman of the Board	288		250	250
Fees to other Board members	1,026		884	844
Payment and benefits, President	3,277	(527)	3,045	(388)
Payment and benefits, other senior executives	7,270	(1 384)	7,817	(1 194)
Payment and benefits, other employees	38,161	(1 334)	38,865	(2 183)
Total	50,021	(3 245)	50,861	(3 765)
<i>National insurance expenses, including special employer's contribution</i>				
Chairman of the Board	93		82	82
Other Board members	333		290	277
President	1,130		1,062	1,061
Other senior executives	2,801		2,962	2,962
Other employees	13,638		16,754	12,067
Total	17,996		21,150	16,449
<i>Pension expenses</i>				
President	272		256	253
Other senior executives	1,820		1,634	1,566
Other employees	5,353		5,901	4,840
Total	7,445		7,791	6,659

The Board comprises 8 men (8) and 1 woman (1). The executive management comprises 6 men (6) and 1 woman (1).

Continuation Note 9, see page 60.

Note 9 continued.

The Group's pensions, including the President, are covered by the ITP plan and are benefit-defined. According to the current pension plan the retirement age for the President is 65 years.

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

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

The Chairman of the Board has been assigned the task by the Board of negotiating and reaching agreement with the President regarding the President's remuneration, followed by a decision by the Board. The President has been assigned the task by the Board of negotiating and reaching agreement with other senior executives regarding their remuneration, followed by a report thereon to the Chairman of the Board.

A bonus programme for all permanent employees in the Parent Company was in place during the year. The bonus criteria were 'result' and 'customer satisfaction'. For managers with personnel responsibility there was also a personal assessment. For permanent employees the bonus payable was a maximum of half a month's salary, although subject to a minimum of SEK 15,000 for full-time employees. For managers, the bonus was a maximum of one month's salary.

For the senior executives there was a bonus programme in place during the year based on result, customer satisfaction and personal objectives. A bonus can be a total of SEK 500,000 for the year for the President and a total of SEK 1,458,333 for other senior executives.

A provision has been made in the accounts for profit targets and customer satisfaction at the actual outcome. For personal objectives a provision has been made equivalent to the maximum outcome (KSEK 393). The bonus outcome for 2005 had affected the reserve made for 2004 to the amount of KSEK -68.

Both bonus programmes are subject to a decision by the Board, valid for one year on each occasion and subject to a ceiling. Should the Company report a loss, no bonus is payable. The bonus is not pensionable.

Note 10. Fees and other remuneration to auditors

SEK m	Group			Parent Company		
	2005	2004	2003	2005	2004	2003
Audit assignments, KPMG	0.9	0.8	0.9	0.9	0.8	0.9
Other assignments, KPMG	0.6	0.5	0.3	0.6	0.5	0.3
Total	1.5	1.3	1.2	1.5	1.3	1.2

Note 11. Intra-Group transactions

SEK m	Parent Company	
	2005	2004
Income	12.3	12.9
Costs	-9.3	-9.5
Total	2.9	3.4

Note 12. Operational lease agreements – Group as the Lessee

SEK m	Group		Parent Company	
	2005	2004	2005	2004
- 1 year	43.7	40.2	8.4	7.1
1 year - 5 years	43.7	23.7	8.4	0.5
5 years - 16,1	0.5	8.2	0.5	

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

Note 13. Operating costs per cost category

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Special projects	4.5	23.0	5.1	5.7
Maintenance	92.3	46.3	50.1	26.0
Operation and administration	237.6	240.9	59.1	58.2
Ground rents	30.4	35.7	7.4	7.5
Property tax	109.3	106.1	62.2	66.4
Depreciation	4.0	3.9	39.1	37.9
Personnel costs	83.2	80.5	65.6	61.9
Total	561.4	536.4	288.6	263.7

Note 14. Changes in value, investment properties

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Realized	-	17.9	-	460.2
Unrealized	1,200.0	279.5	-	-
Total	1,200.0	297.4	-	460.2

Note 15. Financial income

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Interest income, other	8.2	11.3	0.2	1.9
Total	8.2	11.3	0.2	1.9

Note 16. Financial expense

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Interest expense, other	-140.1	-179.0	-140.1	-176.6
Interest difference compensation	-	-56.7	-	-56.7
Total	-140.1	-235.7	-140.1	-233.3

Note 17. Appropriations

SEK m	Parent Company	
	2005	2004
Change in accumulated additional depreciation	-14.1	-6.5
Change in tax allocation reserve	-102.5	-95.0
Total	-116.6	-101.5

Note 18. Income taxes

SEK m	Group		Parent Company	
	2005	2004	2005	2004
<i>Actual tax expense</i>				
Tax expense for the year	-109.6	-86.1	-48.2	-34.1
Tax attributable to previous years	0.8	-	0.8	-
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation:				
Revaluation/reversal/impairment	-	-	3.9	3.9
Original acquisition values	-29.8	-31.7	-4.2	-4.2
Unrealized changes in value, investment properties	-336.0	-78.1	-	-
Effect of companies sold (property)	-	121.4	-	-
Effect, allocation to untaxed reserves	-43.7	-50.4	-	-
<b>Total tax</b>	<b>-518.3</b>	<b>-124.9</b>	<b>-47.7</b>	<b>-34.4</b>
<i>Reported profit before tax</i>	<b>1,852.2</b>	<b>896.3</b>	<b>164.7</b>	<b>582.0</b>
Tax at the current tax rate of 28%	-518.6	-251.0	-46.1	-163.0
Tax attributable to previous years	0.8	-	-	-
Non-taxable income on the sale of a subsidiary (property)	-	129.0	0.0	129.0
Non-taxable income	0.5	5.4	1.2	0.4
Non-taxable expense	-1.2	-2.4	-0.9	-0.5
Standard income, tax allocation reserve	-2.3	-	-2.2	-
Other	2.5	-5.9	0.3	-0.3
	<b>-518.3</b>	<b>-124.9</b>	<b>-47.7</b>	<b>-34.4</b>
<i>Tax items reported directly against equity</i>				
Actual tax in group contributions received	-	-	61.1	46.6
	-	-	61.1	46.6

There was no deficit deduction as of the year-end.

Note 19. Investment properties

**GROUP**

Carrying amount

Investment properties reported according to the fair value method

SEK m	2005	2004
Investment properties, Group	16,276.0	15,000.0

*Information regarding changes in carrying values for investment properties*

SEK m	Investment properties sold	Investment properties owned for the full year
31-12-2005		
Opening fair value		15,000.0
Investments in properties		76.0
Unrealized change in value		1,200.0
Closing fair value	0.0	16,276.0
2004-12-31		
Opening fair value	473.4	14,652.4
Investments in properties	0.5	68.1
Income from properties sold	-491.8	
Unrealized change in value		279.5
Realized change in value	17.9	
Closing fair value	0.0	15,000.0

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

All the properties are owned by the Group and are classified as investment properties and cover the items buildings, building equipment, land and development in progress in the Balance Sheet. Fair value is based on an internal valuation.

Continuation Note 19, see page 62.

Note 19 continued.

*Valuation method*

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

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

The yield requirement which has been used in conjunction with the valuation varies between different regions and different sub-areas within the regions. The assessment of the yield requirements is based on information obtained about the market's yield requirements in conjunction with the purchase and sale of comparable properties in similar locations. Account has been taken of different property types, technical standards and building construction. For properties with a site leasehold the yield requirement has been raised by 0.5 percentage points.

The following information has been used in the valuation:

	Rental revenue, SEK m	Net operating profit, SEK m	Direct yield requirement, %
Stockholm, commercial			5.0–6.5
Gothenburg, commercial			6.0–6.5
Property holdings, Group	1,316	932	5.7 <sup>(1)</sup>

(1) Average

*External valuation*

To guarantee the valuation, external valuations have been made by two valuation companies, DTZ Värderingshuset AB and FS Fastighetsstrategi AB. The external valuations cover five properties and are equivalent to 30 per cent of the internally assessed fair value. The starting point for the selection of the properties was that the objects selected should represent different property categories, towns, locations, technical standards and construction standards. The properties that were valued externally are Hästhuvudet 13, Kvasten 9, Packarhuset 4 (Norrmalmstorg 1) and Terminalen 1 (World Trade Center) in Stockholm and Nordstan 8:24 in Gothenburg.

The external valuation companies have set a market value of SEK 5.0 billion, with a range of +/- 6–8 per cent. Hufvudstaden's internal valuation of the same properties is SEK 4.9 billion. The internal valuations are thus 0.1 billion below the external valuations. A comparison between the internal and external valuation reveals that Hufvudstaden's valuations are within the value range stated by the external valuation companies.

For a risk analysis, see Administration Report page 40 and Note 39.

Tax values, investment properties, Group

SEK m	2005	2004
Tax values, buildings	5,213.8	5,467.8
Tax values, land	5,401.3	5,403.3
	10,615.1	10,871.1

**PARENT COMPANY**

Investment properties are reported according to the acquisition method.

SEK m	2005	2004
Investment properties, Parent Company	5,632.6	5 643.7

*Investment properties, excluding land*

SEK m	2005	2004
Opening acquisition values	1 576,3	1 552,8
Investments for the year	25,6	23,6
Reclassifications	–	–
Disposals for the year	–	-0,1
Closing acquisition values	1 601,9	1 576,3
Opening depreciation	-495,5	-473,8
Depreciation for the year	-22,7	-21,7
Closing depreciation	-518,2	-495,5
Opening revaluation according to the adopted Balance Sheet for the preceding year	1 231,1	1 245,0
Depreciation for the year	-14,0	-13,9
Closing depreciation	1 217,1	1 231,1
Closing residual value according to plan	2 300,8	2 311,9

Continuation Note 19, see page 63.

Note 19 continued.

<i>Land</i>			
SEK m	2005	2004	
Opening acquisition value	290.2	290.2	
Disposals for the year			
Closing acquisition values	290.2	290.2	
Opening depreciation	3,041.6	3,041.6	
Closing depreciation	3,041.6	3,041.6	
Closing residual value according to plan	3,331.8	3,331.8	
Investment properties are divided into different categories, which are depreciated as follows.			
– Buildings: offices 1 per cent			
– Buildings: department stores, multi-storey car parks, hotels, restaurants 2 per cent			
– Building equipment: 5-10 per cent			
– Land improvements: 3.75-5 per cent			
<i>Information about the fair value of investment properties</i>			
SEK m	2005	2004	
Investment properties, Parent Company	9,300	8,731	
In the valuation of the Parent Company's properties at the fair value, the same valuation method is used as for the Group.			
<i>The following information has been used in the valuation:</i>			
	Rental revenue, SEK m	Net operating profit, SEK m	Direct yield requirement, %
Stockholm, commercial			5.25–6.25
Gothenburg, commercial			6.0–6.5
Property holdings, Parent Company	749	551	5.9 <sup>(1)</sup>
<i>(1) Average</i>			
<i>Tax values, investment properties, Parent Company</i>			
SEK m	2005	2004	
Tax values, buildings	3,168.4	3,422.4	
Tax values, land	3,385.3	3,387.3	
	6,553.7	6,809.7	

Note 20. Tangible fixed assets					
SEK m	Group		Parent Company		
	2005	2004	2005	2004	
Opening acquisition value	34.2	37.8	15.4	14.2	
Investments for the year	3.4	3.7	2.1	2.4	
Disposals	-0.9	-7.3	-0.9	-1.2	
Closing acquisition value	36.7	34.2	16.6	15.4	
Opening depreciation	-26.1	-29.4	-11.2	-10.1	
Depreciation for the year	-4.0	-3.9	-2.4	-2.3	
Disposals	0.9	7.2	0.9	1.2	
Closing accumulated depreciation	-29.2	-26.1	-12.7	-11.2	
Closing residual value according to plan	7.5	8.1	3.9	4.2	
The Group has operational leasing agreements on a small scale for technical equipment. All agreements are subject to normal market terms and conditions.					

Note 21. Participations in Group companies

	Company reg. no.	Reg. office	Capital (votes), %	Number	Nominal value, 1,000	Carrying value 2005, SEK m	Carrying value 2004, SEK m
<b>PARENT COMPANY</b>							
<i>Shares in subsidiaries</i>							
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3	32.3
Aktiebolaget Hamngatgaraget	556068-6601	Stockholm	100	3,000	300	231.2	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5 000	500	0.6	0.6
Vasaterminalen AB	556118-8722	Stockholm	100	2,022,000	202,200	1,504.5	1,504.5
						4,329.0	4,329.0
<i>Shares in dormant companies</i>							
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	100	-	-
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	-	-
Förvaltnings AB Liljeholmstorget	556030-5251	Stockholm	100	1,000	100	-	-
Förvaltnings AB Norrmalmstorg nr 1	556019-5405	Stockholm	100	150	150	-	-
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1	0.1
						0.3	0.3
Parent Company, total						4,329.3	4,329.3
<b>OTHER GROUP COMPANIES</b>							
<i>Owned by AB Citypalatset</i>							
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7,776	239.5	239.5
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>							
Hotel Stockholm AB	556031-4303	Stockholm	100	10,000	1,000	3.4	3.4
<i>Owned by AB Nordiska Kompaniet</i>							
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	168	0.4	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	100	0.1	0.1
						0.5	0.5
<i>Owned by Vasaterminalen AB</i>							
World Trade Center Stockholm AB	556273-0803	Stockholm	100	1,000	100	0.2	0.1
WTC Parkering AB	556424-3920	Stockholm	100	1,000	100	-	-
						0.2	0.1
Other Group companies, total						243.6	243.5
<i>Change in the Parent Company's holding in Group companies</i>							
SEK m						Parent Company	
						2005	2004
Opening carrying amount						4,329.3	4,331.9
Acquisitions for the year						-	-
Sales/liquidation for the year						-	-2.6
Closing carrying amount						4,329.3	4,329.3

Note 22. Other long-term receivables

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Opening book value	75.5	88.9	5.3	5.1
Acquisitions for the year	0.6	0.2	0.6	0.2
Amortization for the year	-14.5	-13.6	-	-
Closing carrying amount	61.6	75.5	5.9	5.3

SEK 53.7 million (67.9) of the amount is in respect of a promissory note. Other long-term receivables are non-interest-bearing. For information regarding capital tie-up and interest terms, see Note 3.

Note 23. Promissory note

SEK m	Final due date	Interest rate	Nominal value	Carrying amount	Fair value
Promissory note receivable	01-03-2009	12.26%	53.7	53.7	55.1

The promissory note is a 20-year annuity loan with interest and amortization payable annually. The annual annuity is SEK 20 million. Payment is received through a set-off against the annual site leasehold charge for the Terminalen 1 property to the same amount.

Note 24. Accounts receivable

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Accounts receivable	12.3	13.7	3.3	0.6
Rent receivables	3.6	-0.3	-0.4	0.4
Total	15.9	13.4	2.9	1.0

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

Note 25. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Accrued rent revenue	15.1	10.9	8.0	8.6
Prepaid expenses	3.4	3.4	0.1	0.3
Accrued interest income	1.8	2.8	1.8	2.8
Total	20.3	17.1	9.9	11.7

Note 26. Cash and bank balances

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Bank balances	92,8	14,3	92,3	11,7
Total	92,8	14,3	92,3	11,7

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

Note 27. Share capital

SEK m	2005	2004
<i>Breakdown of share series</i>		
A 202,996,389 shares	1,015.0	-
A 202,996,119 shares	-	1,015.0
C 8,275,544 shares	41.4	-
C 8,275,814 shares	-	41.4
Total	1,056.4	1,056.4

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

Shareholders are entitled to convert Series C shares into Series A shares. A total of 270 shares were converted during the year.

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

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

Note 28. Equity

Specification of equity item reserves

SEK m	2005	2004
<i>Hedge reserve</i>		
Opening hedge reserve	0.0	0.0
<i>Cash flow hedgings:</i>		
Reported directly against equity	47.2	-
Tax attributable to hedges for the year	-13.2	-
Closing hedge reserve	34.0	0.0
<i>Total reserves</i>		
Opening reserves	0.0	0.0
Hedge reserve	34.0	-
Closing reserves	34.0	0.0

**Other capital contributed**

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

**Reserves**

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

**Profit brought forward including profit for the year**

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

Note 29. Provision for pensions and other obligations

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

The Group applies the ITP plan through insurance with Alecta.

The charges for the year for pension insurance taken out with Alecta total SEK 3.4 million (3.1). Alecta's surplus can be distributed to the policyholders and/or the insured. At the end of 2005, Alecta's surplus in the form of the collective consolidation level amounted to 128.5 per cent (128.0). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance undertakings, calculated according to Alecta's insurance calculation undertakings, which do not concur with RR 29.

Note 30. Deferred tax liability

SEK m	Deferred tax receivable	Deferred tax liability	Net
<b>GROUP</b>			
<b>2005</b>			
Investment properties	-	-3,674.4	-3,674.4
Hedge accounting	13.2	-	13.2
Untaxed reserves	-	-176.9	-176.9
Total	13.2	-3,851.3	-3,838.1
<b>2004</b>			
Investment properties	-	-3,308.6	-3,308.6
Hedge accounting	-	-	-
Untaxed reserves	-	-133.2	-133.2
Total	-	-3,441.8	-3,441.8
<b>PARENT COMPANY</b>			
<b>2005</b>			
Investment properties	-	-1,219.5	-1,219.5
Total	-	-1,219.5	-1,219.5
<b>2004</b>			
Investment properties	-	-1,219.2	-1,219.2
Total	-	-1,219.2	-1,219.2

There were no deficit deductions as of the year-end 2005.

Change in deferred tax

Mnkr	Balance as of January 1	Reported in profit and loss	Reported against equity	Balance as of December 31
<b>GROUP</b>				
<b>2005</b>				
Investment properties	-3,308.6	-365.8	-	-3,674.4
Untaxed reserves	-133.2	-43.7	-	-176.9
Hedge reserve	-	-	13.2	13.2
	-3,441.8	-409.5	13.2	-3,838.1
<b>2004</b>				
Investment properties	-1,629.8	11.6	-1,690.4	-3,308.6
Untaxed reserves	-82.8	-50.4	-	-133.2
	-1,712.6	-38.8	-1,690.4	-3,441.8
<b>PARENT COMPANY</b>				
<b>2005</b>				
Investment properties	-1,219.2	-0.3	-	-1,219.5
<b>2004</b>				
Investment properties	-1,218.9	-0.3	-	-1,219.2

Note 31. Property tax liability

SEK m	Group	
	2005	2004
Opening carrying value	70.1	163.0
Provision for the year	-	1.5
Dissolution for the year	-	-94.4
Closing carrying value	70.1	70.1

The subsidiary Vasaterminalen AB was previously granted leave to appeal to the Supreme Administrative Court with regard to whether or not the company's Terminalen 1 property should be classified as a residential property for property tax assessment purposes. The matter has been resolved and the Company's claim has been dismissed. A provision was made previously for an amount equivalent to the tax authority's claim plus respite interest on the additional tax payable. The tax assessment years 1991-1993 were finally settled in 2004.

Note 32. Liabilities to credit institutions

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Loans	3,525.0	3,135.0	3,525.0	3,135.0
Total	3,525.0	3,135.0	3,525.0	3,135.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	700.0	700.0	700.0	700.0

As of December 31, 2005, Hufvudstaden had loan assurances that fell due within 12 months of SEK 700 million. At the year-end, SEK 145 million had been utilized.

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

Bank loans 2005

Year due	Group		Parent Company	
	Average APR, % (1)	Nominal amount	Average APR, % (1)	Nominal amount
2006	2.3	935.0	2.3	935.0
2007	2.4	790.0	2.4	790.0
2008	2.5	600.0	2.5	600.0
2009	-	-	-	-
2010	2.4	500.0	2.4	500.0
2011	2.3	350.0	2.3	350.0
2012	-	-	-	-
2013	2.3	350.0	2.3	350.0
Total		3,525.0		3,525.0

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

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

Interest swaps 2005  
Group and Parent Company

Year due	APR		Nominal amount	Fair value
	Fixed interest, % (2)	Variable interest, % (3)		
2006	3,8	2,0	1 080,0	-12,6
2007	3,0	2,0	200,0	-0,7
2008	4,3	2,0	600,0	-17,5
2009	-	-	-	-
2010	3,7	2,0	500,0	-8,7
2011	3,5	2,0	350,0	-2,1
2012	-	-	-	-
2013	3,7	2,0	350,0	-5,6
Total			3 080,0	-47,2

2) Interest is payable annually.

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

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

Note 33. Other liabilities

SEK m	Group		Parent Company	
	2005	2004	2005	2004
VAT settlement	36.5	30.3	17.2	21.8
Other	15.1	26.0	3.1	3.8
Total	51.6	56.3	20.3	25.6

Note 34. Accrued expenses and prepaid income

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Accrued interest	6.1	12.6	6.1	12.6
Accrued swap valuations	47.2	-	-	-
Prepaid rent	193.4	181.3	99.4	114.1
Other	25.3	7.2	17.4	6.5
Total	272.0	201.1	122.9	133.2

Note 35. Pledged assets and contingent liabilities

SEK m	Group		Parent Company	
	2005	2004	2005	2004
Property mortgages for liabilities at credit institutions	1,716.3	1,516.3	1,716.3	1,516.3
(of which mortgages in subsidiaries' properties)	(-)	(-)	(406.0)	(421.0)
Other non-current receivables	3.6	3.0	3.6	3.0
Total	1,719.9	1,519.3	1,719.9	1,519.3

Note 36. Information regarding fair values, financial instruments

SEK m	Group				Parent Company			
	Reported value		Fair value		Reported value		Fair value	
	2005	2004	2005	2004	2005	2004	2005	2004
<i>Assets</i>								
Other non-current receivables	61.6	75.5	63.0	77.5	5.9	5.3	5.9	5.3
Accounts receivable	15.9	13.4	15.9	13.4	2.9	1.0	2.9	1.0
Other receivables	14.4	13.8	14.4	13.8	-	0.9	-	0.9
Cash and bank balances	92.8	14.3	92.8	14.3	92.3	11.7	92.3	11.7
Interest swaps with a positive value	-	-	-	-	-	-	-	-
	184.7	117.0	186.1	119.0	101.1	18.9	101.1	18.9
<i>Liabilities</i>								
Liabilities to credit institutions (non-current)	2,590.0	2,180.0	2,590.0	2,180.0	2,590.0	2,180.0	2,590.0	2,180.0
Liabilities to credit institutions (current)	935.0	955.0	935.0	955.0	935.0	955.0	935.0	955.0
Accounts payable	68.0	72.9	68.0	72.9	28.2	28.3	28.2	28.3
Other interest-free liabilities	53.6	57.4	53.6	57.4	21.9	26.7	21.9	26.7
Interest swaps with a negative value	47.2 <sup>(1)</sup>	-	47.2 <sup>(1)</sup>	56.9	-	-	-	56.9
	3,693.8	3,265.3	3,693.8	3,322.2	3,575.1	3,190.0	3,575.1	3,246.9

(1) Reported in a hedge reserve in Equity.

The fair values of other non-current receivables, liabilities to credit institutions and interest swaps are calculated with the aid of a discounted cash flow analysis. Liabilities to credit institutions have a three-month fixed interest period, where it is assessed that the fair value essentially concurs with the carrying value. In the case of other financial instruments, such as accounts receivable and accounts payable, the fair value concurs with their carrying values.

Note 37. Affiliations

Hufvudstaden AB is under the controlling influence of L E Lundbergföretagen and Fredrik Lundberg. No material transactions have taken place with L E Lundbergföretagen. Fredrik Lundberg received a board fee of SEK 300,000 for 2005. Details of payments to Board members and senior executives are to be found in Note 9.

In addition to the affiliations that have been stated for the Group, the Parent Company also has affiliations, which means that it has a controlling influence over its subsidiaries, see Note 21.

Note 38. Events after the year-end

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

Note 39. Critical estimates and assessments

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

*Investment properties*

The value of a property can only be determined with certainty when payment has been received following a sale. In the final accounts an estimate is made of the market value, which in accounting terms is known as the fair value. The fair value is determined based on a yield valuation. This valuation includes estimates of future rent levels, levels of vacant space and property costs. In the calculation model, an estimate is also made of each individual property's direct yield requirement. The assessment is made based on information gathered about the market's yield requirements in conjunction with the purchase and sale of comparable properties in similar locations. Hufvudstaden's internal property valuation is checked with external valuation companies, where an uncertainty range of +/- 5-10% of the assessed market value is given on the property level. If Hufvudstaden's valuation is outside the uncertainty range an explanation for the deviation is given.

External changes could mean that an assumption made by the executive management needs to be reviewed. This could result in a considerable variation in the value of the property holdings, which can be seen in the sensitivity analysis on page 40.

Note 40. Transition to the International Financial Reporting Standards  
(IAS/IFRS)

With effect from 2005, all listed companies in the European Union apply international accounting standards – International Financial Reporting Standards (IFRS) which also include the current International Accounting Standards (IAS) – in their consolidated accounts.

The rules for how the transition to IFRS will take place for those companies that are applying the rules for the first time are to be found in IFRS 1, First time adoption of international accounting standards. The standards state that at least one comparison year be recalculated. Consequently, a so-called opening balance as of January 1, 2004 has been prepared which explains how a transition from national accounting principles to IFRS affects equity. There should also be an explanation of how the financial position, result and cash flow during the comparison year 2004 are affected if IFRS is applied instead of national accounting principles.

**Effects of reporting according to IFRS  
on the Hufvudstaden Group**

The most significant effects of the recalculation regarding the result for 2004 and equity as of December 31, 2004 which arise for the group in conjunction with the recalculation to IFRS refer to the reporting of investment properties and deferred tax.

Financial instruments will from January 1, 2005 be reported in accordance with IFRS. In accordance with transition rules the comparison figures for financial instruments for 2004 have not been recalculated. The effect of the recalculation to the new principles affects equity as of January 1, 2005.

Hufvudstaden owns investment properties which are reported according to IAS 40 Investment properties. The investment properties are reported at the fair value as opposed to reporting at the acquisition value adjusted for accumulated depreciation and impairments and revaluation according to earlier accounting principles. The effect of reporting at fair value as of January 1, 2004 amounts, after taking into account tax, to SEK 3,250 million and has been added to equity as of January 1, 2004. Investments made during the year have increased the value of the investment properties. The value of the property holdings as of December 31, 2004 compared with the preceding valuation is not considered to have given rise to any unrealised increase in value.

According to IAS 40, it is not permitted to depreciate investment properties which are valued at the fair value. Depreciation made in 2004 has been reversed and has improved the profit by SEK 75 million after taking into account the tax effects.

In accordance with IAS 40, charges for special projects, adaptations of premises and planned maintenance should only be expensed if they meet the demands in the standard regarding expensing. Expenses which do not meet the demands according to the standard have been capitalized as an investment property. After taking into account the tax effects, the result for 2004 was improved by SEK 8 million.

Reporting of financial instruments will from January 1, 2005 take place in accordance with IAS 32, Financial instruments, Disclosure and presentation, and IAS 39, Financial Instruments, Recognition and measurement. IAS 32 corresponds essentially to RR 27, Financial instruments: Disclosure and presentation, which Hufvudstaden has applied since January 1, 2003. In accordance with the transition rules, the comparison figures for 2004 have not been recalculated. As regards financial instruments, Hufvudstaden will in the future, where the conditions are met, apply hedge accounting. This means that hedge accounting will be applied for the derivatives acquired with the aim of extending the fixed interest period of existing and planned loans and thus assure the interest level during the term of the derivative. According to IAS 39, the basic rule is that loans are valued at the accrued acquisition value and derivatives are valued at the fair value with changes in value in the profit or loss. In the fact that Hufvudstaden will apply hedge accounting for a large proportion of the portfolio and report changes in value in a hedging reserve in equity, the changes in value that will arise in the profit or loss will fall compared with if the basic rule is applied. The accumulated effects on equity are estimated at SEK -41 million after taking into account the tax effects.

The introduction of IFRS is not considered to have any material effect on the Group's reporting of cash flow. A preliminary quantification of the effects in conjunction with the transition to IFRS can be seen in the tables below.

*Change in equity*

SEK m	Opening balance 2004	Closing balance 2004
Equity, opening balance	4,792.3	4,792.3
Dividend		-247.5
Profit for the period		664.1
Equity according to earlier legislation and recommendations	4,792.3	5,208.9
Effects of IFRS, opening balance		
<i>Investment properties</i>		
Reporting of investment properties at fair value	3,250.1	3,273.9
Reversal, depreciation		75.2
Reversal, project expenses		8.2
<i>Deferred tax</i>		
Deferred tax attributable to the acquisition of business operations	-426.4	-426.4
Total effects of IFRS	2,823.7	2,930.9
Equity, IFRS	7,616.0	8,139.8
Effect, hedge accounting, January 1, 2005		-57.0
Deferred tax		16.0
Equity January 1 2005 according to IFRS		8,098.8

*Change in profit*

SEK m	January– march 2004	April– june 2004	July– september 2004	October– december 2004	January– december 2004
Profit for the period according to earlier legislation and recommendations	97.6	414.6	99.3	52.6	664.1
<i>Investment properties</i>					
Reversal, depreciation	26.4	25.8	26.0	26.2	104.4
Reversal, project expenses	2.8	2.8	2.8	3.0	11.4
Reversal, result from property sales	–	-264.1	–	–	-264.1
Realized change in value, properties, according to IFRS	–	17.9	–	–	17.9
Unrealized change in the value of properties according to IFRS	–	–	–	279.5	279.5
<i>Deferred tax</i>					
Deferred tax	-8.2	61.0	-8.1	-86.5	-41.8
Profit for the period, IFRS	118.6	258.0	120.0	274.8	771.4

## *Proposed distribution of unappropriated earnings*

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

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

Profit brought forward	SEK 1,961,910,506
Profit for the year	SEK 117,010,997
	<hr/>
	SEK 2,078,921,503
Dividend to the shareholders, SEK 1.45 per share	SEK 299,085,603
To be carried forward	SEK 1,779,835,900
	<hr/>
	SEK 2,078,921,503

(1) See Definitions, page 81, Dividend.

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

Stockholm, February 9, 2006

Fredrik Lundberg  
*Chairman*

Claes Boustedt

Bengt Braun

Peter Egardt

Mats Jansson

Anna Klingspor

Hans Mertzig

Bo Waldemarson

Ivo Stopner  
*President*

## *Auditors' Report*

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

I have audited the annual accounts, the consolidated accounts, accounting records and the administration of the Board of Directors and the President of Hufvudstaden AB for 2005. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS as adopted by EU and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

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

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

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

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

Stockholm, February 9, 2006

Bo Ribers  
*Authorized Public Accountant*  
KPMG

## *Board of Directors and Auditors*

The Board consists of nine members, without any deputies, all elected at the Annual General Meeting. The Board includes persons who have links with Hufvudstaden's largest shareholders, Lundbergs and SEB Trygg Liv. The President is also a member of the Board. Other executives in the Company take part in Board meetings to present specific points. During the 2005 financial year, the Board held seven meetings, of which one was a statutory meeting. The work of the Board is in compliance with the rules of procedure adopted by the Board governing the undertakings of the President and the Board and the allocation of duties among the Board and the President.

### **Secretary**

*Sten-Åke Stenshamn, born 1944,  
lawyer at Landahl Öhman Advokatbyrå KB.  
Secretary to the Board since 2001.*

### **Auditors**

*Bo Ribers, Authorized Public Accountant, KPMG.  
Auditor since 1999.  
Stefan Älgne, Authorized Public Accountant, KPMG.  
Deputy auditor since 2000.*



**Fredrik Lundberg**

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



**Peter Egardt**

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



**Hans Mertzig**

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



**Claes Boustedt**

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



**Bengt Braun**

*Born 1946, MBA, LLB. Board member since 2000.  
President and CEO of Bonnier AB.  
Board member of Alma Media Oyj,  
Swedish American Chamber of Commerce and Bonnier Holding AB.  
Holding in Hufvudstaden: 3,000 shares.*



**Mats Jansson**

*Born 1951, university studies.  
Board member since 1999.  
President and CEO of Axel Johnson AB.  
Holding in Hufvudstaden: 1,500 shares (including family).*



**Anna Klingspor**

*Born 1959, International MBA. Board member since 2004.  
Management consultant, specializing in brand names, at Differ.  
Member of the Board of Governors of the Advertising Association of Sweden.  
Holding in Hufvudstaden: 500 shares.*



**Bo Waldemarson**

*Born 1938, senior secondary school engineering  
and economics programmes. Board member since 1998.  
Former vice president of L E Lundbergföretagen AB.  
Holding in Hufvudstaden: -*



**Ivo Stopner**

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

## *President and Senior Executives*

### **Ivo Stopner**

*Born 1962. MSc.*

*President, employed in 1990.*

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

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

### **Sverker Källgården**

*Born 1968. MSc*

*Head of Property Development, employed 2005.*

*Holding in Hufvudstaden: –*

### **Magnus Jacobson**

*Born 1958. MBA.*

*Head of Finance, employed in 2002.*

*Holding in Hufvudstaden: –*

### **Eric Nihlmark**

*Born 1952. MSc.*

*Head of the Gothenburg Business Area, employed in 1983.*

*Holding in Hufvudstaden: 700 shares.*

### **Ingela Lispers**

*Born 1958. MBA.*

*Head of the Stockholm City West Business Area, employed in 2002.*

*Holding in Hufvudstaden: –*

### **Peter Zäll**

*Born 1961. Market Economist IHR.*

*Head of the NK Business Area, employed in 2002.*

*Holding in Hufvudstaden: –*

### **Bo Wikare**

*Born 1963. MSc.*

*Head of the Stockholm City East Business Area, employed in 1994.*

*Holding in Hufvudstaden: 62 shares.*



*The executive management team during 2005 consisted of: Peter Zäll, Head of the NK Business Area, Eric Nihlmark, Head of the Gothenburg Business Area, Ingela Lispers, Head of the Stockholm City West Business Area, Bo Wikare, Head of the Stockholm City East Business Area, Ivo Stopner, President, Sverker Källgården, Head of Property Development, Magnus Jacobson, Head of Finance.*

Property designation as at 31-12-2005	Address	Site area, sq. m	Year of purchase	Year of construction/redevelopment	Tax assessment value 2005, SEK m
<b>Stockholm City East Business Area</b>					
<i>Normalmstorg Management Area</i>					
Achilles 1 <sup>(1)</sup>	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th century/1974	110.0
Kungl Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	74.0
Kvasten 2	Norrländsgatan 16, Jakobsbergsgatan 11	934	1966	1987	146.0
Kvasten 6 <sup>(2)</sup>	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	217.2
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	143.7
Kåkenhusen 39	Kungsgatan 4 A–B–10, Brunngatan 5–9, Norrländsgatan 29	3,788	1921	1926/28/30/84/85/89/91	531.0
Medusa 1 <sup>(2)</sup> <sup>(3)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	54.6
Norrmalm 2:62 <sup>(4)</sup>	Norrmalmstorg, Café Palmhuset	0	1992	1993	5.8
Packarhuset 4 <sup>(2)</sup> <sup>(5)</sup>	Norrmalmstorg 1, Hamngatan 8, Norrländsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	417.0
Pumpstocken 10 <sup>(2)</sup> <sup>(6)</sup>	Birger Jarlsgatan 13–15, Mäster Samuelsgatan 2–4, Biblioteksgatan 10–12, Jakobsbergsgatan 1–3	2,886	1917/78/ 1991/2000	1865/97/1901/29 1929/84/96/97	545.8
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	108.0
Rännilen 11	Biblioteksgatan 6–8, Mäster Samuelsgatan 5	775	1958	1902/85	109.0
Rännilen 18 <sup>(2)</sup>	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986	301.0
Rännilen 19	Norrmalmstorg 14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	1,544	1931/39	1902, 64/90	348.0
Skären 9	Smålandsgatan 20, Norrländsgatan 10	2,195	1917	1984/2001	428.0
Vildmannen 7 <sup>(2)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	150.0
<b>Total, Stockholm City East Business Area</b>		<b>23,092</b>			<b>3,689.1</b>
<b>Stockholm City West Business Area</b>					
<i>Kungsgatan Management Area</i>					
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	185.0
Hästhuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	239.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	270.0
Oxhuvudet 18 <sup>(2)</sup>	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 29–33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	865.0
Svärdfisken 2 <sup>(2)</sup>	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes Gata 13	1,853	1921	1851/1987	158.0
<i>Total</i>		<b>10,411</b>			<b>1,717.0</b>
<i>World Trade Center Management Area</i>					
Orgelpipan 7 <sup>(7)</sup>	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	563.0
Terminalen 1, Kortbyrån 18 <sup>(8)</sup>	Klarabergsviadukten 70–72, Kungsbron 1	24,722	2 000	1989	1,600.8
<i>Total</i>		<b>31,016</b>			<b>2,163.8</b>
<i>Parkaden Management Area</i>					
Hästskon 10 <sup>(10)</sup>	Regeringsgatan 49–53, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	238.0
<b>Total, Stockholm City West Business Area</b>		<b>46,348</b>			<b>4,118.8</b>
<b>NK Business Area</b>					
<i>Stockholm</i>					
Hästen 19 <sup>(2)</sup> och 20, Spektern 14 <sup>(9)</sup>	Hamngatan 18–20, 29–33, Regeringsgatan 26–32, 36–40	8,875	1998	1915/91	1,414.0
<i>Göteborg</i>					
Inom Vallgraven 10:9 <sup>(11)</sup>	Östra Hamngatan 42, Kyrkogatan 54, Fredsgatan 5–7, Drottninggatan 39, 45	4,520	1998	1964/94	337.0
<b>Total NK Business Area</b>		<b>13,395</b>			<b>1,751.0</b>
<b>Gothenburg Business Area</b>					
Inom Vallgraven 12:8	Drottninggatan 52	395	1967	1875	9.3
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,167	1967	1975	204.0
Inom Vallgraven 20:4	Kungsgatan 46	982	1974	1914	29.0
Nordstaden 8:24	Postgatan 26–32, Nordstadstorget 6, Spannmålsgränd 19, Nils Ericssonsgatan 17	8,404	1979	1972	693.0
Nordstaden GA:5 <sup>(12)</sup>	Nordstadstorget m fl				120.9
<b>Total Gothenburg Business Area</b>		<b>13,948</b>			<b>1,056.2</b>
<b>TOTAL</b>		<b>96,783</b>			<b>10,615.1</b>

Rentable space, sq. m									
Offices	Stores	Restaurants	Cinemas	Hotels	Storage	Garage	Residential	Other	Total
4,006	351				706				5,063
2,617									2,617
2,779	756				287	792			4,614
3,577	963	292	1,738		135	478			7,183
2,469	725				257				3,451
11,859	3,017	564			596				16,036
1,275	242	259			99		298		2,173
	61	124							185
10,850	3,269	704			403				15,226
7,561	3,695	423			413		192	1	12,285
2,000	529				85				2,614
1,610	1,363								2,973
5,393	694	774			396				7,257
5,876	1,632				133	1,058			8,699
7,710	1,603				381	1,173			10,867
1,935	643	874					900	1	4,353
71,517	19,543	4,014	1,738		3,891	3,501	1,390	2	105,596
7,516	377	263			820				8,976
4,952	1,594				242				6,788
6,621	1,588				1,042				9,251
21,840	4,866				1,504	1,952		5	30,167
3,907	175		1,893		383	1,158			7,516
44,836	8,600	263	1,893		3,991	3,110		5	62,698
10,685	3,552	2,270			2,972	13,441		1	32,921
38,763		2,989		3,467	957	10,934			57,110
49,448	3,552	5,259		3,467	3,929	24,375		1	90,031
	2,696	512			8,659	24,482		8	36,357
94,284	14,848	6,034	1,893	3,467	16,579	51,967		14	189,086
11,700	20,606	2,150			3,303			14	37,773
5,196	9,242	683			1,186			2	16,309
16,896	29,848	2,833			4,489			16	54,082
393	203				305				901
10,266	3,218	404			1,031	1,250			16,169
599	1,832								2,431
20,445	15,944	802			2,172			66	39,429
									0
31,703	21,197	1,206			3,508	1,250		66	58,930
214,400	85,436	14,087	3,631	3,467	28,467	56,718	1,390	98	407,694

## Properties

- (1) The property is a listed building.
- (2) The property is classified as being of cultural and historical importance.
- (3) Owned by the subsidiary Fastighetsaktiebolaget Medusa.
- (4) The property is held on a lease.
- (5) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.
- (6) Following property regulation the former properties Pumpstocken 11 and 12 are included.
- (7) Leasehold. The ground rent is SEK 7.9 million, fixed until October 31, 2014 and reviewed every ten years. The tax assessment value of the land is included to the amount of SEK 277.0 million.
- (8) Owned by the subsidiary Vasaterminalen AB. Terminalen 1 and Kortbyrån 18 are leaseholds. The ground rent for Terminalen 1 is SEK 20.0 million, fixed until March 1, 2010, and is reviewed every ten years. The ground rent for Kortbyrån 18 is SEK 1,000, fixed until October 1, 2008 and is reviewed every 10 years. The tax assessment value of the land is included to the amount of SEK 843.0 million.
- (9) Owned by the subsidiary AB Nordiska Kompaniet. Hästen 20 and Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 2.5 million. The ground rent is fixed until May 1, 2010. The ground rent for Spektern 14 is SEK 0.2 million, fixed until October 1, 2005. The ground rent after October 1, 2005 is the subject of negotiation. Both ground rents are reviewed every ten years. The tax assessment value of the land is included to the amount of SEK 33 million.
- (10) Owned by the subsidiary AB Hamngatsgaraget. Leasehold. The ground rent is SEK 4.4 million, fixed until August 31, 2014, and is reviewed every ten years. The tax assessment value of the land is included to the amount of SEK 86.0 million.
- (11) Owned by the subsidiary AB Nordiska Kompaniet.
- (12) This property is jointly owned and includes parking operations, some leasing of premises as well as servicing of pedestrian precincts, loading areas, cooling and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 29.6 per cent, equivalent to 25,359 square metres.

# Statistics

## Property holdings (comparable holdings)

December 31, 2005	Sthlm City East Business Area				Sthlm City West Business Area				NK Business Area				Gothenburg Business Area				Total			
	2005		2004		2005		2004		2005		2004		2005		2004		2005			
	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.	SEK m	sq. m.		
Gross rent (of which property tax supplement)	422.1	3,997	424.5	4,020	511.7	2,706	513.3	2,715	286.0	5,288	295.7	5,468	144.8	2,457	138.5	2,350	1,364.6	3,347	1,372.0	3,368
Rent losses on vacant space	-36.5	-346	-49.1	-465	-42.0	-222	-50.5	-267	-24.1	-446	-16.1	-298	-3.6	-61	-3.0	-51	-106.2	-260	-118.7	-291
Bad debt losses	0.0	0	-0.8	-	-0.1	-	0.0	-	0.3	6	-0.4	-7	-0.1	-	0.1	2	0.1	0	-1.1	-3
<b>Net sales</b>	<b>385.6</b>	<b>3,652</b>	<b>374.6</b>	<b>3,555</b>	<b>469.6</b>	<b>2,484</b>	<b>462.8</b>	<b>2,448</b>	<b>262.2</b>	<b>4,848</b>	<b>279.2</b>	<b>5,163</b>	<b>141.1</b>	<b>2,396</b>	<b>135.6</b>	<b>2,301</b>	<b>1,258.5</b>	<b>3,087</b>	<b>1,252.2</b>	<b>3,074</b>
Special projects	-4.4	-42	-22.2	-210	-	-	-	-	-0.1	-2	-0.8	-15	-	-	-	-	-4.5	-11	-23.0	-56
Maintenance	-48.4	-458	-14.7	-139	-22.4	-118	-17.6	-93	-18.1	-335	-8.2	-152	-3.4	-58	-5.1	-87	-92.3	-226	-45.6	-112
Operating costs	-31.2	-295	-32.2	-305	-42.7	-226	-41.1	-217	-67.6	-1,250	-63.2	-1,169	-22.5	-382	-20.7	-351	-164.0	-402	-157.2	-386
Administration	-18.0	-170	-15.3	-145	-17.8	-94	-18.9	-100	-15.9	-294	-18.4	-340	-4.8	-81	-4.8	-81	-56.5	-139	-57.4	-141
Property tax	-42.4	-402	-34.3	-325	-38.8	-205	-42.2	-223	-17.5	-324	-17.5	-324	-10.6	-180	-10.6	-180	-109.3	-268	-104.6	-257
Leasehold ground rents	-0.2	-2	-0.2	-2	-31.1	-164	-31.3	-166	0.9	17	-4.2	-78	-	-	-	-	-30.4	-75	-35.7	-88
Depreciation	0.0	0	0.0	0	-0.3	-2	-0.5	-3	-0.2	-4	-0.4	-7	0.0	-	0.0	-	-0.5	-1	-0.9	-2
<b>Total property expenses</b>	<b>-144.6</b>	<b>-1,369</b>	<b>-118.9</b>	<b>-1,126</b>	<b>-153.1</b>	<b>-810</b>	<b>-151.6</b>	<b>-802</b>	<b>-118.5</b>	<b>-2,191</b>	<b>-112.7</b>	<b>-2,084</b>	<b>-41.3</b>	<b>-701</b>	<b>-41.2</b>	<b>-699</b>	<b>-457.5</b>	<b>-1,122</b>	<b>-424.4</b>	<b>-1,042</b>
<b>Net operating profit</b>	<b>241.0</b>	<b>2,282</b>	<b>255.7</b>	<b>2,429</b>	<b>316.5</b>	<b>1,674</b>	<b>311.2</b>	<b>1,646</b>	<b>143.7</b>	<b>2,657</b>	<b>166.5</b>	<b>3,079</b>	<b>99.8</b>	<b>1,695</b>	<b>94.4</b>	<b>1,602</b>	<b>801.0</b>	<b>1,965</b>	<b>827.8</b>	<b>2,032</b>

## Property data (comparable holdings)

December 31, 2005	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
No. of properties <sup>(1)</sup>	16	18	8	7	2	3	4	4	30	32
Floor space, sq. m.	105,596	105,577	189,086	152,690	54,082	90,196	58,930	58,912	407,694	407,375
Vacant floor space, %	12.1	14.7	8.0	11.3	9.9	4.8	3.8	3.1	8.7	9.5
Vacant rental space, %	7.6	10.8	7.7	9.9	7.4	5.1	2.5	1.9	7.1	8.2
Total rentable parking spaces	131	131	1 617	817	-	800	51	52	1,799	1,800

(1) The lower number of properties can be attributed to a regulation of properties in 2005 in the Stockholm City East Business Area, where three properties were merged into one.

## Rentable space and annual rent

December 31, 2005	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	Area, sq. m.	Annual rent, SEK m	Area, sq. m.	Annual rent, SEK m	Area, sq. m.	Annual rent, SEK m	Area, sq. m.	Annual rent, SEK m	Area, sq. m.	Annual rent, SEK m
Offices	71,517	277.8	94,284	344.2	16,896	50.0	31,703	51.5	214,400	723.5
Stores and restaurants	23,557	126.2	20,882	77.0	32,681	201.8	22,403	74.8	99,523	479.8
Cinemas	1,738	2.3	1,893	2.3	-	-	-	-	3,631	4.6
Hotels	-	-	3,467	11.4	-	-	-	-	3,467	11.4
Storage and miscellaneous	3,893	6.5	16,593	19.9	4,505	10.8	3,574	5.3	28,566	42.5
Garages	3,501	3.9	51,967	42.5	-	-	1,250	1.3	56,718	47.7
Residential	1,390	1.9	-	-	-	-	-	-	1,390	1.9
<b>Total</b>	<b>105,596</b>	<b>418.6</b>	<b>189,086</b>	<b>497.3</b>	<b>54,082</b>	<b>262.6</b>	<b>58,930</b>	<b>132.9</b>	<b>407,694</b>	<b>1,311.4</b>

## Floor space vacancy level and vacant rental space

December 31, 2005	Sthlm City East Business Area		Sthlm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	Vacant floor space, sq. m.	Vacant rental space, SEK m	Vacant floor space, sq. m.	Vacant rental space, SEK m	Vacant floor space, sq. m.	Vacant rental space, SEK m	Vacant floor space, sq. m.	Vacant rental space, SEK m	Vacant floor space, sq. m.	Vacant rental space, SEK m
Offices	7,594	22.2	10,791	33.1	2,889	9.8	1,770	2.9	23,044	68.0
Stores and restaurants	1,105	4.0	686	2.1	1,743	8.1	142	0.1	3,676	14.3
Cinemas	1,738	2.3	-	-	-	-	-	-	1,738	2.3
Hotels	-	-	-	-	-	-	-	-	-	-
Storage and miscellaneous	1,035	1.3	2,851	2.3	717	1.4	271	0.2	4,874	5.2
Garages	824	1.0	872	0.8	-	-	75	0.1	1,771	1.9
Residential	501	0.9	-	-	-	-	-	-	501	0.9
<b>Total</b>	<b>12,797</b>	<b>31.7</b>	<b>15,200</b>	<b>38.3</b>	<b>5,349</b>	<b>19.3</b>	<b>2,258</b>	<b>3.3</b>	<b>35,604</b>	<b>92.6</b>

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

December 31, 2005

<b>Number of contracts</b>	2005	2006	2007	2008	2009	2010 –	Total
<b>Stockholm City East Business Area</b>							
Offices	21	36	47	22	8	3	137
Stores	21	28	29	5	3	4	90
Miscellaneous	144	43	38	8	1	12	246
<b>Total</b>	<b>186</b>	<b>107</b>	<b>114</b>	<b>35</b>	<b>12</b>	<b>19</b>	<b>473</b>
Proportion %	39.3	22.6	24.1	7.4	2.5	4.0	100.0
<b>Stockholm City West Business Area</b>							
Offices	30	29	32	20	3	2	116
Stores	11	15	12	3	–	–	41
Miscellaneous	158	62	71	13	8	5	317
<b>Total</b>	<b>199</b>	<b>106</b>	<b>115</b>	<b>36</b>	<b>11</b>	<b>7</b>	<b>474</b>
Proportion %	42.0	22.4	24.3	7.6	2.3	1.5	100.0
<b>NK Business Area</b>							
Offices	6	6	7	1	1	–	21
Stores	32	35	57	29	4	–	157
Miscellaneous	35	35	35	14	2	1	122
<b>Total</b>	<b>73</b>	<b>76</b>	<b>99</b>	<b>44</b>	<b>7</b>	<b>1</b>	<b>300</b>
Proportion %	24.3	25.3	33.0	14.7	2.3	0.3	100.0
<b>Gothenburg Business Area</b>							
Offices	11	7	9	6	9	1	43
Stores	17	24	16	6	4	3	70
Miscellaneous	24	38	42	2	2	2	110
<b>Total</b>	<b>52</b>	<b>69</b>	<b>67</b>	<b>14</b>	<b>15</b>	<b>6</b>	<b>223</b>
Proportion %	23.3	30.9	30.0	6.3	6.7	2.7	100.0
<b>Hufvudstaden, total</b>							
Offices	68	78	95	49	21	6	317
Stores	81	102	114	43	11	7	358
Miscellaneous	361	178	186	37	13	20	795
<b>Total</b>	<b>510</b>	<b>358</b>	<b>395</b>	<b>129</b>	<b>45</b>	<b>33</b>	<b>1 470</b>
Proportion %	34.7	24.3	26.9	8.8	3.1	2.2	100.0
<b>Annual rent, SEK m</b>							
<b>Stockholm City East Business Area</b>							
Offices	18.0	34.1	74.9	31.6	50.0	47.5	256.1
Stores	16.4	32.9	24.0	9.7	3.4	18.6	105.0
Miscellaneous	4.4	4.1	7.9	4.4	0.0	3.7	24.5
<b>Total</b>	<b>38.8</b>	<b>71.1</b>	<b>106.8</b>	<b>45.7</b>	<b>53.4</b>	<b>69.8</b>	<b>385.6</b>
Proportion %	10.1	18.4	27.7	11.9	13.8	18.1	100.0
<b>Stockholm City West Business Area</b>							
Offices	96.0	62.0	88.2	51.6	7.7	12.1	317.6
Stores	14.0	23.5	18.3	4.8	–	–	60.6
Miscellaneous	5.0	15.8	8.8	16.9	2.3	2.1	50.9
<b>Total</b>	<b>115.0</b>	<b>101.3</b>	<b>115.3</b>	<b>73.3</b>	<b>10.0</b>	<b>14.2</b>	<b>429.1</b>
Proportion %	26.8	23.6	26.9	17.1	2.3	3.3	100.0
<b>NK Business Area</b>							
Offices	6.9	6.6	10.1	4.8	5.5	–	33.9
Stores	43.8	38.2	84.6	56.3	10.5	–	233.4
Miscellaneous	3.7	7.1	5.7	3.1	0.3	0.1	20.0
<b>Total</b>	<b>54.4</b>	<b>51.9</b>	<b>100.4</b>	<b>64.2</b>	<b>16.3</b>	<b>0.1</b>	<b>287.3</b>
Proportion %	18.9	18.1	34.9	22.3	5.7	0.0	100.0
<b>Gothenburg Business Area</b>							
Offices	5.9	1.1	12.0	12.1	17.2	0.3	48.6
Stores	16.6	21.5	13.1	6.0	6.4	6.4	70.0
Miscellaneous	2.1	3.6	2.3	1.6	0.1	1.3	11.0
<b>Total</b>	<b>24.6</b>	<b>26.2</b>	<b>27.4</b>	<b>19.7</b>	<b>23.7</b>	<b>8.0</b>	<b>129.6</b>
Proportion %	19.0	20.2	21.1	15.2	18.3	6.2	100.0
<b>Hufvudstaden, total</b>							
Offices	126.8	103.8	185.2	100.1	80.4	59.9	656.2
Stores	90.8	116.1	140.0	76.8	20.3	25.0	469.0
Miscellaneous	15.2	30.6	24.7	26.0	2.7	7.2	106.4
<b>Total</b>	<b>232.8</b>	<b>250.5</b>	<b>349.9</b>	<b>202.9</b>	<b>103.4</b>	<b>92.1</b>	<b>1 231.6</b>
Proportion %	18.9	20.3	28.4	16.5	8.4	7.5	100.0

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

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

(3) Excluding residential leases.



***Hötorget/Kungsgatan/Sveavägen, Stockholm.** Hötorget is really the only living market trading area in Stockholm and it is located in the heart of the retailing district. On our property on the corner of Kungsgatan/Sveavägen there is the Adidas Flagship Store and the Granit retailing chain.*

## Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Gross margin.* Gross profit in relation to net sales.

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

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

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

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

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

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

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

*New lease.* 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.* Total number of issued shares reduced by the shares bought back by the Company.

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

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

*Properties' reported value per share.* The reported value 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 lease.* A new or extended lease with an existing tenant whose earlier lease ran out during the year.

*Rentable floor space.* Total area available for renting.

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

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

*Return on capital employed.* Profit after financial items and tax, plus interest expense and less interest contributions, in relation to the average capital employed.

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

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

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

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

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

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