

# HUFVUDSTADEN

## 2011







**NORDISKA KOMPANIET**

*Hamngatan, Stockholm*

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

## The year in brief

- The profit for the year after tax was SEK 1,435 million (1,733), equivalent to SEK 6.96 per share (8.40). The decrease in profit can be attributed to the lower unrealized change in value compared to the preceding year.
- The gross profit totalled SEK 965 million (944). The improvement is due to higher rents and lower vacancies.
- The Board proposes an increase in the dividend to SEK 2.45 per share (2.30).
- In Stockholm, a property was acquired on Norrlandsgatan and in Gothenburg a property was acquired on Södra Hamngatan. The first tenants have moved into the extension to the Femman Building.
- The fair value of the property holdings was SEK 22.3 billion (20.1) at the turn of the year, equivalent to a net asset value of SEK 76 per share (70).
- The rental vacancy level at the year-end was 3.9 per cent (5.1).

## Annual General Meeting

The Annual General Meeting will take place at 4pm on Thursday, March 22, 2012 at the Grand Hôtel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual General Meeting will be published on the Post- och Inrikes Tidningar website [www.bolagsverket.se/poit](http://www.bolagsverket.se/poit) and on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se). Notification that a summons has been issued will be published in Dagens Nyheter.

### Notification

Shareholders who wish to attend the meeting must:

- be registered in the shareholders' register kept by Euroclear Sweden AB by Friday, March 16, 2012, whereupon shareholders who have their shares registered with nominees must have the shares re-registered temporarily in their own name at Euroclear Sweden AB to be entitled to attend the meeting. Registration must be completed by March 16, 2012.
- notify Hufvudstaden by Friday March 16, 2012 at the latest, preferably before 4pm. Notification must be sent using the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se), by e-mail at [anm@hufvudstaden.se](mailto:anm@hufvudstaden.se), by telephone on +46 8 762 90 00, by fax on +46 8 762 90 01, or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

Notification must include the name, civic registration number or company registration number, daytime telephone number, the number of shares and the names of any assistants who will be attending. Shareholders attending through a representative must issue a proxy to the representative. If the proxy is issued by a legal entity, a copy of a registration certificate for the legal entity (or, if such a document does not exist, an equivalent authorization document) must be enclosed. To facilitate admission to the meeting, the proxy and authorization documents should be received by Hufvudstaden at the above address by March 16, 2012 at the latest. A proxy form is provided on request and is available on the Company's website.

### Dividend

The Board of Directors proposes that a dividend of SEK 2.45 per share, totalling SEK 505.4 million, be paid for 2011, with the record date set as March 27, 2012. Payment is expected to be made on March 30, 2012.

### Change of address

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

## Financial information

Interim Report, Jan–Mar 2012 .....	May 10, 2012
Interim Report, Jan–June 2012 .....	August 23, 2012
Interim Report Jan–Sept 2012 .....	November 20, 2012
Year-End Report 2012 .....	February 14, 2013
Annual Report 2012 .....	March 2013

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



# Business concept, objectives and strategies

Hufvudstaden, which was founded in 1915, rapidly became one of the leading property companies in Sweden and is today one of the country's strongest brands in the property sector. The brand is well known and represents high quality, good service and long-term thinking in the management and development of the Company's commercial properties in the most attractive business locations in Stockholm and Gothenburg.

## Vision

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

## Business concept

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

## Financial objectives

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

## Operating objectives

Hufvudstaden will:

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

## Strategies to achieve the objectives

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

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

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

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

## Fulfilment of objectives

### Financial objectives

- According to a proposal by the Board, the total share dividend will be SEK 505.4 million, equivalent to 86 per cent of the net profit from current operations.
- The equity ratio exceeded 40 per cent at the end of 2011 and amounted to 55 per cent.

### Operating objectives

- Net profit on current operations increased by 1 per cent during the year.
- Hufvudstaden takes part in the annual Fastighetsbarometern Customer Satisfaction Survey among office tenants. In this year's survey, we were once again one of the top companies, coming second.
- During the year, Hufvudstaden acquired properties and developed existing property holdings. In Stockholm, the Kåkenhusen 38 property was acquired, comprising around 6,700 square metres and directly adjacent to one of Hufvudstaden's existing properties. Through the purchase, we can see development potential for the whole block.

In Gothenburg, the property Inom Vallgraven 12:2 was acquired, comprising an undeveloped plot with a building right totalling approximately 2,000 square metres. The acquisition means that we have the opportunity to adopt a more comprehensive approach to the block, which in total comprises 23,000 square metres.

Several projects have been carried out in existing properties. The largest project is the addition of around 5,100 square metres to the Femman property in Gothenburg, where the first tenant moved into the premises in October. The project is scheduled for completion in 2012. In addition, there has been adaptation of around 27,500 square metres for new and existing tenants.

- Each year, the Company runs a survey to determine the employees' view of their working situation and of the Company. The response rate, as in previous years, was very high. The result shows, among other things, that Hufvudstaden is an equal opportunities workplace with good leadership, a high level of job satisfaction and considerable commitment among employees.

# Statement by the President

## Greater economic uncertainty in the world

At the beginning of 2011, the Swedish economy continued to develop strongly with rising employment and higher disposable income. The level of consumption was high and the retail sector developed positively. The Swedish Central Bank raised the repo rate on several occasions during the spring, indicating a continued rise in the repo rate path.

As the debt crisis in Europe deepened and several countries found themselves with serious liquidity problems, uncertainty spread to Sweden during the latter half of the year with a slowdown in growth as a result. Consumption was curbed, the stock market fell and the Swedish Central Bank was forced to reduce the repo rate towards the end of the year. The emergence of government crises in Europe is serious and difficult to assess. We must work on the assumption that Sweden will be affected, despite its strong financial base.

Hufvudstaden enjoys a very solid financial position with a low loan-to-value ratio and good earning capacity.

Whilst we have the greatest respect for global trends, we have identified opportunities that could benefit Hufvudstaden in the future.

## Positive earnings trend

Company earnings have grown, with a gross profit of SEK 965 million, an increase of 2 per cent. The increase can be attributed primarily to rising rent levels in conjunction with new leases and renegotiation of leases, as well as falling levels of vacant space in the Company's holdings. It has been possible to maintain current costs on a low level, which remains virtually unchanged.

Profit after tax was SEK 1,435 million (1,733), a fall of SEK 298 million, which can be explained by lower unrealised changes in value amounting to SEK 1,145 million (1,542).

## Strong property market with rising values

The property market has been characterized by continued strong demand for high-quality properties in both central Stockholm and central Gothenburg with rising values as a result. During the first half of the year, value was driven mainly by rent increases. During the second half of the year, the rise in value was more moderate although with slightly lower yield levels for certain individual, high-quality properties.

Towards the end of the year, the banks were increasingly restrictive with regard to lending to the property sector and margins rose substantially, which benefits players in a

strong financial position. For the year as a whole, the transaction volume in Sweden totalled almost SEK 100 billion, which is on a par with the previous year. The purchasers were dominated by Swedish players.

Hufvudstaden's property value increased by SEK 2.2 billion and at the year-end totalled SEK 22.3 billion (20.1), including acquired properties.

## Property acquisitions and projects in Stockholm and Gothenburg

In November, Hufvudstaden completed one acquisition in Stockholm and an exchange transaction in Gothenburg. In Stockholm, the Kåkenhusen 38 property on Norrlandsgatan

was acquired for approximately SEK 480 million. The property comprises around 6,700 square metres of commercial floor space, bordering on and complementing in a natural way Hufvudstaden's existing properties on Kungsgatan. The acquisition has presented good potential to develop the properties, which will in time lead to increased profitability.

In Gothenburg, an undeveloped prime location property was acquired on Södra Hamngatan for SEK 65 million. The property comprises a commercial building right, covering approximately 2,000 square metres. As Hufvudstaden already owns the rest of the block, a good opportunity has been created to develop the whole block with a focus on modern office space and interesting retailing potential. In conjunction with the acquisition, a property on Kungsgatan was sold for SEK 87 million.

A development project in the Femman Precinct in the Nordstan Shopping Centre in Gothenburg continued throughout the year. The project comprises an extension in the form of 5,100 square metres of modern office space and an upgrade of all the technical installations in the existing building. During the autumn, the law firm Advokatfirman Vinge moved into the new offices on a long lease.

## Slowdown in the retail sector

The 2011 retailing year began strongly although increasing financial uncertainty, in combination with the warm weather during the autumn – which is disadvantageous for retailing – resulted in the retail trade slowing down during the second half of the year. The year as a whole, however, was on a par with the record turnover for the previous year, which can be regarded as a relatively good retailing year in the light of the downturn in the economy.



It is pleasant that both NK and Bibliotekstan continue to develop positively and that both marketplaces are attracting high-class Swedish and international brands. The turnover at the NK department stores for the year was SEK 2.8 billion, which is on a par with the recent years.

On Biblioteksgatan, Hufvudstaden signed agreements with both Ralph Lauren and Burberry, who were opening their first flagship stores in Sweden. Burberry opened its doors in good time for the Christmas trade and Ralph Lauren will open in spring 2012. Further world-class brand names have shown an interest in establishing operations in Bibliotekstan, which will establish a foundation for increased trade in the area.

#### **Stable office rents and falling levels of vacant space**

The rental market was stable in the most central office locations in Stockholm and Gothenburg. The availability of modern, high-quality office space has been limited and due to the high level of employment, the level of vacant space fell further during the year. In the Stockholm CBD, the level of vacant space at the year-end was 4–5 per cent and in Gothenburg, the figure was 5–6 per cent. Hufvudstaden's vacant space at the year-end was approximately 4 per cent, which is the lowest level for several years.

Market rents continued to rise during the first half of the year, before stabilising on a high level towards the end of the year. In the most sought-after office locations in Stockholm for modern, flexible offices, the market rent was SEK 4,200–5,000 per square metre. In Gothenburg, the figure was SEK 1,900–2,400 per square metre.

Renegotiations have been positive. The gross rent for re-negotiated leases rose by approximately 8 per cent and for the first time in many years office leases also contributed to raising rental income.

#### **Responsible enterprise improves earnings**

Responsible, judicious enterprise goes hand-in-hand with the ambition to increase earning capacity and to achieve cost efficiency. In each individual decision, we place great emphasis on choosing solutions that are sustainable in terms of quality and in the long term. To increase transparency in these matters we have opted to prepare a sustainability report in line with the Global Reporting Initiative Guidelines.

The Femman extension project has been conducted with a significant focus on energy-saving measures and the building has subsequently been the subject of Green Building certification. For several years, the Company's total energy use has been low and has fallen steadily thanks to sustainability and cost awareness within the organization.

We are constantly training personnel in environmental issues and holding regular environmental meetings with our tenants. The properties are monitored by advanced

control systems, whereby energy use can be minimized and faults can be rectified rapidly. As confirmation that we are working in the right way, Hufvudstaden has for the second year in succession achieved high results in the international Carbon Disclosure Project survey. Hufvudstaden's results put it among the top five in the Nordic Region.

#### **2012 and the future**

It will be difficult to predict how the economy will develop worldwide in the next few years. However, even if Sweden were to be hit by a fall in growth, Hufvudstaden has strong finances and a very clear business concept, which put it in a good position to deal with threats and opportunities.

In 2012, we will focus primarily on looking after existing customers, who are among the foremost business operators in the country. The low level of vacant space will be retained as far as possible and renegotiations in combination with new projects will assure further growth in rent levels in both the short term and the long term. The focus on developing the retail trade in the NK properties and in Bibliotekstan will continue unrelentingly to increase turnover on our marketplaces. There will be a strong focus on core operations and we will monitor the property market carefully to, in line with the previous year, utilize opportunities for new, complementary acquisitions.

In the long term, Hufvudstaden is well positioned in two of the foremost growth regions in Sweden. Infrastructural investments in both cities will facilitate the future movement of private individuals and companies. Tourism is expected to rise, which will also benefit Hufvudstaden in the light of the increased purchasing power within our market areas. With Hufvudstaden's solid foundation, my opinion is that there are realistic opportunities for continued growth in earnings and good dividend growth over time.

Finally, I would like to extend my sincere thanks to all the skilled employees at Hufvudstaden for the valuable work they have done during 2011.

Stockholm, February 2012



Ivo Stopner  
President

# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*











**NORRMALMSTORG 1**

*Bibliotekstan, Stockholm*

## Five-year summary – Group

<b>Income Statements</b>					
<b>SEK m</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<i>Net revenue</i>					
Property management	1,369	1,321	1,305	1,282	1,213
Parking operations	68	71	67	65	63
	1,437	1,392	1,372	1,348	1,276
<i>Operating expenses</i>					
Maintenance, operation and administration	-283	-263	-248	-260	-235
Ground rents	-16	-13	-16	-16	-16
Property tax	-126	-124	-117	-119	-115
Property management	-425	-401	-381	-395	-366
Parking operations	-48	-47	-47	-46	-45
	-473	-448	-428	-441	-411
Gross profit	965	944	944	907	865
– of which Property management	945	920	924	887	847
– of which Parking operations	20	24	20	20	18
Central administration	-32	-31	-29	-32	-31
<i>Changes in value</i>					
Investment properties	1,245	1,490	-1,239	-1,629	2,598
Interest derivatives	-99	51	-26	-127	16
Operating profit	2,079	2,455	-350	-881	3,449
Financial income and expense	-122	-103	-128	-144	-127
Profit before tax	1,956	2,352	-478	-1,025	3,322
Tax	-521	-619	121	576	-928
Profit from discontinued operations, net after tax <sup>1)</sup>	–	–	–	–	7
Profit for the year	1,435	1,733	-357	-449	2,401
<b>Balance Sheets</b>					
<i>Assets</i>					
Properties	22,251	20,148	18,125	19,083	20,531
Other fixed assets	12	13	14	12	69
Current assets	432	378	461	489	349
Total assets	22,695	20,539	18,600	19,584	20,949
<i>Equity and liabilities</i>					
Equity	12,487	11,526	10,226	10,950	11,809
Interest-bearing liabilities	4,375	3,600	3,400	3,400	3,400
Other liabilities and allocations	5,833	5,413	4,974	5,234	5,740
Total equity and liabilities	22,695	20,539	18,600	19,584	20,949
<b>Property holdings</b>					
Fair value, SEK bn	22.3	20.1	18.1	19.1	20.5
Tax assessment value, SEK bn	12.9	12.6	11.8	11.9	11.9
Rentable floor space, 1,000 sq. m.	365	358	354	354	354
Rental vacancy level, %	3.9	5.1	6.2	5.3	3.3
Floor space vacancy level, %	5.9	6.8	7.4	5.9	4.6
Investments in properties, SEK m	945	533	281	182	524
Net operating income, SEK per sq. m. <sup>2)</sup>	2,645	2,579	2,610	2,506	2,411
<b>Financial key ratios</b>					
Gross margin, %	67.1	67.8	68.8	67.3	67.8
Return on equity, %	12.0	15.9	-3.4	-3.9	20.4
Return on capital employed, %	12.8	16.7	-2.4	-5.7	22.3
Equity ratio, %	55.0	56.1	55.0	55.9	56.4
Interest coverage ratio, multiple	7.0	7.7	7.0	5.5	6.2
Debt/equity ratio, multiple	0.3	0.3	0.3	0.3	0.3
Net loan-to-value ratio, properties, %	18.1	16.1	16.4	15.6	15.8
Cash flow from current operations, SEK m	559	691	664	696	119
Cash flow for the year, SEK m	-1.2	-77	-14	153	245
Average number of employees in the Group	93	92	88	87	88
<b>Share data</b>					
Profit for the year, SEK <sup>3)</sup>	6.96	8.40	-1.73	-2.18	11.64
Dividend, SEK	2.45 <sup>4)</sup>	2.30	2.10	1.90	1.75
Dividend proportion, %	35.2	27.4	–	–	15.0
Equity, SEK	60.54	55.88	49.58	53.09	57.25
Fair value of properties, SEK	107.88	97.68	87.87	92.52	99.53
Cash flow from current operations, SEK	2.71	3.35	3.22	3.38	0.58
Cash flow for the year, SEK	-0.01	-0.37	-0.07	0.74	1.19
Net asset value, SEK	76.00	70.00	62.00	66.00	73.00
Share price, series A, at the year-end, SEK	70.05	78.55	54.25	55.25	62.00
P/E ratio, multiple	10.1	9.3	–	–	5.3
Share price series A/equity, %	115.7	140.6	109.4	104.1	108.3
Direct yield, %	3.6	2.9	3.9	3.4	2.8
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933

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

For Definitions, see page 93.

<sup>2)</sup> The calculation was based on the number of square metres at the year-end. Acquired properties are adjusted upwards to the value for the year.

<sup>3)</sup> No dilution effect.

<sup>4)</sup> In accordance with a proposal by the Board.



# Share capital and ownership structure

## Share capital

Hufvudstaden was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. To date, three new share issues, four non-share issues, nine bonus issues and four share splits have been implemented. Three convertible subordinated loans have also been issued. All these loans have been converted or redeemed. At the end of 2011, the share capital amounted to SEK 1,056.4 million with a par value of SEK 5 per share.

## Share series

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

According to a decision taken at the Annual General Meeting in 2001, what is known as a conversion provision has been included in the Articles of Association. This means that the holders of series C shares are entitled, if they wish, to request conversion of their series C shares into series A shares. No such conversion took place during the year.

## Outstanding shares

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

## Buy-back

Since the Annual General Meeting in 2003, the Board has had the mandate of the General Meeting to buy back a maximum of 10 per cent of all shares. The mandate was renewed at the 2011 Annual General Meeting. At the end of the year, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of issued shares. No shares were bought back during 2011.

## Shareholder structure

The number of shareholders at the year-end was 18,151. The largest shareholder was LE Lundbergföretagen AB with 45.3 per cent of the total number of outstanding shares and 88.1 per cent of the votes. The second largest was State Street Bank and Trust with 4.9 per cent of the total number of outstanding shares and 1.0 per cent of the votes.

As of December 31, 2011, institutions and companies with holdings of over 100,000 shares held 184,107,406 shares, equivalent to 89.3 per cent of the total number of outstanding shares and 96.9 per cent of the votes. Of these, 70 were Swedish institutions and companies, which together held 133,354,263 shares, equivalent to 64.7 per cent of the total number of outstanding shares and 91.9 per cent of the votes. There were 79 foreign institutions and companies with holdings over 100,000 shares. Their holdings amounted to 50,753,143 shares, equivalent to 24.6 per cent of the outstanding shares and 4.9 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 630. The proportion of foreign ownership increased during the year from 25.4 to 26.5 per cent of the total number of outstanding shares.

## Ownership structure as of December 31, 2011

		Number of share- holders	Proportion of share- holders, %	Number of issued shares	Proportion of shares, %
1 –	500	13,410	73.9	1,906,446	0.9
501 –	5,000	4,029	22.2	5,874,859	2.8
5,001 –	10,000	238	1.3	1,780,049	0.8
10,001 –	20,000	137	0.8	2,018,120	1.0
20,001 –	50,000	125	0.7	4,044,740	1.9
50,001 –	100,000	62	0.3	4,549,901	2.1
100,001 –		150	0.8	186,091,818	88.1
		18,151	100.0	206,265,933	97.6
Hufvudstaden				5,006,000	2.4
Total				211,271,933	100.0

Source: Euroclear Sweden

## Market capitalization

At the end of 2011, Hufvudstaden's total market capitalization was SEK 15,383 million. The graph on the opposite page shows the price trend and trading in Hufvudstaden's series A shares during the year.

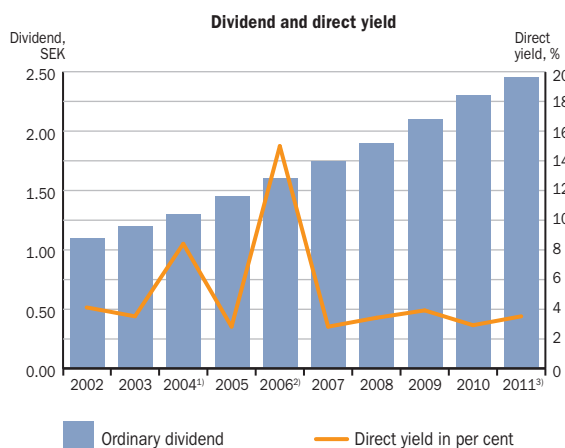
## Dividend policy

Hufvudstaden shares shall have good growth over time and the dividend shall be more than half the net profit from current operations unless investments or the Company's financial position generally justify a deviation. A dividend of SEK 2.45 per share is proposed for 2011, equivalent to 86 per cent of the net profit on current operations. (See Definitions, page 93, Dividend amount).

**Share price trend, including dividend, and trading from 2007 in relation to Stockholm Real Estate GI and Stockholm Benchmark GI**



**Share price trend, including dividend, and trading during 2011 in relation to Stockholm Real Estate GI and Stockholm Benchmark GI**



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

**Ten largest listed property companies as of December 31, 2011**

	Market capitalization, SEK m
Hufvudstaden AB	15,383
Castellum AB	14,672
Wallenstam AB	9,827
Atrium Ljungberg AB	9,465
Fabege AB	8,915
Wihlborgs Fastigheter AB	6,994
Kungsleden AB	6,279
Fastighets AB Balder	4,893
Klövern AB	4,313
Sagax AB	3,201

Source: NASDAQ OMX

**Largest shareholder groups as of December 31, 2011**

	Series A shares	Series C shares	Total number of shares	Outstanding shares, %		Issued shares, %	
				Capital	Votes	Capital	Votes
Lundbergs	85,200,000	8,177,680	93,377,680	45.3	88.1	44.2	87.6
State Street Bank and Trust	10,013,586	0	10,013,586	4.9	1.0	4.7	1.0
Mellon funds	6,241,639	0	6,241,639	3.0	0.6	3.0	0.6
SEB Investment Management	3,875,421	0	3,875,421	1.9	0.4	1.8	0.4
Swedbank Robur funds	3,675,825	0	3,675,825	1.8	0.4	1.7	0.4
JP Morgan funds and Chase Bank	3,607,121	0	3,607,121	1.7	0.3	1.7	0.3
Handelsbanken funds	3,421,652	0	3,421,652	1.7	0.3	1.6	0.3
Länsförsäkringar fondförvaltning AB	2,900,032	0	2,900,032	1.4	0.3	1.4	0.3
SIX SIS AG	2,562,742	0	2,562,742	1.2	0.2	1.2	0.2
Other shareholders	76,492,851	97,384	76,590,235	37.1	8.4	36.3	8.4
Outstanding shares	197,990,869	8,275,064	206,265,933	100.0	100.0	97.6	99.5
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
Total number of issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0

Source: Euroclear Sweden

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

# Corporate Social Responsibility

Corporate Social Responsibility is a prerequisite for achieving long-term profitability. Hufvudstaden is striving to achieve sustainable development with consideration given to financial, environmental and social factors. To make the information clearer and more open, we have opted from 2011 to prepare a sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines.

## Long-term responsibility

Hufvudstaden is one of the leading property companies in central Stockholm and central Gothenburg and thus has a vested interest in co-operating with the city of Stockholm, the city of Gothenburg and other bodies to make our two largest cities more attractive and safer for people and companies. The Company contributes to community development by assuming responsibility for architecture, the function of the buildings and the surrounding environment.

Due to the fact that Hufvudstaden operates exclusively in Sweden, we feel there is little risk that any of its operations conflict with international standards governing human rights and labour law. When procuring contract work, written agreements are signed with the contractor laying down clear demands that current laws are complied with and that the employees have terms and conditions of employment that are in line with agreements. Hufvudstaden retains overall control by actively supervising the projects.

The work at Hufvudstaden is governed by four basic values – attentiveness, honesty, commitment and quality – which should permeate all our operations and be visible in our communication both internally and externally. The human resources policy contains a presentation of how we work to bring about equality and to counteract discrimination, and our environmental policy states how we work to ensure an environmentally sustainable society.

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

## Quality and service

One of Hufvudstaden's strategies to achieve the Company's objectives is that our quality and service work ensures the highest possible level of quality in all products and services. We consider quality and service to be interrelated and consequently it is strategically correct to develop these areas, in particular as we feel they will assume greater significance in the future. The Company's quality programme is founded on structured processes for the control and follow-up of

business operations. Detailed process descriptions have been prepared, covering everything from how construction should proceed to how lease agreements are drawn up. There are regular evaluations of how projects and activities are implemented and the degree of compliance with the processes. During the year, the Company ran an in-house service training programme and developed working methods dealing with internal and external service provision.

## Customer Satisfaction Index

According to the annual Customer Satisfaction Survey run by Fastighetsbarometern, Hufvudstaden has very satisfied office tenants. In this year's survey, Hufvudstaden was once again among the top scorers, coming second among several leading property companies. Since the Customer Satisfaction Index began in 1997, Hufvudstaden has consistently been among the three foremost companies in the survey. The areas that have the greatest impact on tenant satisfaction are the property owner's image, service, capacity to adapt premises and how reported faults are handled and rectified.



## Environmental and sustainability work

Environmental work is a natural element in the day-to-day work and is the responsibility of the head of property development, who is also a member of the Company management team. The work is governed by the environmental policy and prioritized areas are energy and water use, waste management, choice of materials and avoidance of hazardous substances.

During the year, the Company took part in a number of environmental surveys, including the Carbon Disclosure Project, which is a worldwide survey directed at listed companies. The survey includes a presentation of the companies' climate work and climate impact. Hufvudstaden was



given the highest score of all the Nordic property companies and reported the fourth highest score for all the listed companies examined in the Nordic Region. Hufvudstaden's environmental work has also been analyzed and approved for investment in the Swedbank Robur Environmental Fund.

### **Sustainability report**

Global Reporting Initiative (GRI) is the most well-known and widely used set of principles for the presentation and reporting of sustainability information. It provides guidelines for what a sustainability report ought to include and also the indicators that are to be reported. Hufvudstaden has opted for the first time to publish a sustainability report according to the GRI standard. The report can be presented on three different levels and this year's sustainability report has been prepared according to application level C. The Company's GRI index for sustainability reporting can be found on the Hufvudstaden website ([www.hufvudstaden.se](http://www.hufvudstaden.se)).

### **Follow-up of the environmental objectives for 2011**

#### *Environmental work*

The environmental programme is being developed constantly within all the designated and established areas – Leasing, Adaptation of Premises and Management – together with the auxiliary and support processes. In order to further improve Hufvudstaden's sustainability work, we recruited an environmental co-ordinator during the year. We have also developed a sustainability reporting system according to the GRI guidelines.

For operation and management of the properties, environmental issues have focused mainly on areas such as environmentally adapted construction, energy use and waste management, which are described in more detail below. Thanks to the central locations, Hufvudstaden has very limited business travel and does not use, for example, any service vehicles in its day-to-day operations as we are within walking distance of all our properties. To reduce the volume of travel between the offices in Stockholm and Gothenburg, we use video conference equipment.

#### *Environmentally adapted construction*

In construction projects, we create long-term, effective, flexible construction solutions that minimize resource waste when changing tenants. The choice of products is made based on a long lifespan, a high level of quality and a timeless design. New, eco-friendly technology is evaluated on a continuous basis and during the year we have, among other things, tested and evaluated energy-efficient light fittings in conjunction with a number of tenant adaptations. A good

example is the new office in Gothenburg for the law firm Vinge, where we have installed a lighting system with daylight control, movement detection and energy-efficient fittings.

Hufvudstaden plays an active role in BVB, the construction products assessment system, which is a common tool in the property industry for the environmental assessment of construction products and construction management. The aim is to ensure that only environmentally examined and approved construction products are used.

Hufvudstaden is a member of the Sweden Green Building Council and a member of the committee for the Swedish environmental adaptation system *Miljöbyggnad*, the aim of which is to develop and influence environmental and sustainability work within the industry.

#### *Energy use*

Prioritized, long-term work is taking place to reduce energy use and thus also to reduce carbon emissions. Hufvudstaden has its own operating personnel who each day fine-tune our facilities to ensure optimal operation and minimal use of energy whilst still maintaining a good indoor climate for our tenants. Energy-saving projects are continuously in progress to adjust and replace heating, cooling and ventilation systems. In projects that deal with lighting, the aim is to choose energy-efficient fittings, which has been the case, for example, in our multi-storey car park Parkaden.

In our extension project at Femman in Gothenburg, efficient energy use has been prioritized. The two new office floors have been planned to use significantly less energy than is laid down in the official requirements. The original part of the Femman property has been made more efficient and a large proportion of the heating and ventilation systems have been replaced. These measures will result in a significant reduction in energy use.

Hufvudstaden's work on certifying further properties according to the Green Building Programme is taking place and the aim is to certify the Femman property, including the extension, over the next year.

Energy use in Hufvudstaden properties is exclusively in the form of electricity, district heating and district cooling. The total energy use for the year was reduced by 3 per cent compared with the 2010 level, whilst the levels corrected for a normal year remained virtually unchanged. Over the past 10 years, energy use has been reduced by around 20 per cent. This reduction has been achieved despite the fact that stores now have longer opening hours and that more office tenants have open landscapes with more people in the same office space.

Hufvudstaden's carbon emissions from energy use decreased by almost 5 per cent compared with 2010.

### Waste management

Refuse generated in Hufvudstaden properties mainly comes from the tenants' operations as well as the Company's construction activities. Hufvudstaden seeks to consistently apply the principle that sorting should in the first instance take place where the refuse is generated, i.e. that the sorted waste is collected directly from the tenant. Hufvudstaden aims to constantly reduce the volume of unsorted waste, and this is achieved in part by informing and assisting with advice to our tenants. The aim for next year is to continue working on waste issues and to help our tenants to increase sorting and thus reduce the volume of unsorted waste.

### Information about energy and environmental issues to our tenants

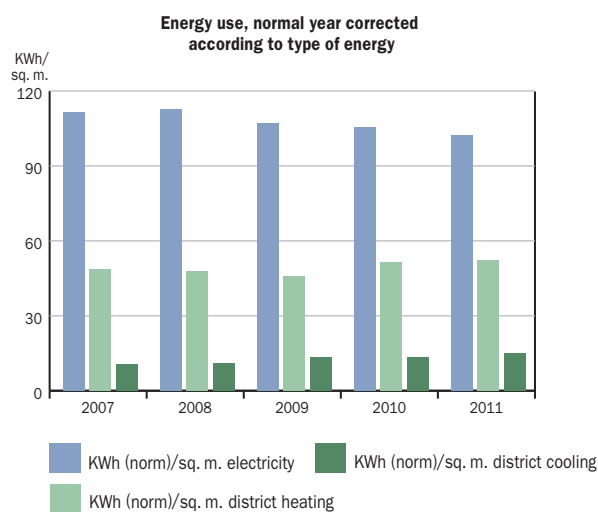
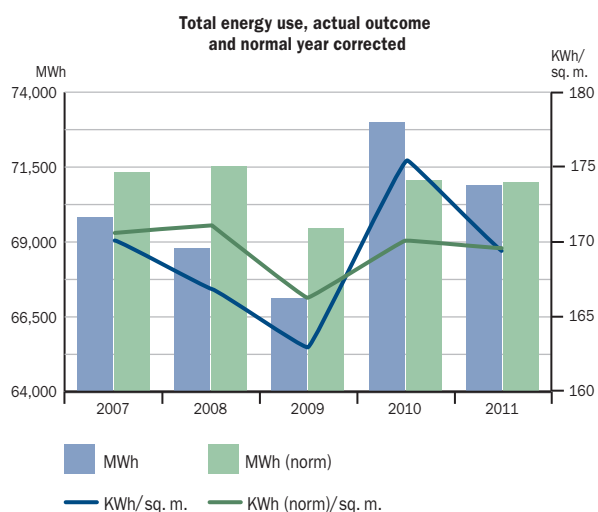
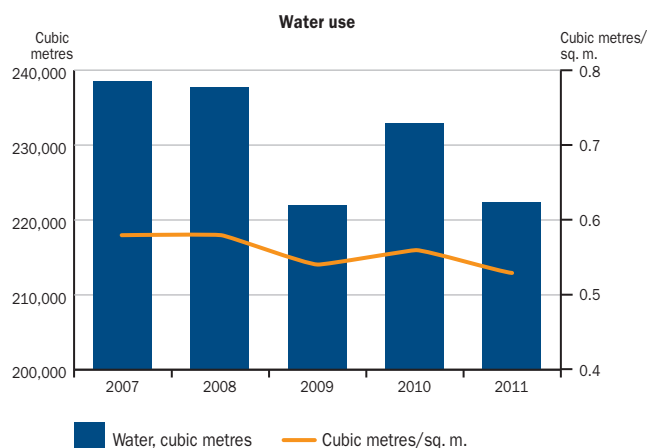
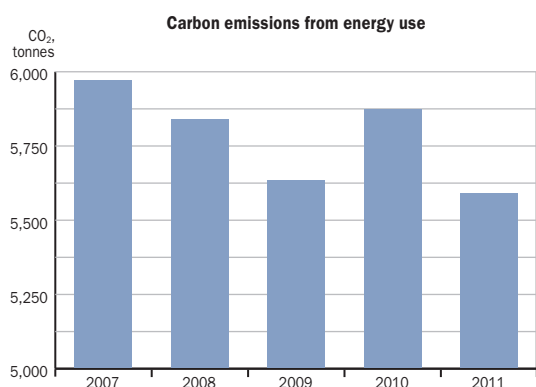
During 2011, Hufvudstaden worked on a whole series of environmental issues that are of importance to our tenants and us.

Information regarding energy issues and Hufvudstaden's ongoing environmental programme was presented during the year at meetings with our tenants. An information meeting was arranged during the year at which external

experts spoke inspirationally about environmental issues in general and ways in which the individual tenant could reduce its environmental load.

### Quality and environmental objectives 2012

- Continued development of quality and environmental work.
- Be one of the top companies in the annual Fastighetsbarometern Customer Satisfaction Survey.
- Reduce energy use by 3 per cent.
- Reduce Hufvudstaden's carbon emissions by 5 per cent.
- Further certification of properties according to the Green Building Programme.
- Reduce the volume of unsorted waste.
- Guide Hufvudstaden's tenants in their work on sorting of waste at source.
- Develop communication with our tenants regarding energy and environmental issues.



# BIBLIOTEKSTAN

*Birger Jarlsgatan, Stockholm*



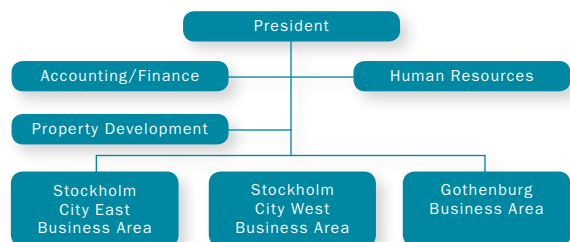


# Organization and employees

## Organization

Hufvudstaden's objective is to have the most professional employees in the industry. During 2011, training initiatives and seminar programmes were run to further increase involvement, professional know-how and business acumen. During 2012, we will continue to work on reinforcing Hufvudstaden's position as an attractive, responsible employer. Prioritized areas at Hufvudstaden are quality and service. As it is felt that these areas will in the future assume greater significance, we have run both in-house service programmes as well as a service conference to raise our level of service even further. We have also taken a step towards more distinct sustainability work within the organization. This has been achieved through recruitment of an environmental co-ordinator and the fact that we will prepare a sustainability report according to Global Reporting Initiative (GRI).

The Company's operations are organized into three business areas: Stockholm City East, Stockholm City West (which includes the NK department stores in Stockholm and Gothenburg) and Gothenburg. The staff functions Accounting/Finance, Property Development and Human Resources support work on the operative level. We also carry on our own parking operations through the subsidiary Parkaden AB.



At the end of 2011, 93 persons worked in the Group, of whom 91 were in the Parent Company and two at the subsidiary Parkaden AB. There were 83 employees in Stockholm and ten in Gothenburg. At the year-end, the division was 42 per cent women and 58 per cent men. Of the Group's managers, 37 per cent are women. The average age in the Group was 43 years for both women and men.

## Value-driven corporate culture

Hufvudstaden's corporate culture is marked by strong involvement on the part of employees and a clear, broadly accepted set of values. The values are our most important tool in the task of leading and controlling operations towards achieving the Company's vision and objectives. They are embodied in everything we do; from the induction of new

employees to regular appraisal discussions and information meetings. The values are also a prerequisite for being able to conduct operations in such a way that they promote corporate social responsibility. Our core values are attentiveness, honesty, commitment and quality.

## Attractive employer

At Hufvudstaden, it is important that employees assume responsibility and feel involved in the work of the Company. The annual Employee Satisfaction Survey measures the employees' view of their working situation. The 2011 survey, in line with previous years, had a high response rate and demonstrated that Hufvudstaden is an equal opportunities workplace with good leadership, a high degree of job satisfaction and considerable commitment on the part of the employees. The Employee Satisfaction Survey also demonstrated that the employees are proud to work at Hufvudstaden and consider it self-evident that they lend their support and do that little extra beyond their regular day-to-day duties. The employees' pride and commitment is also reflected in the fact that many employees choose to remain at Hufvudstaden for a long time.

In 2011, the average period of employment was 8 years and staff turnover was 8 per cent.

## Employee development

Expert, committed, service-oriented employees throughout the Company are a key requirement for achieving the Company's objectives. A vital element in creating this corporate culture is the appraisal discussion. During the discussion, objectives and fulfilment of objectives are dealt with as well as competence development and similar issues. An individual activity plan for the coming year is then drawn up.

In our endeavour to maintain a high level of quality, Hufvudstaden invests in competence development in all working areas within the organization and at the same time we ensure that training initiatives are strongly linked to the demands from the market and customers. We want our employees to realize their full potential and in doing so become stronger in their roles. That is why we have offered the opportunity for individually tailored competence development, adapted to the period of employment, position, professional specialization and needs, over and above the more general company training initiatives. The focus for the year has been on service and dealing with customers. According to this year's Employee Satisfaction Survey, the employees feel that good opportunities are offered for competence development.

### Healthy employees

Hufvudstaden adopts a preventive approach to health through regular health checks, ongoing health-promoting activities and health insurance for all employees. We encourage physical activity both at work and during leisure time and we contribute to this by offering to finance health and fitness pursuits and by arranging a variety of joint exercise activities. The success of these initiatives is reflected, for example, in the very low level of absenteeism due to illness and a pleasant working environment. Improving the working environment is an ongoing process, handled by a group made up of representatives from different parts of the organization and where, for example, health-related activities are planned. We feel that our health initiatives have contributed to the well-being of the employees. This is supported by this year's Employee Satisfaction Survey, in which employees stated that they feel good and that they have a good balance between work and leisure.

### Leadership development

Continuously identifying and developing employees with leadership qualities is a priority area within the Company. Hufvudstaden's leadership is characterized by courage and exemplary behaviour as well as being forward-thinking and inspirational. We work with short lines of communication and clear mandates that extend far out into the organization. Regular seminars for managers have been arranged and an in-house manager network has been established. These initiatives help us to assure the emergence of skilled managerial personnel. In conjunction with the annual Employee Satisfaction Survey, there is feedback where various matters are discussed, including individual leadership. This year's survey indicates, as in previous years, that our employees are satisfied with their manager's leadership style and feel that they have considerable confidence in their manager.

### Competence provision

One way of developing as an employee at Hufvudstaden is to take on new challenges. Hufvudstaden has a clear recruitment policy and endeavours to ensure that as many vacant posts as possible are filled through internal recruitment. Of the five managerial positions that became vacant during the year, three were filled in-house. We have also had the opportunity to allocate people internally to act as managers during recruitment processes. In this way, skilled employees have been highlighted and at the same time that we have made use of people with solid experience and expertise, we have also contributed to the development of the individual. To attract new, talented people on the labour market, the Company continued during the year to

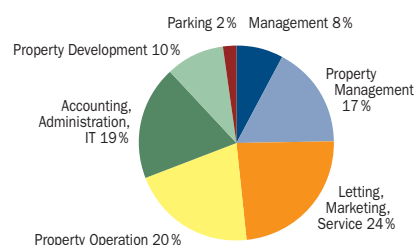
profile itself through participation in what are known as 'labour market days'. This year, Hufvudstaden was the main sponsor during the LAVA event at the Royal Institute of Technology. Our experience from this collaboration is that students acquire greater knowledge of and interest in Hufvudstaden as a future employer.

### Diversity

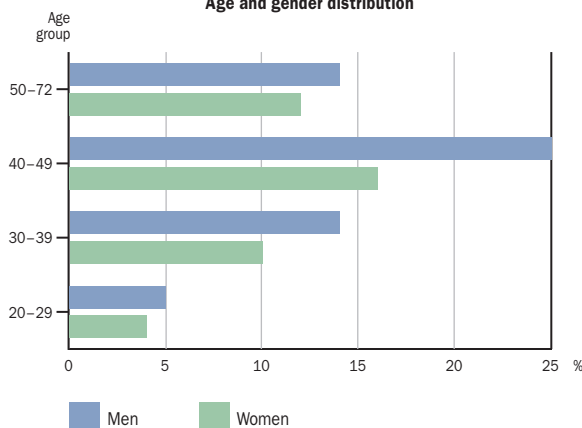
Hufvudstaden is working actively with its fundamental values and is striving for diversity in every part of the organization. We feel that a diverse organization has many advantages, such as greater creative capacity and innovative ability as well as improved know-how and understanding of the varying needs of our stakeholders.

We can also see that diversity increases in organizations that offer equal opportunities, as more groups of people are attracted to work there. In our equality programme, all employees are offered the same potential to develop and at the same time unfounded salary differences are counteracted. The Employee Satisfaction Survey has for several years shown that one of our best results has been in the equality area, which is evidence that work in these areas is being pursued correctly, thus promoting diversity. We are an open, non-discriminatory company with strict demands in every operating area.

Employees per working area



Age and gender distribution



**HUFVUDSTADEN**

*Regeringsgatan, Stockholm*







**HUFVUDSTADEN**

*Kyrkogatan, Gothenburg*

## Property market

Hufvudstaden carries on operations in the most central parts of the two largest cities in Sweden, Stockholm and Gothenburg. On these marketplaces, the Company owns concentrated property holdings in which successful companies are offered high-quality, modern office and retailing premises. The rental and investor market for properties in Sweden, in which Hufvudstaden is a prominent player, are affected by the way the Swedish economy is developing, which is in turn affected by the way the economy is developing internationally.

During 2010, the world economy began to recover, as did the economy in Sweden. Growth was noted mainly in countries in Asia and South America as well as in some more traditional industrialized countries such as Germany and Sweden. This trend continued at the beginning of 2011, although it was disrupted in the middle of the summer by a variety of factors, including the escalation in the debt crisis in Greece. During the autumn, the debt crisis continued and in a number of European countries the situation worsened. To safeguard the euro, restructuring the economy has commenced in countries with major budget deficits and heavy government debt.

For Sweden, the basic economic conditions are looking better. Government finances are stable, government debt is relatively low in relation to the GDP and the balance of trade is positive. Growth in GDP was high during the first

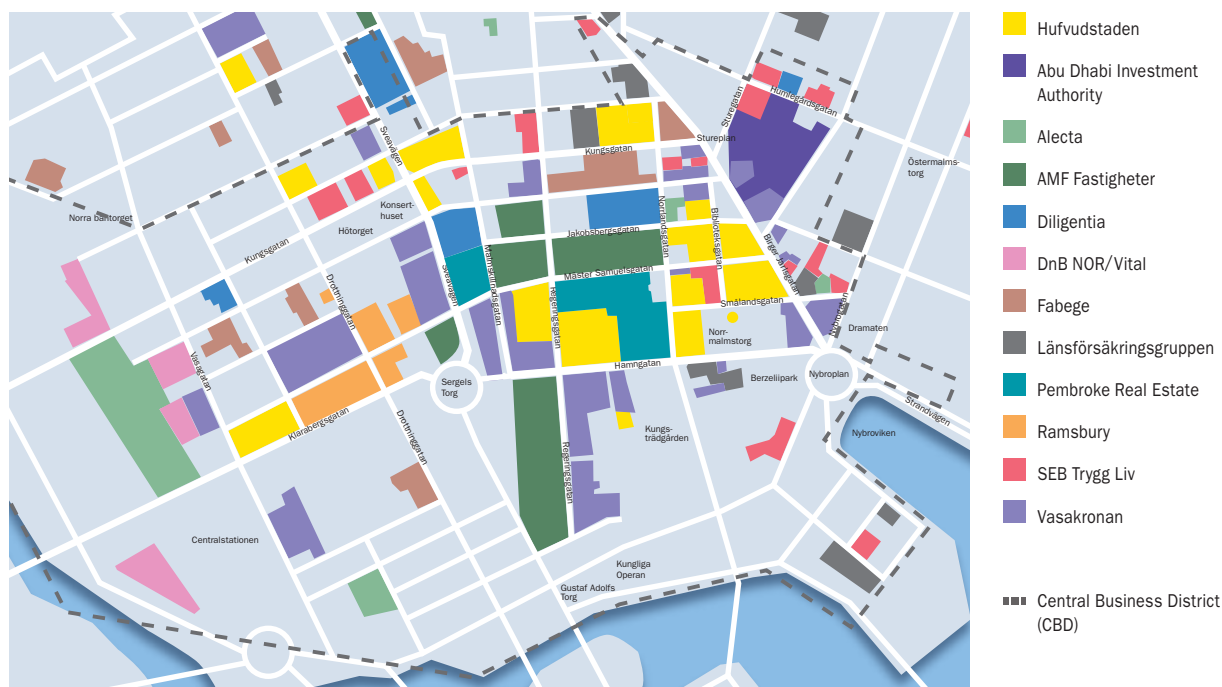
three quarters of 2011 although the trend during the final quarter of the year was weaker and the Swedish Central Bank cut the repo rate in December.

Inflation, against which Hufvudstaden is protected through indexed leases, was slightly above the Central Bank's long-term objective although a decrease in the rate of inflation could be detected towards the end of the year.

### Hufvudstaden's sub-markets

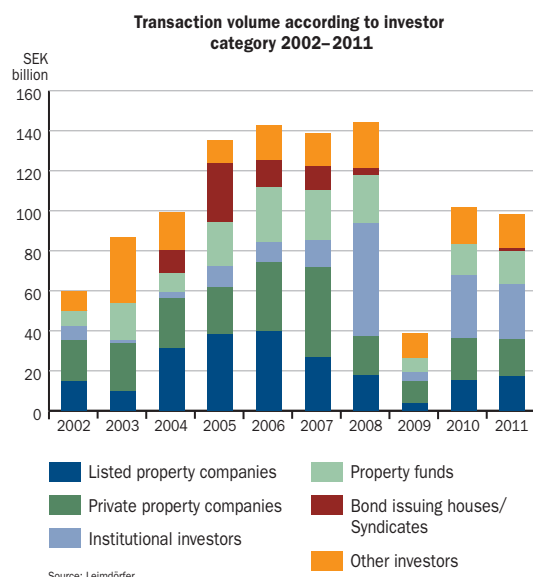
Stockholm, often called the growth engine of Sweden and characterized by a dynamic commercial and industrial base with an emphasis on the service sector, is where Hufvudstaden owns 25 properties. According to figures from Statistics Sweden, almost 30 per cent of workers in Greater Stockholm are employed in the service sector, which includes property, finance, IT, communications and corporate services, compared with the figure for the nation as a whole of around 18 per cent. The private sector is also larger in Greater Stockholm and employs around 80 per cent of employees compared with Sweden as a whole, where the figure is around 70 per cent.

In Greater Stockholm, the population is almost 2.1 million and during the past 10 years it has increased by around 14 per cent. The forecast for the next 10 years is that the population will continue to increase at the same rate, reaching over 2.4 million by 2020.



Source: Leimdörfer

Larger property owners in central Stockholm.



The availability of commercial properties within the Stockholm inner city comprises holdings totalling approximately 5 million square metres of office space, of which around 1.7 million square metres are within the CBD. Hufvudstaden is the second-largest commercial property owner in the Stockholm CBD with total rentable floor space for all categories of premises of 268,000 square metres.

#### Largest property owners in the Stockholm CBD

	Rentable floor space sq. m.
Vasakronan	363,000
Hufvudstaden	268,000
AMF Fastigheter	226,000
Diligentia	128,000
SEB Trygg Liv	102,000
Pembroke Real Estate	91,000
Ramsbury	88,000

Source: Leimdörfer

In the second-largest city in Sweden, Gothenburg, Hufvudstaden owns five properties. A transformation is in progress of what was in the past a traditional industrial city into a city with a more diversified commercial and industrial base. Industry and manufacturing continue to be major industrial sectors in Greater Gothenburg and according to Statistics Sweden, it employs around 14 per cent of the workforce, compared with 7 per cent in Greater Stockholm and the national average of around 14 per cent. The service sector, however, has grown and now employs around 20 per cent. It is predicted that Greater Gothenburg will assume even greater significance for development in Western Sweden and this labour market region is expected to grow in line with current and future investments in the infrastructure.

The population in Greater Gothenburg is just over 0.9 million. The increase in the population over the past 10 years has been higher than in Sweden as a whole. Since 2001, the population has grown by almost 10 per cent compared with the national average of just over 6 per cent. The forecast for Greater Gothenburg is that the population will continue to increase at roughly the same rate through to 2020, by which time the population will be over 1.0 million.

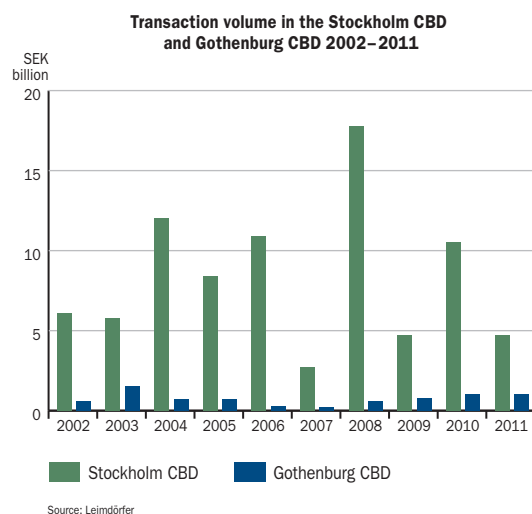
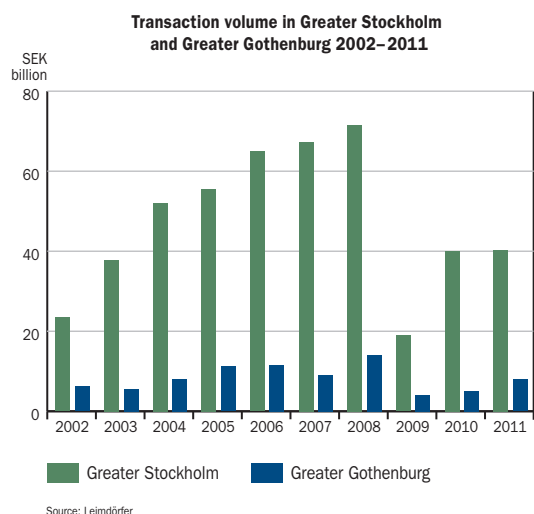
In the Gothenburg region as a whole, there are around 3.2 million square metres of office space, of which 0.8 million square metres are located in the Gothenburg CBD. The CBD comprises the Nordstan, Inom Vallgraven, Lilla Bommen and Kungssportsavenyn areas. Hufvudstaden is the third-largest commercial property owner in the Gothenburg CBD with total rentable floor space for all categories of premises of 81,000 square metres. The Company's properties are to be found in prime locations in the Inom Vallgraven and Östra Nordstan areas, putting Hufvudstaden's property holdings among the most concentrated in Gothenburg.

#### Largest property owners in the Gothenburg CBD

	Rentable floor space sq. m.
Vasakronan	250,000
Wallenstam	128,000
Hufvudstaden	81,000
Bygg-Göta Göteborg	67,000
Diligentia	62,000
Castellum	53,000

Source: Leimdörfer





### Investor market

During the first three quarters of 2011, activity on the transaction market continued to be high. Even during the final quarter of the year, transactions continued despite concern about the government debt crisis in Europe. This resulted in a total transaction volume of approximately SEK 100 billion for 2011, which was in line with the figure for 2010. This is more than twice the 2009 figure although still below the levels seen in the record-breaking period 2006–2008, when annual volumes were in the region of SEK 140 billion.

Properties with a low risk, such as offices in attractive locations and residential properties, continued to account for a large proportion of the total transaction volume during 2011. It is mainly Swedish investors such as institutions, private property investors with low loan-to-value levels and property companies and property funds that have been behind the majority of the property acquisitions. A number of portfolio transactions were implemented during the year, the most prominent being the acquisition by Diös of the property company Norrvidden, involving 254 properties located in northern Sweden. In Stockholm, AMF Fastigheter acquired three inner-city shopping centres from Centeni, owned by the Royal Bank of Scotland, and during the spring a consortium, led by the property fund Grosvenor, purchased four shopping centres from Unibail-Rodamco.

The Stockholm market, with a total transaction volume of around SEK 40 billion in 2011, continues to be the sub-market in Sweden with the highest volume. As usual, the final quarter of the year saw the largest turnover, although the second quarter was also strong. It is mainly Swedish investors that have been active, with institutions accounting for the vast majority of the turnover. Within the Stockholm

CBD, where most of Hufvudstaden's properties are located, several transactions took place. Hufvudstaden acquired Kåkenhusen 38, comprising 6,700 square metres on Norrlandsgatan, from Fabège for around SEK 480 million. The Norwegian company KLP acquired the hotel property Klockan 1 on Vasagatan and on Strandvägen, Industricentralen AB acquired the Bodarne 14 property.

A number of transactions have also taken place in Hufvudstaden's Gothenburg sub-market. During 2011, properties worth around SEK 8 billion changed hands, an increase on the 2010 level of approximately SEK 3 billion and Hufvudstaden implemented an exchange deal with Fastighets AB Sigillet. Hufvudstaden took possession of the undeveloped property Inom Vallgraven 12:2, with a building right of around 2,000 square metres, located on Södra Hamngatan and divested the property Inom Vallgraven 20:4 on Kungsgatan, which had almost 2,500 square metres of rentable floor space. Wallenstam purchased seven properties from Niam, comprising around 55,000 square metres of rentable floor space, for approximately SEK 1.2 billion.

There was a high demand in 2011 for prime location office properties in the Stockholm CBD and the Gothenburg CBD. This has resulted in continued pressure on yield requirements and the levels continue to be low. The debt crisis, however, has resulted in more restrictive lending. This will also reduce the prospects on the rental market, which is an important factor when pricing properties and could result in rising yield requirements. For modern office and retail properties in the Stockholm CBD, the yield requirements at the end of 2011 varied between 4.50 and 5.25 per cent and in the Gothenburg CBD between 4.75 and 5.50 per cent.

## Rental market in Stockholm

### Offices

The rental market for offices in Stockholm developed positively during 2011 with lower levels of vacant space and slightly higher rent levels. Demand has been good and availability limited. The greatest demand is for offices in the CBD, the central locations within the inner city areas and within nearby off-centre areas directly outside the inner city areas and close to public transport, mainly in modern, new and redeveloped properties. One of the competitive advantages on the rental market is the ability to offer modern office premises where the floor space can be utilized efficiently, thus allowing the rental cost per employee to be reduced. The potential to let large, cohesive office premises in the Stockholm CBD is relatively limited. This will have a positive impact on Hufvudstaden as the Company owns compact, high-quality property holdings in this area, comprising modern office premises. It is Hufvudstaden's long-term strategy to own properties gathered within the same area, preferably comprising whole blocks, which also makes it possible for our tenants to expand within the existing property holdings.

During the coming year, new construction and re-development projects in the Stockholm CBD will be relatively limited although there is still a high level of activity when it comes to upgrading older buildings into modern office and retailing premises, which will to a certain extent increase the availability of these types of premises.

In Bibliotekstan, rents were noted of between SEK 4,200 and 5,000 per square metre per year, excluding the property tax supplement, and in the rest of the CBD, prime office space was let for between SEK 3,800 and 5,000 per square metre per year, excluding the property tax supplement. The level of vacant space during the year was 4–5 per cent (5–6) in the CBD, 1–2 per cent (5) in Gamla Stan and 3–7 per cent (5–8) in Södermalm, Kungsholmen, Vasastan/Norrmalm and Östermalm/Gärdet.

**Market rents, December 2011**  
(excluding the property tax supplement)

Sub-markets in Stockholm	Offices, SEK/ sq. m. per year	Stores, SEK/ sq. m. per year
Bibliotekstan/NK	4,200 – 5,000	12,000 – 18,000
City, other	3,800 – 5,000	4,000 – 12,000
Östermalm	2,400 – 3,500	3,000 – 8,500
Gamla Stan	2,500 – 3,300	2,500 – 5,000
Slussen/Södermalm	2,200 – 2,900	2,500 – 5,000
Kungsholmen	1,900 – 3,100	2,000 – 7,000
Liljeholmen	1,900 – 2,200	1,500 – 5,000
Globen	1,400 – 2,000	3,500 – 5,000
Kista	1,600 – 2,200	4,000 – 8,000

### Stores

Demand for well-located store premises in the most central sub-markets in Stockholm continued to be high during 2011 although vacant premises were generally not available. This has resulted in retained or increased rent levels. Prospects for the retail sector are uncertain and according to HUI, sales trends were negative for a number of months during the second half of 2011.

The most sought-after retailing areas are in Bibliotekstan and on Hamngatan, Kungsgatan and Drottninggatan. Bibliotekstan and the NK department store have a special position as the most exclusive store locations. The rent for prime retailing space in this area is between SEK 12,000 and 18,000 per square metre per year, excluding the property tax supplement. Hufvudstaden owns properties in all of these attractive locations, which means that the Company enjoys a strong position within the retail segment in central Stockholm.

In the Stockholm CBD, two major retail projects are in progress. One project comprises approximately 20,000 square metres of retailing space and is located on the block that extends along Regeringsgatan and Hamngatan opposite NK. Tenants moved into the new stores during 2011 and will continue to do so during 2012. A shopping area with a new shopping concept is also being developed in the Salén Building. The area is called MOOD Stockholm and is scheduled to open during 2012.

## Rental market in Gothenburg

### Offices

The European debt crisis has yet to impact on the rental market in Gothenburg to any great extent and there was good demand for modern, efficient office premises in Gothenburg in 2011. Rent levels have risen slightly and vacant space has fallen to even lower levels.

One of the largest current office projects in central Gothenburg is Hufvudstaden's extension of the Femman Building in Nordstan. The project involves the creation of two new floors, comprising 5,100 square metres of modern office space and offering a marvellous view of Gothenburg. Completion is scheduled for 2012. Another office project in central Gothenburg is the construction by NCC at Ullevi Park comprising around 14,000 square metres. The project commenced in 2011 and is scheduled for completion in 2012/2013. It is expected that new production of office space will be relatively low in the Gothenburg area during the coming years.

The best locations for offices in central Gothenburg are considered to be the Inom Vallgraven areas, particularly areas near Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan,



Source: Leimdörfer

Larger property owners in central Gothenburg.

Kungsporsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Within the Gothenburg CBD, market rents were between SEK 1,900 and SEK 2,400 per square metre per year, excluding the property tax supplement. The top rent is considered to be slightly above this range. Vacant space in the Gothenburg CBD fell during 2011 compared with 2010 and was between 5 and 6 per cent (6–7). As in Stockholm, Hufvudstaden in Gothenburg has high-quality properties with modern office premises, which are mainly the type of office premises that are in demand on the market.

**Market rents, December 2011**  
(excluding the property tax supplement)

Sub-market, Gothenburg	Offices, SEK/ sq. m. per year	Stores, SEK/ sq. m. per year
Inom Vallgraven	1,900 – 2,400	6,000 – 13,000

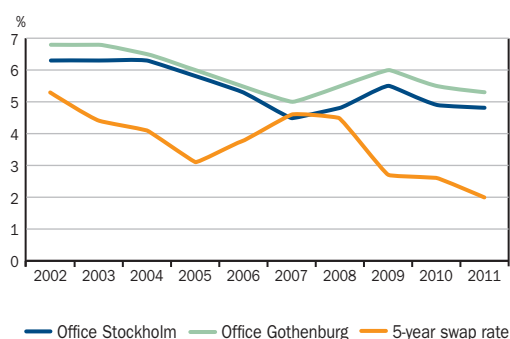
#### Stores

Rents for stores in prime locations in Gothenburg were stable during the year with limited availability of vacant retailing space. In the best locations, rents were noted between SEK 6,000 and 13,000 per square metre per year, excluding the property tax supplement. Prospects for the retail sector are uncertain and according to HUI, sales trends were negative for a number of months during the second half of 2011. The net increase in population in the Gothenburg region and the investments that are being

made in, for example, the Nordstan Shopping Centre and other parts of the CBD could contribute to a continued positive development of the market.

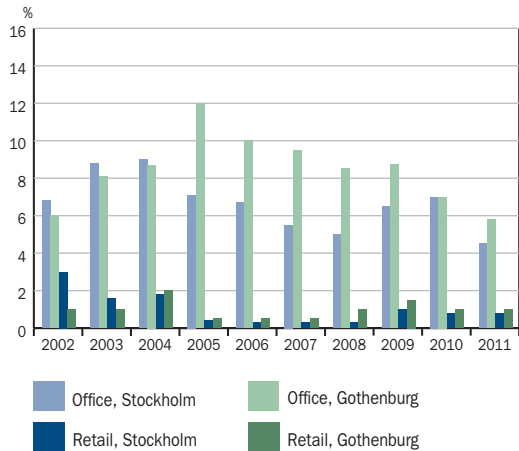
The prime locations for stores in central Gothenburg are considered to be Östra Nordstan, Fredsgatan and Kungsgatan between Östra Hamngatan and Västra Hamngatan. City centre retailing is very strong and Hufvudstaden has been affected positively through its presence in the best store locations with, among others, the Femman shopping precinct in Nordstan and the NK department store.

**Direct yield requirement, Stockholm CBD and Gothenburg CBD**



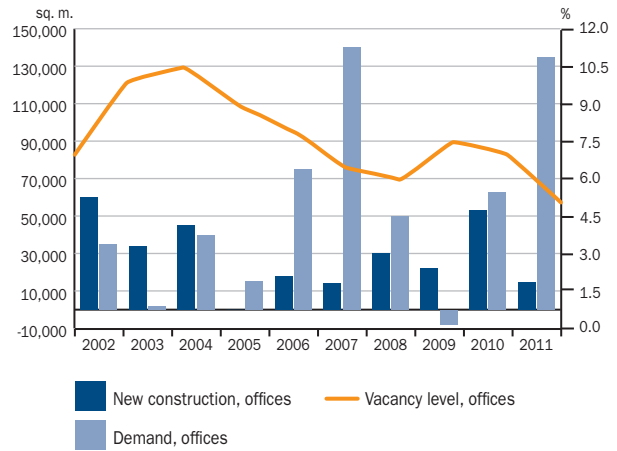
Source: Leimdörfer

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



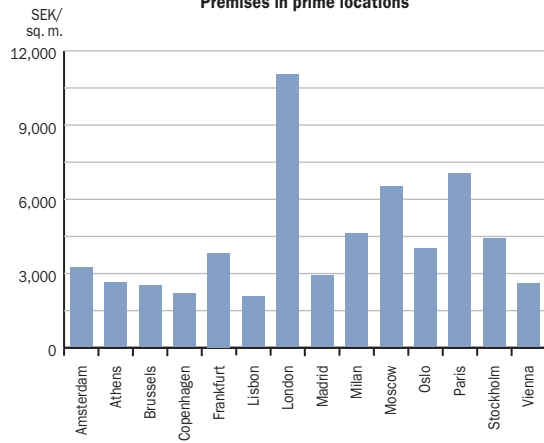
Source: Newsec

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



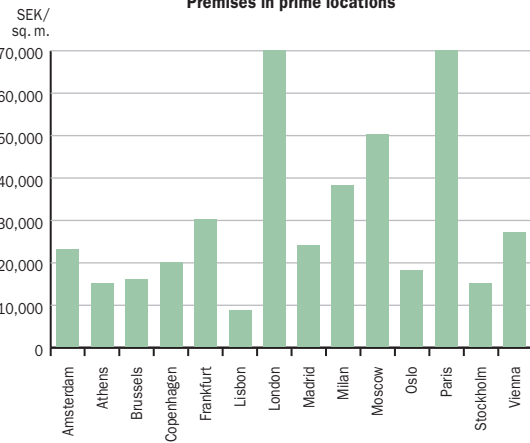
Source: Newsec

**Office rents in European cities, December 2011  
Premises in prime locations**



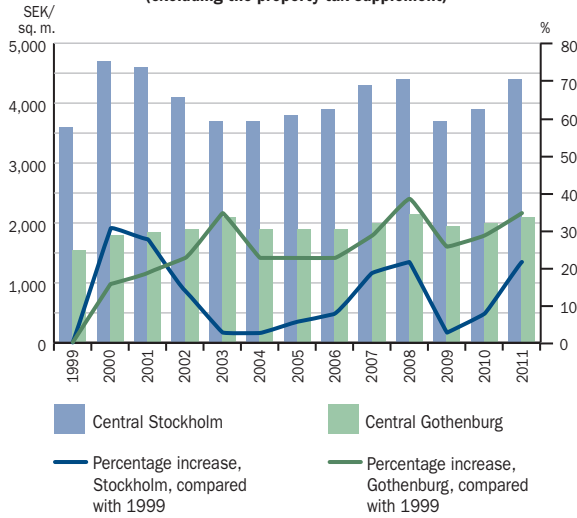
Source: Newsec

**Store rents in European cities, December 2011  
Premises in prime locations**



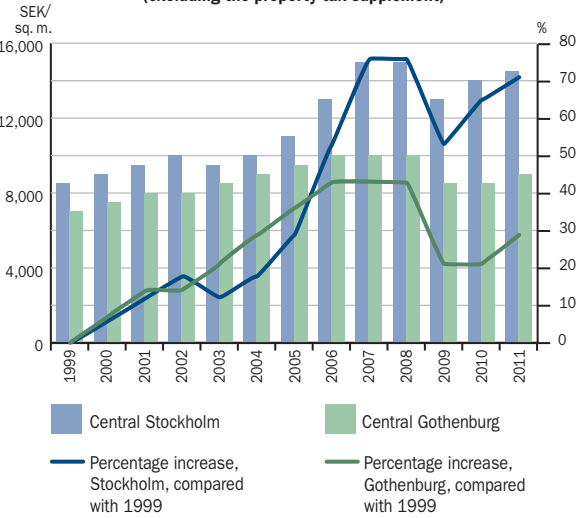
Source: Newsec

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



Source: Newsec

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



Source: Newsec





**BIBLIOTEKSTAN**

*Biblioteksgatan, Stockholm*

# BIBLIOTEKSTAN

*Mäster Samuelsgatan, Stockholm*





# Property development

Hufvudstaden is working actively to develop the high quality and efficiency of its property portfolio. The aim is to create good growth in value and, in co-operation with the tenants, adapt offices and stores to new conditions. The process of developing the properties is under constant review. Changes and improvements, both large and small, are made regularly. To satisfy market demand for modern offices in attractive locations in areas in which Hufvudstaden operates, several development projects were conducted during the year.

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

## Current project development

The Femman Precinct in Gothenburg has been given two additional floors with offices and offering a marvellous view of Gothenburg. The extension comprises around 5,100 square metres of rentable floor space, the majority of which will be leased by the law firm Advokatfirman Vinge. The project commenced in 2010 and was largely completed in 2011. What remains is adaptation of the premises, which will be completed during 2012. Advokatfirman Vinge's office has been given a modern design with exclusive, natural materials, a stylistically pure interior and an eye-catching, colourful internal staircase linking the two floors. In conjunction with the extension, the technical systems in the property have been upgraded and energy-efficient installations have been added that will result in significant energy savings in the future. Hufvudstaden's aim next year is to certify the Femman property, including the extension, according to the Green Building Programme.

At the end of 2011, the Inom Vallgraven 12:2 property was acquired and as a result of the acquisition, the Company owns the whole of the Härberget block, which comprises approximately 23,000 square metres. This opens up the opportunity to adopt a comprehensive approach to the block and a project group has begun working on creating an attractive design for premises suitable for both office and retailing purposes.

## Adaptation of premises

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

During the year, renovation and adaptation of approximately 27,500 square metres of floor space were completed. The adaptations were mainly for existing tenants in conjunction with an extension of the lease period or an expansion of the leased floor space. In the Skären 9 property in Stockholm, a further 3,000 square metres of floor space were adapted for the law firm Advokatfirman Vinge. The adaptation was what is termed surface renovation and in conjunction with this, upgrading of the entrance and the stairwell was completed. A number of adaptations were also carried out at the Rännilen 18 property. One of the starting points for these adaptations has been to create a contrast between the original 19th-century architecture of the building and the contemporary aspects in the form of glazed wall sections and new technology. In the Järnplåten 28 property, the facade on one of the floors has been altered, with small windows being replaced by fully glazed sections from floor to ceiling. This has resulted in a brighter, more open office with a sense of closeness to the activity and life of the city. The refurbishment of the Kungliga Trädgården 5 property is another redevelopment project, with three floors adapted to a new, more modern office standard. In conjunction with the redevelopment, the entrance and stairwell were modernized.



# BIBLIOTEKSTAN

*Norrmalmstorg, Stockholm*





# BIBLIOTEKSTAN

*Biblioteksgatan, Stockholm*









# Stockholm City East Business Area

## Property holdings

The Stockholm City East Business Area comprises 17 (16) properties and is made up of two management areas, Norrmalmstorg and Kungsgatan. During the year, a property near Stureplan was acquired and will be a natural complement to the Hufvudstaden holdings on Kungsgatan. The Norrmalmstorg Management Area comprises properties in Bibliotekstan. Historically, this area has been the core of Hufvudstaden's property holdings since the Company was founded in 1915. The Kungsgatan Management Area comprises properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The properties are entirely commercial and consist of office and retailing premises.

## Acquisitions

In 2011, the property Kåkenhusen 38 was acquired through a company transaction. The property is linked to the previously owned property Kåkenhusen 39 on Kungsgatan. The acquisition will generate synergy effects on both the revenue and cost side. The property is let in its entirety to two large tenants. The Swedish Financial Supervisory Authority leases all the office space, comprising around 5,600 square metres, and the restaurant Pontus leases all the floor space on the ground floor and lower ground floor, comprising approximately 1,100 square metres.

## Development of holdings

The reinforcement of foundations that has taken place at a number of properties in Bibliotekstan was concluded during 2011. The work took place in the cellars of the buildings and in the meantime, the day-to-day operations in the stores and offices could continue almost as normal. The leasing of the premises following the redevelopment project at Rännilen 18, Birger Jarlsgatan 7, was virtually completed during the year. New office tenants who have been added are Netlight, System Verification, Grosvenor and Neqst.

The task of creating a more attractive retailing area in Bibliotekstan has continued. New stores opened during the year are Hope, Black Denim and Burberry. During the year, a lease was also signed with Ralph Lauren, which in spring 2012 will open a flagship store on Biblioteksgatan. Marketing of the area takes place mainly through events and PR. Events that took place during the year included Fashion Week in Bibliotekstan. The stores also ran their own marketing activities in the area, such as the party held to celebrate the opening of Black Denim.

## Rental market

Market rents for office space within the Business Area increased during the spring and since the summer they have remained relatively still. Market rents for office premises in prime locations were between SEK 4,200 and 5,000 per square metre per year, excluding the property tax supplement.

The rental market for retailing premises also developed positively and market rents for prime locations were SEK 12,000 to 18,000 per square metre per year, excluding the property tax supplement.

## Customers

The office tenant structure within the Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are banks, finance companies and law firms as well as recruitment, management and media consultants. In total, there are 329 tenants in the Business Area. The ten largest tenants lease 42,000 square metres (40,000), representing annual rent revenue of SEK 200 million (186). The largest office tenants are Danske Bank, Advokatfirman Vinge, the Swedish Financial Supervisory Authority, the Swedish Export Credits Guarantee Board, Brummer & Partners, White & Case, Orc Group and MAQS Law Firm.

The majority of store tenants in Bibliotekstan are younger Scandinavian brands such as Fifth Avenue Shoe Repair, Whyred, WeSC, David & Martin and Byredo, combined with larger brands and retailing chains such as Filippa K, By Marlene Birger, J Lindeberg, Urban Outfitters, GANT, Diesel, Karen Millen and Georg Jensen.

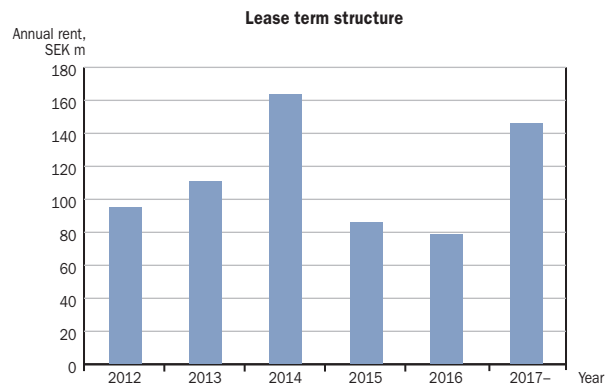
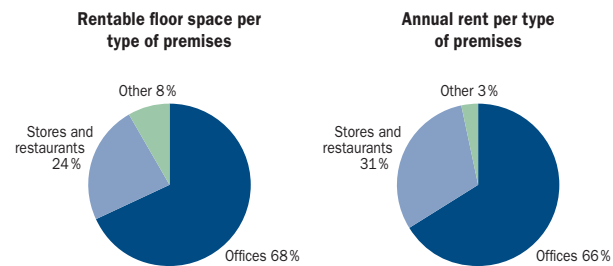
In recent years, the stores along Norrlandsgatan have become specialized in sports fashion wear and include North Face, Haglöfs, Norröna and Quicksilver. Store tenants along Kungsgatan are largely Swedish chain stores such as Stadium, Naturkompaniet, Alewalds and Cervera. Hufvudstaden is striving to build up long-term business relationships and we have a number of tenants who have been with us for decades. A well-known example is the old-established men's and women's clothing retailer Ströms, which has been at the junction of Sveavägen and Kungsgatan since 1939.

### Strong brand names within the Business Area

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

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

*Norrmalmstorg 1.* The building is a unique profile property and a commercial landmark in central Stockholm.



### Property holdings

	2011	2010
Number of properties	17	16
Rentable floor space, sq. m	151,231	144,851
– of which offices	103,037	97,656
– of which stores and restaurants	35,772	34,719
Annual rent, SEK m	680	634
Rental vacancy level, %	3.7	8.7
Floor space vacancy level, %	5.1	10.6

### Renegotiations and new leases

	2011	2010
New leases, sq. m.	12,600	12,100
New leases, annual rent, SEK m	58	46
Renegotiated leases, sq. m.	21,400	26,300
Renegotiated annual rent, SEK m	95	108

### Property management result, comparable holdings

SEK m	2011	2010
Net revenue	607.4	570.8
Maintenance	-33.2	-15.7
Operation and administration	-74.4	-75.1
Other costs	-64.4	-62.8
Total costs	-172.0	-153.6
Gross profit	435.4	417.2

# Stockholm City West Business Area

## Property holdings

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

## Development of holdings

Refurbishment and adaptation of premises was completed during the year on behalf of new and existing tenants. New office tenants include Sandvik on Klarebergsgatan and Exsitec and Talk to People on Drottninggatan.

Work on developing the store mix within the Business Area is continuing, with the purpose of establishing an attractive street environment.

The development of the NK department stores in both Stockholm and Gothenburg is an ongoing process with the aim of creating even more attractive department stores that can more than hold their own internationally. NK Stockholm saw the opening of the womenswear departments Acne, Boss Woman, NK Style and NK Internationella Designers. At NK Gothenburg, Ralph Lauren and MontBlanc opened accessory departments on the ground floor.

## Rental market

The rental market for office space within the Business Area has been positive during the year with considerable interest in our properties.

The market rents for office premises in prime locations in Stockholm during the year were between SEK 4,200 and 5,000 per square metre per year, excluding the property tax supplement. The rental market during the year for retailing premises continued to be good. The market rents for the best retailing space in prime locations, excluding the NK department store and Bibliotekstan, were between SEK 4,000 and 12,000 per square metre per year, excluding the property tax supplement. At the NK department store, which occupies the very best location and best retailing space in Stockholm, market rents in conjunction with

renegotiations and new leases are between SEK 14,000 and 18,000 per square metre per year, excluding the turn-over-based rent supplement and property tax supplement. The equivalent rent levels for NK Gothenburg were between SEK 8,000 and 13,000 per square metre.

## Customers

The tenant structure within the Business Area consists mainly of companies that value centrally located, high-quality premises. The dominant sectors are law firms, advertising agencies, IT and media companies, organizations and banks. In total, there are 214 customers in the Business Area. The ten largest customers lease 30,000 square metres (34,000), representing annual rent revenue of SEK 208 million (215).

The store tenants largely represent strong, well-known brands with very strict stipulations about establishing operations in attractive marketplaces. In the NK department stores, a large number of the very strongest international and Swedish brand names are represented.

## AB Nordiska Kompaniet

The NK properties in Stockholm and Gothenburg and the NK brand name are owned by the wholly owned subsidiary AB Nordiska Kompaniet. NK is included as two management areas in the Stockholm City West Business Area.

## The NK brand name

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

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

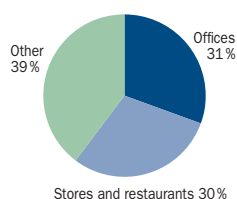
Hufvudstaden and the proprietors' co-operative association work together to formulate annual marketing plans to reinforce NK as a brand name and retail outlet.



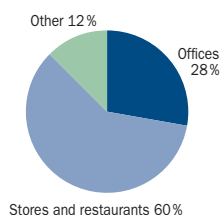
## Retailing market

Despite uncertainty in the economy, the retail trade showed positive growth in consumption during 2011. According to the Retail Survey Index, DHI, sales increased in terms of price within the durable goods sector by 0.3 per cent. Clothing sales increased by 2 per cent. Total sales for the NK department stores were generally on a par with the record year 2010.

Rentable floor space per type of premises



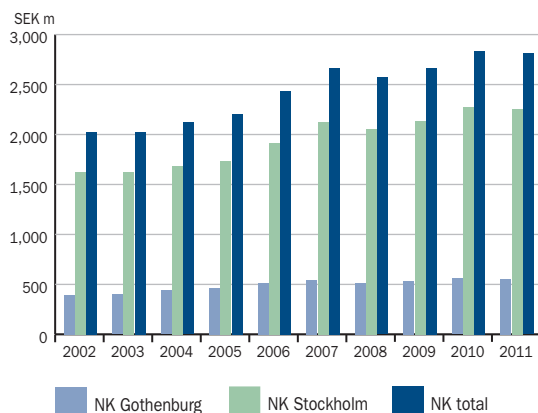
Annual rent per type of premises



Lease term structure



Sales, NK Department stores



## Parking operations

The wholly owned subsidiary Parkaden AB runs parking operations in two Hufvudstaden properties in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget, on the Orgelpipan 7 property near the Central Station, with 454 parking spaces. At the Parkaden car park, maintenance work was carried out during the year on, among other things, the driving lanes and marginal beams. Lighting in the renovated areas was replaced with an environmentally adapted alternative. Parkaden, one of the safest parking facilities in Stockholm, is an important service function for customers in the Hufvudstaden market areas.

### Property holdings

	2011	2010
Number of properties	9	9
Rentable floor space, sq. m.	149,676	149,656
– of which offices	45,953	45,731
– of which stores and restaurants	44,551	44,654
Annual rent, SEK m	580	569
Rental vacancy level, %	2.8	2.0
Floor space vacancy level, %	4.3	4.3

### Renegotiations and new leases

	2011	2010
New leases, sq. m.	6,900	5,400
New leases, annual rent, SEK m	32	25
Renegotiated leases, sq. m.	13,100	20,000
Renegotiated annual rent, SEK m	99	92

### Property management result, comparable holdings

SEK m	2011	2010
Net revenue	578.1	571.8
Maintenance	-11.4	-11.6
Operation and administration	-123.8	-123.3
Other costs	-59.1	-56.9
Total costs	-194.3	-191.8
Gross profit	383.8	380.0

### NK Department stores

	2011	2010
<i>NK Stockholm</i>		
Rentable floor space, sq. m.	24,046	23,973
Rentable storage space, sq. m.	3,498	3,540
Number of departments	106	105
Number of restaurants	8	8
Sales, including VAT, SEK m	2,254	2,274
<i>NK Gothenburg</i>		
Rentable floor space, sq. m.	9,936	10,094
Rentable storage space, sq. m.	1,278	1,258
Number of departments	50	49
Number of restaurants	2	2
Sales, including VAT, SEK m	556	559



PANIET

BRANDS I LOVE

NEEDER CAT T.M.O. NOVITA adidas Paul Smith SHOES Timberland SEBAGO NAPA PAPER MAN

COSTE PLAY UGG CANADA BLOW D BJÖRN BORG VAGABOND

extfresh dahlin shoes TOMMY HILFIGER

ZEVE sneaky steve MERRELL GANE FOOTWEAR PUMA POLD ASSI FRED PERRY



**NORDISKA KOMPANIET**

*Hamngatan, Stockholm*





# NORDISKA KOMPANIET

*Hamngatan, Stockholm*









# NORDISKA KOMPANIET

*Östra Hamngatan, Gothenburg*







Dezi

STILBROTT  
HÖSTEN 2011

STILBROTT  
HÖSTEN 2011



# Gothenburg Business Area

## Property holdings

At the year-end, the Gothenburg Business Area comprised 4 (4) properties, located in the very heart of the Gothenburg central business district. During the year, one property was acquired and one property was sold. The acquired property is a natural complement to Hufvudstaden's holdings. Following the acquisition, Hufvudstaden owns the whole of the Härberget block, which totals 23,000 square metres and is split between offices, shops, dwellings and parking.

The largest building in the Gothenburg Business Area houses the Femman Shopping Precinct, which is in turn part of the Nordstan Shopping Centre. Nordstan receives more than 37 million visitors each year, around 11 million of whom visit Femman. Annual revenue was approximately SEK 3.9 billion, of which Femman accounts for around SEK 840 million. Hufvudstaden is one of the largest individual partners in the Nordstan Co-operative Association, which owns and manages the Nordstan multi-storey car park as well as the square and pedestrianized streets.

The Femman shopping precinct has around 60 stores, cafes and restaurants on three floors. The largest retailing tenants are Nilson Group, H&M, KappAhl, Dressmann, Femmans Sport and Indiska.

## Acquisitions

In 2011, the property Inom Vallgraven 12:2, located at Södra Hamngatan 47, was acquired. The property comprises an undeveloped plot with a building right totalling around 2,000 square metres of commercial floor space for offices and stores. The acquisition is in line with Hufvudstaden's strategy of owning and managing properties in the most attractive parts of central Stockholm and central Gothenburg. Owning the whole of the block can generate significant synergies. The acquisition also opens up the opportunity to view the block as a whole and in time develop it into an even more attractive marketplace for offices and shops in the best city centre location in Gothenburg.

## Development of holdings

The Femman property has been redeveloped with the addition of two floors comprising around 5,100 square metres of rentable office space and offering a marvellous view of Gothenburg. In October, the law firm Advokatfirman Vinge moved into its new state-of-the-art office in the extension. The offices have been given a modern design with exclusive natural materials on the walls and floors as well as generous meeting points and areas for people

to gather. The project also included up-to-date technical systems, such as a new, energy-efficient ventilation system and modern lifts. To modernize the property even further, the entrances and stairwells in the property are also undergoing renovation.

During the year an agreement was also signed with Carat Sverige regarding office space in the extension. This means that around 80 per cent has been let and the project will be completed in its entirety in 2012.

In 2011, ongoing adaptation of office premises was carried out for a number of tenants in conjunction with the extension of a lease or the signing of a new lease. The premises have been modernized and adapted to satisfy their needs.

In the Femman property, there is also extensive adaptation in progress for the company Alektum, which in spring 2012 will move into its modern, well-planned office. In the Femman Shopping Precinct, Espresso House has opened a café.

## Rental market

The rental market for office premises during the year was marked by a slight fall in the level of vacant space and a slight rise in rent levels. The market rent for office space in prime locations was between SEK 1,900 and 2,400 per square metre per year, excluding the property tax supplement. Top rents are expected to be slightly above this level. In the case of stores, the market rent trend continued to be good. Prime location premises attracted rents of between SEK 6,000 and 13,000 per square metre per year, excluding the property tax supplement.

## Customers

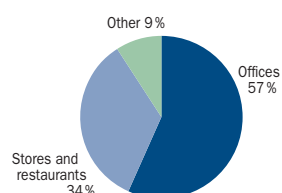
The Business Area's customers are principally companies that appreciate centrally located, high-quality premises. The dominant sectors are law firms, accountants, the media, public authorities and organizations. There are 138 customers within the Business Area. The ten largest tenants lease 26,000 square metres (28,000), representing annual rent revenue of SEK 63 million (65).

### Brand names within the Business Area

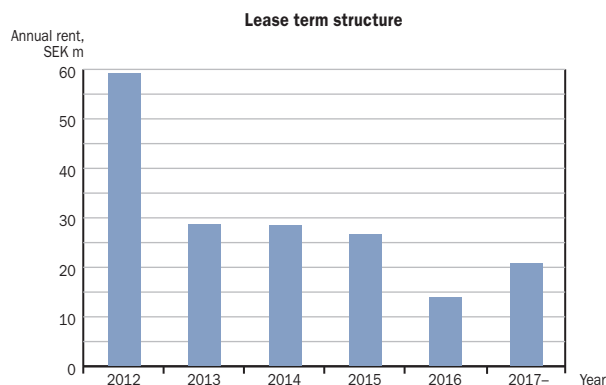
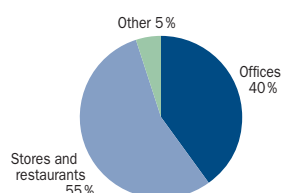
**Femman.** The Femman shopping precinct is one of the strongest brand names in retailing in western Sweden and represents a wide range within the clothing and other non-food sectors.

**Nordstan.** The Nordstan shopping centre is one of Northern Europe's largest indoor centres. Hufvudstaden is one of the largest individual partners in the Nordstan Co-operative Association with a share of approximately 30 per cent.

Rentable floor space per type of premises



Annual rent per type of premises



### Property holdings

	2011	2010
Number of properties	4	4
Rentable floor space, sq. m.	64,551	63,036
– of which offices	36,647	33,568
– of which stores and restaurants	22,162	23,668
Annual rent, SEK m	180	170
Rental vacancy level, %	8.0	1.8
Floor space vacancy level, %	11.5	4.3

### Renegotiations and new leases

	2011	2010
New leases, sq. m.	2,500	5,700
New leases, annual rent, SEK m	10	17
Renegotiated leases, sq. m.	7,700	15,200
Renegotiated annual rent, SEK m	21	39

### Property management result, comparable holdings

SEK m	2011	2010
Net revenue	177.7	176.4
Maintenance	-1.5	-0.7
Operation and administration	-37.0	-36.3
Other costs	-17.6	-17.5
Total costs	-56.1	-54.5
Gross profit	121.6	121.9

## Brand names in the Group

normalmstorg1





# Administration Report

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

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

It is proposed that the Income Statements and Balance Sheets included in the Annual Report be adopted at the Annual General Meeting to be held on March 22, 2012.

## CORPORATE GOVERNANCE REPORT

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

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

### Shares and shareholders

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

According to a conversion provision in the Articles of Association, the holders of series C shares are entitled to

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

### Annual General Meeting

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

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

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

The 2011 Annual General Meeting was held on March 24, 2011. A total of 331 shareholders, representing 118,007,165 series A shares and 8,260,355 series C shares, were present and they represented 944,042,665 votes, equivalent to 92 per cent of the total number of outstanding votes. Present at the

meeting were the Board of Directors, the members of the executive management and the auditor. Fredrik Lundberg was elected to chair the meeting. At the Annual General Meeting, it was decided to adopt the Income Statement and the Balance Sheet as well as the Consolidated Income Statement and the Consolidated Balance Sheet and to allocate the unappropriated earnings in such a way that SEK 2.30 per share is paid to the shareholders as a dividend. At the meeting, discharge from liability was granted to the members of the Board of Directors and the President and a decision was reached on the fee to the members of the Board of Directors and the auditors. In addition, all members of the Board of Directors were re-elected for the period up to the end of the next Annual General Meeting. Finally, a decision was reached at the meeting on guidelines for salaries and remuneration to senior executives and authorization for the Board of Directors to acquire and assign Company shares.

The 2012 Annual General Meeting will be held in Stockholm on March 22, 2012.

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

According to the Articles of Association, the Board of Directors shall comprise, in addition to the members appointed according to law by a party other than the general meeting, a minimum of five and a maximum of ten members. Members are elected at a general meeting of the shareholders for the period up to the end of the first Annual General Meeting to be held after the year in which the members of the Board of Directors were appointed. In the light of the concentrated ownership structure, there is no formally appointed Election Committee. The main shareholder proposes a person to chair the meeting, a Board of Directors, a Chairman of the Board and Board fees and auditors and auditors' fees. Other shareholders have the opportunity to submit nominations to the Chairman of the Board at the address stated on the Company's website. Proposals are made public no later than in conjunction with the summons to the Annual General Meeting.

As a basis for its proposal prior to the 2012 Annual General Meeting, the main shareholder has assessed whether the composition of the present Board of Directors is appropriate, among other things using applicable parts of the annual evaluation of the work of the Board of Directors as a guide.

The election procedure at Hufvudstaden is a deviation from the Code.

#### **Board of Directors**

According to the Companies Act, the Board of Directors has overall responsibility for the Group's organization and management and for ensuring that control of the accounting records, management of funds and financial circumstances

in general are satisfactory. The Board of Directors reaches decisions in matters regarding overall aims, strategic orientation and policies of the Group as well as more important issues regarding financing, acquisitions, divestments and investments. Other duties which are incumbent on the Board of Directors include the following:

- Continuously following up and assessing the Company's financial situation and business development.
- Continuously evaluating the Company's operative management and the work of the President.
- Ensuring that there is satisfactory control of the Company's compliance with laws and other rules and evaluating continuously the Company's systems for internal control and risk management.
- Adopting the Company's ethical guidelines.

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

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

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

#### **The work of the Board of Directors during 2011**

During the 2011 financial year, the Board of Directors held seven meetings, of which one was a statutory meeting, and one was held in Gothenburg. Economic and financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key matters of principle or major financial significance are taken up at each ordinary meeting. During the year, the work of the Board of Directors has been directed specifically at strategy discussions, issues pertaining to the economic climate and financing as well as investments. The property acquisitions in both Stockholm and Gothenburg, the extension of Femman, Nordstan in Gothenburg, and the initiation of a commercial paper program, were some of the issues dealt with during the year. Officials in the Company attend the Board meetings as presenters.



# BIRGER JARLSPASSAGEN

*Bibliotekstan, Stockholm*







The Company's auditor attended the Board meeting in February when the Annual Report for 2010 was approved and the Board Meeting in August in conjunction with the examination of the Company's six-monthly report.

#### **Composition of the Board of Directors**

Hufvudstaden's Board of Directors comprises nine members who are elected at the Annual General Meeting for a period of one year. The only member of the executive management on the Board is the President and he is the only one who can be regarded as being dependent on the Company. Fredrik Lundberg has been Chairman of the Board since 1998. Four of the members are in a position of dependence on the largest shareholder LE Lundbergföretagen AB (Fredrik Lundberg, Claes Boustedt, Louise Lindh and Sten Peterson). For further information about individual Board members, see pages 84–85. An external lawyer is engaged to act as secretary to the Board.

<b>Name</b>	<b>Function</b>	<b>Attendance 2011<sup>1)</sup></b>	<b>Independent in relation to the Company</b>	<b>Independent in relation to the owners</b>
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Bengt Braun		7	Yes	Yes
Peter Egardt		7	Yes	Yes
Louise Lindh		6	Yes	No
Hans Mertzig		6	Yes	Yes
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg	President	7	Yes	Yes
Ivo Stopner		7	No (employee)	Yes

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

#### **Audit**

According to the Articles of Association, the Company shall have one or two auditors and a corresponding number of deputies. Alternatively, one or two registered auditing companies can be appointed. At the 2008 Annual General Meeting, authorized public accountants George Pettersson and Joakim Thilstedt, both from KPMG, were elected as auditor and deputy auditor respectively for a period of four years. George Pettersson's other major assignments include LE Lundbergföretagen AB, Holmen AB, Sandvik AB and Skanska AB.

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

#### **Audit Committee**

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

#### **President and executive management**

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

In addition to the President, the executive management comprises the three business area heads, as well as the Head of Finance, the Head of Property Development and the Head of Human Resources. The executive management meets approximately once a month to discuss current issues. For information about individual members, see pages 86–87.

#### **Remuneration to the Board of Directors**

Remuneration to the Board of Directors is decided at the Annual General Meeting. At the Annual General Meeting in 2011 it was decided that remuneration for Board work for 2011, totalling SEK 1,575,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work on the Board. The Chairman received SEK 350,000 and the other seven non-employed members received SEK 175,000 each.

#### **Remuneration Committee**

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

to Company remuneration structures and remuneration levels for executives.

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

Guidelines for salaries, bonuses and other remuneration to the Company's executives are decided at the Annual General Meeting. It was decided at the meeting that the same guidelines should be applied for 2011 as previously, i.e. that the Company's remuneration shall comprise salaries in line with the market as well as a limited, profit-related bonus scheme as described below. The Company has no incentive schemes related to share price. These guidelines were followed during 2011 and a proposal that the same guidelines, with a slightly adjusted bonus ceiling, be applied in 2012 will be presented at the Annual General Meeting. The new ceiling amounts mean that a bonus for the President is subject to a maximum of three months' salary per year and for other executives a maximum of the higher of three months' salary or SEK 250,000 per person per year. The maximum bonus to the current number of executives and with the current salary level, will amount to SEK 2.7 million. It is proposed that the new guidelines come into effect from the 2012 Annual General Meeting. The report by the Board of Directors covering the evaluation of variable remuneration programmes for the executive management, the application of guidelines for remuneration to executives and current Company remuneration structures and remuneration levels for executives will be published on the Company's website, [www.hufvudstaden.se](http://www.hufvudstaden.se), no later than two weeks prior to the 2011 Annual General Meeting. The auditor's statement on whether guidelines for remuneration to executives, which were adopted at the Annual General Meeting in 2010, have been followed, is available on the Company's website [www.hufvudstaden.se](http://www.hufvudstaden.se) and will be attached to the documents distributed at the Annual General Meeting. The statement is also available from the Company on request.

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

For further information regarding salaries and remuneration as well as guidelines for remuneration to executives, as adopted at the 2011 Annual General Meeting, see Note 8.

#### **Bonus**

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

In the case of both bonus schemes, a decision is made one year at a time and is subject to a ceiling. A bonus is only payable if the Company reports a positive result with no consideration given to unrealized changes in value. In 2011, the bonus cost was SEK 0.6 million (2.5) or an average of SEK 3,000 per employee. For the executive management, including the President, the average was SEK 42,000 per person. The bonus is not pensionable.

#### **Buy-back of Company shares**

Since the Annual General Meeting in 2003, the Board of Directors has had the mandate of the General Meeting to buy back a maximum of 10 per cent of all shares with the aim of giving the Board the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders. The mandate was renewed at the 2011 Annual General Meeting. As of December 31, 2011, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of all shares. The whole block was acquired in 2003 at an average price of SEK 27.30 per share. No shares were bought back during the year or after the reporting period (up to and including February 9, 2012).

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

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

##### *Control environment*

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

##### *Risk assessment*

Based on ongoing discussions and meetings in the organization, the Hufvudstaden executive management identify, analyse and decide on the procedures regarding the risk



of error in the financial reports. The Board of Directors examines the outcome of the Company's risk assessment and risk management process to ensure that they cover all material areas and that they confirm the orientation and any necessary measures. Hufvudstaden's greatest risks are linked to property valuation, financial transactions and property projects.

#### *Control measures*

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

#### *Information and communication*

In-house information and external communication are governed on a general level by, among other things, an information policy. Internal communication to and from the Board and executive management takes place in a variety of ways, including the executive management holding regular information meetings for the whole Company and for individual units. Another important communication channel is Hufvudstaden's intranet. Through this, all employees have access to up-to-date information. Internal policies, guidelines, instructions and equivalent documents that control and support operations are published on the intranet. Feedback on internal control work follows the customary reporting channels.

#### *Follow-up*

The Hufvudstaden executive management evaluates on an ongoing basis internal control of financial reporting, particularly through analyses, questioning and familiarization with the work of the controller function.

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

#### **Internal audit statement**

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

## **OPERATIONS**

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

The global economy continued to gather strength during the first part of 2011. The Swedish economy noted record growth figures as a result of a strengthening in Europe and stable demand from Asia and South America. During the summer, Greece was thrown into a government debt crisis, which spread to other countries in southern Europe. This led to a crisis of confidence in the euro. Investors' risk aversion increased, resulting in a fall in financing opportunities and sharp rises in interest margins. At the end of the year, the Swedish economy was also hit by the downturn in the European economy.

Demand on the rental market increased through to the summer and remained stable throughout the second half of the year. There has been limited availability of larger blocks of floor space in the central areas of Stockholm and Gothenburg and no major new construction projects have yet reached completion. Both cities are investing in the infrastructure and tourism has continued to increase. These factors have led to higher rents and a fall in vacant space. Following renegotiations, a number of leases have been signed with long terms and good rent levels.

The focus on establishing Bibliotekstan as an area for highly renowned Swedish and international brands has proved successful. During the year, leases were signed with, among others, Ralph Lauren and Burberry. Turnover at the NK department stores was largely on a par with the previous year, which is strong in the light of the downturn in the retail trade during the autumn. In Gothenburg, a property was acquired on the Härberget block where Hufvudstaden already owned the other properties. The extension to Femman in Nordstan continued during the year and the first tenant could take up occupancy in October. The project is scheduled for completion in 2012. In Stockholm, the Kåkenhusen 38 property was acquired. The property is located beside the Company's property on Kungsgatan/Norrandsgatan.

Hufvudstaden's cash flow is stable and its financial position is secure even following acquisitions and completed projects. The equity ratio is in excess of 50 per cent, the interest coverage ratio is 7 and the loan-to-value-ratio is less than 20 per cent. The Company has unutilized loan assurances totalling SEK 575 million and loans that fall due in 2012 totalling SEK 250 million. To broaden the financing base, the Board of Directors has decided to embark on a commercial paper program worth SEK 1 billion.

The positive development and stability of the Swedish economy has meant a continued high level of interest in the property market. The transaction volume largely reached the level for the previous year despite emerging uncertainty on the credit market during the autumn. The increased rent levels, combined with a slight fall in yield requirements, has led to a revaluation of the property holdings during the year.

### Property holdings

At the end of the year, Hufvudstaden owned 30 properties (29). The rentable floor space was 284,500 square metres in Stockholm and 81,000 square metres in Gothenburg, totalling 365,500 square metres.

During the year, one acquisition took place in Stockholm and one exchange deal in Gothenburg. The property in Stockholm comprises approximately 6,700 square metres and the purchase sum was SEK 477.5 million. In Gothenburg, an undeveloped 2,000 square metre plot was acquired for SEK 65 million. In conjunction with the acquisition, a property comprising 2,500 square metres was divested for SEK 87 million.

The total rental vacancy level in the Group as of December 31, 2011 was 3.9 per cent (5.1) and the floor space vacancy level was 5.9 per cent (6.8). In Stockholm, the rental vacancy level was 3.4 per cent and in Gothenburg 6.0 per cent.

During the year, 42,200 square metres (61,500) were renegotiated at a total value of SEK 215 million per year and new leases were signed totalling 22,000 square metres (23,200).

### 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, 2011. To assure the valuation, external valuations were commissioned from two valuation companies. The external valuations made at the turn of the year were equivalent to 32 per cent of the fair value and the equivalent proportion for the whole of 2011 was 55 per cent.

The fair value of the property holdings as of December 31, 2011 was set at SEK 22.3 billion (20.1).

### Valuation method

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

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

#### Sensitivity analysis, property valuation

	Change +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq. m.	SEK 750 million
Property costs	SEK 50/sq. m.	SEK 375 million
Rental vacancy level	1.0 percentage points	SEK 300 million
Yield requirement	0.5 percentage points	SEK 2,300 million

### Net asset value

The assessed fair value of the property holdings as of December 31, 2011 was SEK 22.3 billion. Based on the valuation of the property holdings, the net asset value is SEK 15.6 billion or SEK 76 per share after tax. When computing the net asset value, calculated deferred tax has been used. This is calculated at 10 per cent of the difference between the assessed fair value and the fiscal residual value of the properties. This has been assessed in the light of current tax legislation, which means the properties can be sold via a limited company without tax implications. The purchaser, however, loses the basis for depreciation, which could justify some compensation, which has been set at 10 per cent. If the rate for deferred tax according to the Balance Sheet (26.3 per cent) were used in the calculation, the net asset value would have been SEK 12.5 billion or SEK 61 per share. If the tax rate were assumed to be 0 per cent, the net asset value would have been SEK 17.5 billion or SEK 85 per share.

#### Net asset value, December 31, 2011

SEK billion	
Reported equity	12.5
Reversal of reported deferred tax	5.0
Net asset value before tax	17.5
Calculated deferred tax of 10 per cent	-1.9
Net asset value after tax	15.6
Net asset value per share	SEK 76

### Opportunities and risks

The government debt crisis in Europe and the problems surrounding the Eurozone have led to considerable uncertainty on the credit market, which has resulted in a greater focus on the risk areas in the Company's operations. The Company's financial risks are reviewed on a continuous

basis. Hufvudstaden's financing potential has been guaranteed through long-term loan assurances. The framework is SEK 3,000 million, of which SEK 575 million is unutilized. The Company has satisfactory margins in relation to the lenders' restrictions (covenants) regarding the loan agreements. Loans that will fall due during 2012 amount to SEK 250 million, see Note 25. The interest risk has been handled by hedging the interest level for SEK 2,750 million of the total borrowing of SEK 4,375 million. The fixed interest period was 24 months and the average annual equivalent rate (AER) was 3.8 per cent. The Company's financing sources have increased by initiating a commercial paper program totalling SEK 1 billion. To minimize bad debts, a credit assessment of new customers is made as well as continuous monitoring of accounts receivable and rent receivables.

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

#### *Changes in value in the property holdings*

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

#### *Rent trend*

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

#### *Property tax*

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

#### *Rent losses on vacant premises*

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

#### *Lease term*

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

#### *Turnover-based rent*

Turnover-based rent is mainly applied at the NK department stores. Hufvudstaden is striving to increase the proportion of lease agreements with turnover-based rent as they offer 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*

Hufvudstaden is working actively to optimize the properties' consumption and in doing so reduce the operating costs. The procurement of energy takes place regularly through forward agreements to reduce 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, thus reducing the risk of unforeseen cost increases.

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

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

#### *Financial risks*

Apart from its own funds, the Company's operations are also financed through loans from credit institutions. Consequently, the Group is exposed to financing, interest rate and credit risks. A presentation of the Company's finance



policy and how financial risks are handled, as well as the handling of credit risks attributable to accounts receivable and rent receivables, is to be found in Note 2.

### Sensitivity analysis

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

The reported effects on profit in conjunction with changes in the rent level, level of vacant space, operating and maintenance costs, property tax and interest expense, refer to the effects that would have occurred during the 2011 financial year if the changes had occurred at the beginning of 2011.

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 changed conditions that could arise should certain events occur.

#### Change in pre-tax profit, excluding changes in value

	Change +/-	Impact on profit, excluding changes in value before tax, +/-
Rent level	SEK 100/sq. m.	SEK 36 million
Vacancy level <sup>1)</sup>	1 percentage point	SEK 13 million
Operation and maintenance	10 per cent	SEK 17 million
Property tax <sup>2)</sup>	1 percentage point	SEK 11 million
Interest rate <sup>3)</sup>	1 percentage point	SEK 44 million

1) Vacant floor space is estimated at SEK 3,500 per square metre.

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

3) Without taking into account the fixing of interest through derivatives.  
For details of the effect, including derivatives, see Note 2, page 69.

### Non-financial result indicators

Corporate social responsibility, both internally and externally, is a prerequisite for success. Hufvudstaden contributes to the development of society by assuming responsibility for its properties and the surrounding environment. The Company ensures that it complies with prevailing laws and agreements by making demands on contractors and sub-suppliers. Hufvudstaden's values characterize the actions of its employees and are an active tool in the day-to-day work. All forms of discrimination and unfounded salary differences are counteracted.

### Environmental impact

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

### Stock market information

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

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

### Key events after the year-end

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

### The future

The debt crisis in Europe and the deterioration in the economy will affect the property industry during 2012 and will probably result in a somewhat depressed rental market. The strong growth in population in Stockholm and Gothenburg and investments in the infrastructure, are factors that we believe will contribute to these markets demonstrating greater resistance. Demand on the office rental market is expected to remain stable with satisfactory rent levels for the Company's top-quality premises in prime locations. Vacant space fell gradually during the year and is at the lower end of the range that can be regarded as a normal for vacant space, 4–6 per cent. Our assessment is that vacant space will remain on this level over the next year and in the future available space within the retail segment will remain on very low levels. Despite an expected fall in consumption, we believe that market rents for stores will generally remain unchanged. Rising interest in establishing high-end international fashion brands on our marketplaces will have a positive impact on the retail trade.

Property transactions are expected to be fewer as a result of a tightening on credit and a flagging economy. There will, however, be continued interest in centrally located properties in Stockholm and Gothenburg. Hufvudstaden's solid financial position and good earning capacity will open up potential for complementary property acquisitions or the commencement of major projects.

### Proposed dividend and allocation of profit

The Board has proposed a dividend of SEK 2.45 per share, making a total of SEK 505.4 million. The Board of Directors' proposed allocation of unappropriated earnings is presented in full on page 82.

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

## Income Statements with comments – Group

SEK m	Note	2011	2010
<i>Net revenue</i>			
Property management	4, 5	1,369.4	1,321.0
Parking operations		67.9	71.1
	3	<b>1,437.3</b>	<b>1,392.1</b>
<i>Property management costs</i>			
– Maintenance		-46.8	-28.4
– Operations and administration	6	-236.1	-234.9
– Ground rents		-15.5	-13.3
– Property tax		-126.1	-124.1
<b>Property management expenses</b>		<b>-424.5</b>	<b>-400.7</b>
Parking operations, costs	3, 6	-48.2	-47.5
<b>Cost of operations</b>		<b>-472.7</b>	<b>-448.2</b>
<b>Gross profit</b>		<b>964.6</b>	<b>943.9</b>
– of which Property management	3	944.9	920.3
– of which Parking operations	3	19.7	23.6
Central administration		-31.7	-31.0
<b>Operating profit before changes in value</b>	8–11	<b>932.9</b>	<b>912.9</b>
<i>Changes in value</i>	12		
– Investment properties		1,244.9	1,490.3
– Interest derivatives		-99.2	51.4
<b>Operating result</b>		<b>2,078.6</b>	<b>2,454.6</b>
<i>Financial income and expense</i>			
Financial income	13	13.0	17.7
Financial expense	14	-135.3	-120.4
		<b>-122.3</b>	<b>-102.7</b>
<b>Result before tax</b>		<b>1,956.3</b>	<b>2,351.9</b>
Tax	16	-521.0	-618.6
<b>RESULT FOR THE YEAR AFTER TAX</b>		<b>1,435.3</b>	<b>1,733.3</b>
Other comprehensive income		–	–
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,435.3</b>	<b>1,733.3</b>
Result for the year per share before and after dilution, SEK		6.96	8.40
Ordinary dividend per share, SEK (proposed)		2.45	2.30



### Property Management

Net revenue from property management during the year totalled SEK 1,369.4 million (1,321.0), equivalent to an increase of 4 per cent. The increase can be attributed to the net of higher gross rents in conjunction with renegotiations, new leases and indexing. During the year, Hufvudstaden renegotiated leases equivalent to SEK 215 million in annual rental revenue. Renegotiations for both office and retailing premises resulted in increased rent levels by an average of around 8 per cent (2). In addition, the cost of vacant space decreased and the level of vacant space fell during the year from 5.1 per cent to 3.9 per cent.

The turnover-based rent supplement in the NK properties was SEK 9.0 million (10.7). Turnover at the NK department stores amounted to approximately SEK 2.8 billion (2.8). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents.

Maintenance costs amounted to SEK 46.8 million (28.4). The increase can be attributed largely to the cost of evacuating store tenants. Operating costs amounted to SEK 182.0 million (171.2). The higher operating costs can be attributed mainly to a cold, snowy start to the year. Administration costs amounted to SEK 54.1 million (63.7). The decrease refers mainly to the charge for project management, which with effect from 2011 is attributable to development projects in the properties. Property tax increased to SEK 126.1 million (124.1). The cost of property tax has mainly been passed on to the tenants. Overall, this means that the total cost for property management amounted to SEK 424.5 million (400.7).

The gross profit for the year was SEK 944.9 million (920.3).



### Parking operations

Parking operations comprise parking operations at Parkaden AB.

Net revenue was SEK 67.9 million (71.1). Costs amounted to SEK 48.2 million (47.5) and the gross profit amounted to SEK 19.7 million (23.6).

### Changes in value

Changes in the value of investment properties amounted to SEK 1,244.9 million (1,490.3), of which 1.0 million referred to realized changes in value in conjunction with the sale of a property. The unrealized change in value can be attributed to higher rents and a lower yield requirement. The average direct yield requirement in conjunction with the above valuation was 4.8 per cent (5.0).

Changes in value of interest derivatives totalled SEK -99.2 million (51.4). The unrealized fall in value can be explained by the lower market interest rates of long fixed interest periods. Hufvudstaden uses interest derivatives to reduce the impact on profit of changes in interest levels by achieving fixed interest periods that take into account the lease renewal structure. Changes in the fair value of derivatives are therefore reported together with the changes in the value of investment properties. See also Interest risk section in Note 2.

### Financial items

Financial income was SEK 13.0 million (17.7), which includes a dissolved reserve of SEK 10.2 million for an earlier sale of a subsidiary. Financial expense amounted to SEK -135.3 million (-120.4). Interest expense has risen due to increased borrowing and higher interest on loans with short-term fixed interest.

### Tax

The Group's tax expense was SEK -521.0 million (-618.6), of which SEK -140.8 million (-165.8) was actual tax and SEK -380.2 million (-452.8) deferred tax.

### Result for the year

The result for the year was SEK 1,435.3 million (1,733.3). The fall in profit can be explained mainly by the lower changes in value compared with the preceding year.

## Consolidated Balance Sheets with comments – Group

SEK m	Note	31-12-2011	31-12-2010
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	22,251.2	20,148.3
Tangible fixed assets	18	5.6	6.4
Non-current receivables	20	6.1	5.9
<b>Total fixed assets</b>		<b>22,262.9</b>	<b>20,160.6</b>
<b>Current assets</b>			
Accounts receivable	21	8.7	10.4
Prepaid tax		22.7	–
Other receivables		25.8	1.3
Prepaid expense and accrued income	22	28.2	18.9
Current investments		320.0	320.0
Liquid funds	23	26.7	27.9
<b>Total current assets</b>		<b>432.1</b>	<b>378.5</b>
<b>TOTAL ASSETS</b>		<b>22,695.0</b>	<b>20,539.1</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Retained earnings, including result for the year		10,802.4	9,841.5
<b>Total equity</b>	24	<b>12,486.9</b>	<b>11,526.0</b>
<i>Non-current liabilities</i>			
Interest-bearing liabilities to credit institutions	25	4,125.0	2,650.0
Deferred tax liabilities	26	5,171.4	4,788.8
Other non-current liabilities		187.9	87.2
Other provisions	27	7.7	7.4
<b>Total non-current liabilities</b>		<b>9,492.0</b>	<b>7,533.4</b>
<i>Current liabilities</i>			
Interest-bearing liabilities to credit institutions	25	250.0	950.0
Accounts payable		67.2	101.3
Current tax liabilities		–	41.1
Other liabilities	28	86.9	94.1
Accrued expenses and prepaid income	30	312.0	293.2
<b>Total current liabilities</b>		<b>716.1</b>	<b>1,479.7</b>
<b>Total liabilities</b>		<b>10,208.1</b>	<b>9,013.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,695.0</b>	<b>20,539.1</b>



### Investment properties

The properties' carrying amount in the Group was SEK 22,251.2 million (20,148.3). The increase in the properties' fair value can be attributed to the acquisition of one property in Stockholm and one in Gothenburg at a purchase sum of SEK 542.5 million, a sale of one property in Gothenburg and an unrealized change in value of SEK 1,243.9 million (1,490.3) and investments made in the property holdings during the year totalling SEK 402.6 million (357.7). The majority of the investments refer to the extension project in Gothenburg, which commenced in 2010 and is due for completion in 2012. Investment properties in the Group are reported at fair value according to IAS 40, which does not permit depreciation. The valuation method is described in Note 17, Investment properties. The properties' fiscal residual value was SEK 2.7 billion.

### Cash and cash equivalents

Cash and cash equivalents, the sum of cash and bank holdings as well as current investments, amounted to SEK 346.7 million (347.9). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is normally used for the amortization of loans or is invested in short-term instruments with high liquidity and low risk. As of December 31, 2011, such current investments amounted to SEK 320.0

million (320.0). There are no limits on the right of use of cash and cash equivalents. In addition to cash and cash equivalents, there are unutilized overdraft facilities of SEK 40 million (40).

### Interest-bearing liabilities

The Group's liabilities to credit institutions amounted to SEK 4,375.0 million (3,600.0). The increased borrowing has been used to finance, among other things, the property acquisitions and extension project in Gothenburg. The average fixed interest period was 24 months (31), the average capital tie-up period was 54 months (43) and the average annual equivalent interest rate at the year-end was 3.8 per cent (3.6). Net debt totalled SEK 4,028.3 million (3,252.1). Financial items included in net debt are listed in Note 2, page 69.

### Deferred tax liabilities

Deferred tax liabilities amounted to SEK 5,171.4 million (4,788.8). The increase can be explained by the provision for deferred tax resulting from unrealized changes in value.



## Changes in equity – Group

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
<b>Opening equity 1-1-2010</b>	<b>1,056.4</b>	<b>628.1</b>	<b>8,541.4</b>	<b>10,225.9</b>
Result for the year			1,733.3	1,733.3
Other comprehensive income for the year				–
Total comprehensive income for the year			1,733.3	1,733.3
Dividend			-433.2	-433.2
<b>Closing equity 31-12-2010</b>	<b>1,056.4</b>	<b>628.1</b>	<b>9,841.5</b>	<b>11,526.0</b>
<b>Opening equity 1-1-2011</b>	<b>1,056.4</b>	<b>628.1</b>	<b>9,841.5</b>	<b>11,526.0</b>
Result for the year			1,435.3	1,435.3
Other comprehensive income for the year				–
Total comprehensive income for the year			1,435.3	1,435.3
Dividend			-474.4	-474.4
<b>Closing equity 31-12-2011</b>	<b>1,056.4</b>	<b>628.1</b>	<b>10,802.4</b>	<b>12,486.9</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 24, 2011, the Board of Directors was given a renewed mandate to buy back a maximum of 10 per cent of all shares with the aim of giving the Board of Directors the opportunity to adjust the capital structure in order to create increased value for the Company's shareholders. No buy-backs took place during 2011.

During 2011, a dividend of SEK 2.30 per share was paid to the Company's shareholders, totalling SEK 474,411,646.

The proposed dividend according to the allocation of unappropriated earnings is SEK 505.4 million. (See Definitions, page 93, Dividend amount.)





**BIBLIOTEKSTAN**

*Biblioteksgatan, Stockholm*

## Cash flow statements with comments – Group

SEK m	2011	2010
<b>Current operations</b>		
Result before tax	1,956.3	2,351.9
Depreciation and impairment of assets	7.4	4.1
Realized change in value, investment properties	-1.0	–
Unrealized change in value, investment properties	-1,243.9	-1,490.3
Unrealized change in value, derivatives	99.2	-51.4
Other changes	0.4	1.1
Income tax paid	-204.6	-195.3
<b>Cash flow from current operations before changes in working capital</b>	<b>613.8</b>	<b>620.1</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (–) in operating receivables	-34.7	5.4
Increase (+) / Decrease (–) in operating liabilities	-20.3	65.9
<b>Cash flow from current operations</b>	<b>558.8</b>	<b>691.4</b>
<b>Investments</b>		
Sale of investment property	87.0	–
Investment in investment properties	-945.1	-532.7
Investment in equipment	-2.4	-1.7
Acquisition of subsidiary	-0.1	–
Change in financial assets	–	-0.8
<b>Cash flow from investments</b>	<b>-860.6</b>	<b>-535.2</b>
<b>Financing</b>		
Loans raised	775.0	200.0
Dividend paid	-474.4	-433.2
<b>Cash flow from financing</b>	<b>300.6</b>	<b>-233.2</b>
<b>Cash flow for the year</b>	<b>-1.2</b>	<b>-77.0</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>347.9</b>	<b>424.9</b>
<b>Cash and cash equivalents at the year-end</b>	<b>346.7</b>	<b>347.9</b>
<b>Supplementary information, cash flow statements</b>		
Interest received	3.6	2.3
Interest paid	131.2	120.3



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

Cash flow from current operations before changes in operating capital decreased by SEK 6.3 million to SEK 613.8 million (620.1). Changes in working capital reduced cash flow by SEK 55.0 million. Cash flow from current operations thus totalled SEK 558.8 million (691.4).

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

Cash flow from investments amounted to SEK -860.6 million (-535.2). Investments in property holdings increased by SEK 412.4 million compared with the preceding year, which can be attributed mainly to the acquisition of properties and an extension project at Femman in Gothenburg.

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

Cash flow from financing increased by SEK 533.8 million to SEK 300.6 million (-233.2). The increase can be explained by an increase in lending in conjunction with property acquisitions and a higher dividend decided at the 2011 Annual General Meeting. The net increase in interest-

bearing liabilities to credit institutions totalled SEK 775 million compared with an increase of SEK 200 million the preceding year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK -1.2 million (-77.0).

#### **Cash and cash equivalents**

The Group's cash and cash equivalents totalled SEK 346.7 million (347.9), of which cash and bank holdings amounted to SEK 26.7 million (27.9) and current investment of surplus liquidity was SEK 320.0 million (320.0). Including unutilized overdraft facilities, liquidity amounted to SEK 386.7 million (387.9). All current investments have a term shorter than three months. As of December 31, 2011, Hufvudstaden had non-current loan assurances of SEK 3.0 billion. At the turn of the year, SEK 575 million had been unutilized.

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



# Hufvudstaden AB – Parent Company

## Income Statements – Parent Company

SEK m	Note	2011	2010
Net revenue		828.1	790.7
Operating costs		-471.7	-454.7
<b>Gross profit</b>		<b>356.4</b>	<b>336.0</b>
Central administration		-31.7	-31.0
Changes in value	12	-113.9	51.4
<b>Operating profit</b>	6–11	<b>210.8</b>	<b>356.4</b>
<b>Profit after financial items</b>			
Group contributions received		319.9	334.8
Financial income	13	90.7	17.5
Financial expense	14	-135.3	-120.6
		<b>275.3</b>	<b>231.7</b>
<b>Profit after financial items</b>		<b>486.1</b>	<b>588.1</b>
Appropriations	15	-28.5	98.2
<b>Profit before tax</b>		<b>457.6</b>	<b>686.3</b>
Tax	16	-100.2	-180.2
<b>PROFIT FOR THE YEAR</b>		<b>357.4</b>	<b>506.1</b>

## Statement of Comprehensive Income – Parent Company

SEK m	Note	2011	2010
Profit for the year		357.4	506.1
Other comprehensive income		–	–
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>357.4</b>	<b>506.1</b>

## Balance Sheets – Parent Company

SEK m	Note	31-12-2011	31-12-2010
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment properties	17	6,369.6	6,240.6
Tangible fixed assets	18	3.8	4.4
		<b>6,373.4</b>	<b>6,245.0</b>
<i>Financial fixed assets</i>			
Participations in Group companies	19	3,091.1	2,824.8
Deferred prepaid tax		0.6	–
Other non-current receivables	20	6.1	5.9
<i>Total financial fixed assets</i>		3,097.8	2,830.7
<b>Total fixed assets</b>		<b>9,471.2</b>	<b>9,075.7</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Accounts receivable	21	0.5	1.8
Other receivables		24.9	–
Prepaid tax		25.7	–
Receivables from Group companies		696.1	476.9
Prepaid expenses and accrued income	22	15.7	10.9
<i>Total current assets</i>		762.9	489.6
Other current investments		320.0	320.0
Cash and bank holdings	23	26.4	27.6
<b>Total current assets</b>		<b>1,109.3</b>	<b>837.2</b>
<b>TOTAL ASSETS</b>		<b>10,580.5</b>	<b>9,912.9</b>

## Balance Sheets – Parent Company, cont'd

SEK m	Note	31-12-2011	31-12-2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital (211,271,933 shares)		1,056.4	1,056.4
Revaluation reserve		124.2	124.2
Statutory reserve		798.1	798.1
<b>Total restricted equity</b>		<b>1,978.7</b>	<b>1,978.7</b>
<i>Non-restricted equity</i>			
Retained earnings		1,732.1	1,700.4
Profit for the year		357.4	506.1
<b>Total non-restricted equity</b>		<b>2,089.5</b>	<b>2,206.5</b>
<b>Total equity</b>	24	<b>4,068.2</b>	<b>4,185.2</b>
<i>Untaxed reserves</i>	29	584.5	556.0
<i>Provisions</i>			
Pension provisions	27	7.5	7.1
Provisions for taxes	26	1,078.9	1,118.4
<b>Total provisions</b>		<b>1,086.4</b>	<b>1,125.5</b>
<i>Non-current liabilities</i>			
Liabilities to credit institutions	25	4,125.0	2,650.0
Liabilities to Group companies		0.7	0.7
Other liabilities		187.8	87.0
<b>Total non-current liabilities</b>		<b>4,313.5</b>	<b>2,737.7</b>
<i>Current liabilities</i>			
Liabilities to credit institutions	25	250.0	950.0
Accounts payable		35.9	72.2
Liabilities to Group companies		9.0	7.7
Current tax liabilities		–	38.6
Other liabilities	28	27.3	39.9
Accrued expenses and prepaid income	30	205.7	200.1
<b>Total current liabilities</b>		<b>527.9</b>	<b>1,308.5</b>
<b>Total liabilities</b>		<b>6,512.3</b>	<b>5,727.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,580.5</b>	<b>9,912.9</b>

SEK m	Note	31-12-2011	31-12-2010
Pledged assets	31	2,463.1	1,811.9
Contingent liabilities	31	None	None

### Changes in equity – Parent Company

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings, including profit for the year	Total
<b>Opening equity 1-1-2010</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,133.6</b>	<b>4,112.3</b>
Profit for the year				506.1	506.1
Other comprehensive income for the year					–
Comprehensive income for the year				506.1	506.1
Group contributions received				-433.2	-433.2
<b>Closing equity 31-12-2010</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,206.5</b>	<b>4,185.2</b>
<b>Opening equity 1-1-2011</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,206.5</b>	<b>4,185.2</b>
Profit for the year				357.4	357.4
Other comprehensive income for the year					–
Comprehensive income for the year				357.4	357.4
Dividend in Parent Company				-474.4	-474.4
<b>Closing equity 31-12-2011</b>	<b>1,056.4</b>	<b>124.2</b>	<b>798.1</b>	<b>2,089.5</b>	<b>4,068.2</b>

### Comments – Parent Company

The gross profit amounted to SEK 356.4 million (336.0). The increase can be attributed mainly to higher rents and lower vacant space. Net revenue was SEK 828.1 million (790.7).

Net financial income and expense was SEK 275.3 million (231.7). The profit for the year includes group contributions from subsidiaries totalling SEK 319.9 million (334.8).

Cash and cash equivalents at the period-end totalled SEK 346.4 million (347.6). Investment in properties and equipment during the period amounted to SEK 225.0 million (347.1). Acquisition of subsidiaries totalled SEK 266.3 million (0).

### Cash Flow Statements – Parent Company

SEK m	2011	2010
<b>Current operations</b>		
Profit after financial items	486.1	588.1
Depreciation and impairment of assets	75.0	66.8
Changes in value, interest derivatives	99.2	-51.4
Group contribution	-319.9	-334.8
Capital gain on sale of investment properties	14.7	–
Capital loss on sale of subsidiary	-78.0	–
Change, other provisions	0.3	1.1
Income tax paid	-204.6	-182.4
<b>Cash flow from current operations before changes in working capital</b>	<b>72.8</b>	<b>87.4</b>
Cash flow from changes in working capital		
Decrease (+) / Increase (–) in operating receivables	72.6	363.4
Increase (+) / Decrease (–) in operating liabilities	-40.4	53.3
<b>Cash flow from current operations</b>	<b>105.0</b>	<b>504.1</b>
<b>Investments</b>		
Acquisition of subsidiary	-266.3	–
Sale of subsidiary	78.0	–
Disposal of investment property	6.7	–
Investment in investment properties	-223.1	-345.6
Investment in equipment	-1.9	-1.5
Investment in financial assets	-0.2	-0.9
<b>Cash flow from investments</b>	<b>-406.8</b>	<b>-348.0</b>
<b>Financing</b>		
Loans raised	775.0	200.0
Dividend paid	-474.4	-433.2
<b>Cash flow from financing</b>	<b>300.6</b>	<b>-233.2</b>
<b>Cash flow for the year</b>	<b>-1.2</b>	<b>-77.1</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>347.6</b>	<b>424.7</b>
<b>Cash and cash equivalents at the year-end</b>	<b>346.4</b>	<b>347.6</b>
<b>Supplementary information, Cash Flow Statements</b>		
Interest received	3.0	1.9
Interest paid	131.1	120.0



# Notes

## Note 1. Accounting principles

### General information

Hufvudstaden AB (publ) is a Swedish listed company with its registered office in Stockholm. Hufvudstaden is quoted in the large cap list on NASDAQ OMX Stockholm. The Group's principal area of business is the ownership, development and management of commercial properties. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm. LE Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Annual Consolidated Accounts for Hufvudstaden AB (publ) for 2011 have been approved for publication according to a decision reached by the Board on February 9, 2012. It is proposed that the Annual Report and consolidated accounts be adopted at the Annual General Meeting on March 22, 2012.

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

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

### Prerequisites in conjunction with the drawing up of the financial statements

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

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

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

### Assessments and estimates

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

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

#### Investment properties

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

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

### Amended accounting principles

No new or amended IFRS to be applied with effect from 2011 have had any impact on the consolidated financial statements. With effect from 2011, Hufvudstaden reports the cost of internal project management as part of the cost of maintenance projects.

### New IFRS

A number of new and amended IFRS will only come into effect in 2012 and have not been applied when preparing these financial statements. These are not considered to have any major impact on Hufvudstaden's financial statements.

### Classification etc.

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

### Consolidated accounts

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

### Reporting of income and costs

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

#### Income from property sales

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

#### Intra-Group rents and costs

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

#### Administration costs

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

#### Financial income and expense

Financial income and expense comprises interest income and interest expense, dividends from subsidiaries and unrealized and realized gains on financial investments. Interest income and interest expense are reported in the Income Statement for the period to which they refer, apart from borrowing expenses,

*Note 1 continued on page 67.*

which are attributable directly to investments and where the financing cost is of material significance. Interest income attributable to accounts receivable is included in the gross profit. Interest income and interest expense are calculated according to the annual equivalent interest rate method.

#### Leases

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

#### Remuneration to employees

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

As regards the Group's pension undertakings, the majority of white-collar workers are covered by what is known as the ITP plan, which is secured through insurance with Alecta, and blue-collar workers are covered by the SAF-LO pension agreement. During the 2011 financial year, the Company did not have access to information that made it possible to report these plans as defined benefit plans. The pension plans are therefore reported as defined contribution plans. The commitments regarding charges to defined contribution plans are reported as a cost in the Income Statement when they arise.

#### Tax

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

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

#### Financial instruments

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

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

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

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

This category comprises two sub-groups: financial assets and liabilities, which comprise a holding for trading purposes, i.e. where the main purpose is to sell

or repurchase in the short term, and other financial assets and liabilities which the Company has initially chosen to place in this category (according to what is known as the Fair Value Option). Derivatives are classified as being held for trading purposes if they are not identified as hedges. Financial assets in this category are valued continuously at fair value with changes in value reported in the Income Statement.

This category includes interest derivatives.

#### Loan receivables and accounts receivable

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

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

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

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

#### Other financial liabilities

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

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

#### Derivatives

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

#### Impairment of financial instruments

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

#### Tangible fixed assets

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

#### Depreciation, property management

Depreciation of tangible fixed assets used in administration is included in property management administration.

#### Depreciation, Parking Operations

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

#### Depreciation principles

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

**Investment properties**

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

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

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

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

**Impairments**

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

**Share capital**

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

**Profit per share**

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

**Fixed assets held for resale and discontinued operations**

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

**Provisions**

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

**Contingent liabilities**

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

**Cash Flow Statements**

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

**Segment reporting**

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

**PARENT COMPANY'S ACCOUNTING PRINCIPLES**

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

With effect from 2011, group contributions received are reported under Financial items and group contributions granted are reported under Investment in shares in subsidiaries. The change has meant that the group contribution received in 2010 is reported as financial income in the profit for the year instead of directly in equity. The report on changes in equity and the tax note have been adjusted to take account of this. Previously, group contributions were reported as a decrease or an increase in non-restricted equity with consideration given to tax according to UFR 2.

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

**Investment properties**

The Parent Company's investment properties are valued at cost with a deduction for accumulated depreciation. The acquisition value comprises the acquisition price, cost of title deeds and value-enhancing improvements. Hufvudstaden only capitalizes charges that generate a permanent increase in the value of the properties. Development costs of a maintenance nature are charged to profit. Loan charges are not capitalized in the Parent Company.

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

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

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

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

**Depreciation – investment properties**

The Parent Company's depreciation according to plan is based on the original acquisition values, adjusted where applicable for revaluations and impairments and the estimated useful life. The estimated useful life for buildings is 50–100 years and for building equipment 5 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 per cent) category, the percentage for the category in question is applied to the whole property. The revaluation is depreciated over the underlying asset's remaining depreciation period. Percentages for depreciation are reported in Note 17.



## Note 2. Financial risks

Hufvudstaden is mainly exposed to financing risks and interest risks. The Group endeavours to have a credit portfolio with a diverse credit renewal structure that facilitates possible amortizations. No loans are raised in foreign currency and consequently the Group is not exposed to a currency exchange risk. Borrowing normally takes place with short fixed interest periods and interest swaps are used to achieve the desired fixed interest structure. Derivatives are only used for the purposes of minimizing the risk and should be linked to an underlying exposure. At present, the Group has derivatives reported in the category financial assets and liabilities valued at fair value in profit or loss. Hedge accounting is not applied.

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

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

### Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. The aim is to have financing from at least three of the major banks and a loan portfolio with a spread of due dates and a long term. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the rescheduling of loans and investments. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis. The executive management prepares rolling forecasts for the Group's liquidity on the basis of expected cash flows. Hufvudstaden's borrowings amounted to SEK 4,375 million at the year-end. The average fixed interest period was 24 months (31), the average capital tie-up period was 54 months (43) and the average interest cost 3.8 per cent (3.6). Net debt totalled SEK 4,028.3 million compared to SEK 3,252.1 million at the end of 2010. As of December 31, 2011, the Group had non-current loan assurances of SEK 3 billion, of which SEK 0.6 billion was unutilized. The Company has satisfactory margins with regard to the lenders' restrictions (covenants) in the loan agreements.

### Due date structure, interest and capital, December 31, 2011

Year due	Interest payment, SEK m	Of which swaps, SEK m	Nominal amount, SEK m	Proportion, %
2012, Q 1	41.3	7.2	–	–
2012, Q 2	41.4	7.2	–	–
2012, Q 3	41.9	7.8	–	–
2012, Q 4	39.2	6.6	250.0	6
2013	143.6	16.6	950.0	22
2014	130.9	15.2	–	–
2015	128.7	13.0	–	–
2016	124.6	10.6	425.0	10
2017	71.8	6.9	2,750.0	62
Total	763.4	91.1	4,375.0	100

In addition to the above, there are other liabilities, which also include accounts payable, which normally fall due within 30 days, as well as derivatives with a negative value of SEK 183.6 million.

### Interest risk

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

The raising of interest-bearing loans means that the Group is exposed to an interest risk. Hufvudstaden's finance policy states the framework for how interest risks are to be handled. An overall aim is that the renewal structure in the leases should be taken into account when determining the fixed interest period and that a balance is struck between the assessed current cost of borrowing and the risk of a significant negative impact on profit in the event of a sudden, major change in the interest rate. This means that the Group's fixed interest structure for the net debt should normally be 12–48 months. Loans are normally raised at a variable rate of interest and to achieve the desired fixed interest structure derivatives are used. As of December 31, 2011, the Group's fixed interest period

was 24 months. A change in the interest level of +/– 1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would affect Hufvudstaden's interest expense in 2012 to the amount of +/– SEK 14 million. At the same time, the change in interest would mean a change in value in interest derivatives to the amount of SEK 98 million in the result.

### Fixed interest structure, December 31, 2011 (Including effect of interest derivatives)

Year due	Volume, SEK m	Proportion, %	Average AER, %
2012 <sup>1)</sup>	2,125.0	48	3.4
2013	600.0	14	3.9
2014	200.0	5	3.6
2015	300.0	7	3.6
2016	400.0	9	3.5
2017	750.0	17	4.8
Total	4,375.0	100	3.8

1)Of which SEK 250 million will be fixed in June 2012 for five years.

### Credit risk

A credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and any collateral does not cover the Group's claims. The aim is to minimise the credit risk through advance rent payments and only entering into credit transactions with large financing institutions. A credit risk can be mainly attributed to outstanding accounts receivable/rent receivables, cash and cash equivalents as well as financial derivative agreements with positive values, which as of the year-end had a collective carrying value of SEK 355.4 million, which means that the Group has limited exposure to credit risks.

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

The Group's ten largest tenants represent 24 per cent of the total contracted rent and the single largest customer accounts for 8 per cent, which means that Hufvudstaden's exposure to the credit risk represented by individual customers is relatively limited. Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a very good rating and with whom the Company has a long-term relationship. In addition, there are general agreements with these institutions regarding the set-off of different derivative agreements, which further reduces the credit risk exposure.

### Concentration of credit risk, December 31, 2011<sup>1)2)</sup>

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	86	3,231	0.2
100 – 499	117	32,911	2.5
500 – 999	145	106,394	8.0
1 000 – 2 499	148	230,671	17.4
2 500 – 4 999	74	263,827	19.8
5 000 – 9 999	43	291,059	21.9
10 000 –	17	400,895	30.2
Total	630	1,328,988	100

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

2)Annual rent as of 31-12-2011.

### Fair value

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

Information regarding fair values, financial instruments										
SEK m	Items valued at fair value through profit or loss		Accounts receivable and loan receivables		Other liabilities		Non-financial items		Total carrying amount	
	Derivatives									
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>GROUP</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables			6.1	5.9					6.1	5.9
Current receivables			51.1	28.0			11.6	2.6	62.7	30.6
Cash and cash equivalents			346.7	347.9					346.7	347.9
Non-current liabilities	179.1	81.8			4,141.5	2,662.8			4,320.6	2,744.6
Current liabilities	4.5	2.6			462.4	1,199.9	249.2	236.1	716.1	1,438.6
<b>PARENT COMPANY</b>										
<i>Financial instruments included in the financial net liability</i>										
Non-current receivables			6.1	5.9					6.1	5.9
Current receivables			37.1	12.4			4.0	0.3	41.1	12.7
Cash and cash equivalents			346.4	347.6					346.4	347.6
Non-current liabilities	179.1	81.8			4,140.8	2,662.3			4,319.9	2,744.1
Current liabilities	4.5	2.6			373.2	1,124.8	141.2	134.8	518.9	1,262.2

The fair value concurs with the carrying value. The fair value of all instruments valued at fair value in the Balance Sheet is attributable to level 2 in IFRS 7, i.e. the value has been calculated based on official market listings.

**Note 3. Segment information****Property management**

The Group's operations are divided into two segments, Property Management and Parking Operations. The Property Management segment is divided into business areas that follow the operative control of the Company's business, which mainly follows the geographical division of the rental market into sub-markets. In the Parent Company, there is only the property management segment. The following presentation shows income and costs, assets and investments for the different business areas for 2011 and the comparison year 2010.

SEK m	Stockholm City East Business Area		Stockholm City West Business Area		Gothenburg Business Area		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>GROUP</b>								
<i>Income and costs <sup>1)</sup></i>								
Net revenue	607.4	569.5	578.1	571.8	183.9	179.7	1,369.4	1,321.0
<i>(of which turnover-based rent supplement)</i>	(1.0)	(0.6)	(9.0)	(10.7)	(–)	(–)	(10.0)	(11.3)
Maintenance	-33.2	-15.7	-11.4	-11.6	-2.2	-1.1	-46.8	-28.4
Operations and administration	-74.4	-75.1	-123.8	-123.3	-37.9	-36.5	-236.1	-234.9
Ground rent	-0.2	-0.2	-15.3	-13.1	–	–	-15.5	-13.3
Property tax	-64.2	-62.4	-43.8	-43.8	-18.1	-17.9	-126.1	-124.1
Gross profit, property management	435.4	416.1	383.8	380.0	125.7	124.2	944.9	920.3
Parking operations			19.7	23.6			19.7	23.6
Central administration							-31.7	-31.0
<i>Changes in value</i>								
Investment properties							1,244.9	1,490.3
Interest derivatives							-99.2	51.4
Operating profit							2,078.6	2,454.6
Financial income and expense							-122.3	-102.7
Profit before tax							1,956.3	2,351.9
<i>Assets</i>								
Investment properties	11,451.4	10,133.6	8,155.8	7,805.1	2,644.0	2,209.6	22,251.2	20,148.3
Rent receivables	0.2	0.7	1.1	-0.3	-0.2	0.3	1.1	0.7
<i>Investments</i>								
Investment properties and equipment	630.9	223.1	42.4	55.6	274.2	255.7	947.5	534.4

1) For comparable holdings, see Business areas in figures, page 88.

Continuation, Note 3.

#### Parking Operations

The Parking Operations segment includes parking operations at Parkaden AB.

SEK m	2011	2010
<b>GROUP</b>		
Net revenue	67.9	71.1
Rental costs	-39.9	-38.5
Operations and administration	-7.6	-8.2
Depreciation	-0.7	-0.8
Gross profit	19.7	23.6
Total assets amounted to SEK 9.6 million (5.1).		

#### Note 4. Profit trend – summary

SEK m	Jan–Mar		Apr–June		July–Sept		Oct–Dec		Jan–Dec	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>GROUP</b>										
<i>Property management</i>										
Net revenue	334.8	321.4	339.0	324.3	334.9	330.2	360.7	345.1	1,369.4	1,321.0
Maintenance	-8.6	-4.8	-7.0	-7.6	-22.1	-5.2	-9.1	-10.8	-46.8	-28.4
Operations and administration	-66.2	-60.7	-56.1	-57.1	-50.4	-50.8	-63.4	-66.3	-236.1	-234.9
Other costs	-35.3	-31.3	-35.5	-33.7	-35.4	-38.7	-35.4	-33.7	-141.6	-137.4
Property management costs	-110.1	-96.8	-98.6	-98.4	-107.9	-94.7	-107.9	-110.8	-424.5	-400.7
Other operations, net	4.9	5.6	4.6	5.4	3.6	4.7	6.6	7.9	19.7	23.6
Gross result	229.6	230.2	245.0	231.3	230.6	240.2	259.4	242.2	964.6	943.9
Central administration	-7.6	-6.8	-7.9	-8.5	-8.0	-7.5	-8.2	-8.2	-31.7	-31.0
<i>Changes in value</i>										
Investment properties	116.6	–	723.9	184.5	33.3	367.5	371.1	938.3	1,244.9	1,490.3
Interest derivatives	43.0	-22.6	-32.1	-16.0	-96.3	10.6	-13.8	79.4	-99.2	51.4
Net financial income/expense	-31.8	-28.0	-34.3	-30.0	-32.4	-30.2	-23.8	-14.5	-122.3	-102.7
Tax	-92.5	-46.7	-235.6	-96.4	-33.9	-153.6	-159.0	-321.9	-521.0	-618.6
Result for the period after tax	257.3	126.1	659.0	264.9	93.3	427.0	425.7	915.3	1,435.3	1,733.3

#### Note 5. Operational lease agreements – Group as lessor

The Group has commercial lease agreements for the investment property holdings, which comprise offices, stores, warehouses and other non-residential premises. The remaining term is between 1 and 10 years.

Renewal structure<sup>1)2)3)</sup>

	2012	2013	2014	2015	2016	2017–	Total
<i>Number of agreements</i>							
Offices	82	79	84	43	22	18	328
Stores	105	93	93	44	20	9	364
Other	441	203	176	54	20	44	938
Total	628	375	353	141	62	71	1,630
Proportion, %	38.5	23.0	21.7	8.7	3.8	4.3	100.0
<i>Annual rent, SEK m</i>							
Offices	127.7	112.6	135.7	83.6	63.4	147.8	670.8
Stores	178.4	126.0	142.1	64.6	84.2	22.6	617.9
Other	28.6	19.5	27.4	16.4	6.0	4.6	102.5
Total	334.7	258.1	305.2	164.6	153.6	175.0	1,391.2
Proportion, %	24.1	18.6	21.9	11.8	11.0	12.6	100.0

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

2) Excluding vacant floor space and floor space (storage and office) for Company use.

3) Excluding residential contracts.



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

SEK m	Group		Parent Company	
	2011	2010	2011	2010
<i>Depreciation per type of asset</i>				
Investment properties	– <sup>1)</sup>	– <sup>1)</sup>	72.8	64.2
Tangible fixed assets	3.3	3.7	2.5	2.7
Total	3.3	3.7	75.3	66.9
<i>Depreciation per function</i>				
Property management	2.6	2.9	75.3	66.9
Parking operations	0.7	0.8	–	–
Total	3.3	3.7	75.3	66.9

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

**Note 7. Average number of employees**

	2011	2011	2010	2010
Average number of employees	Of which men, %		Of which men, %	
Parent Company	91	57	88	54
of which executives	7	86	7	86
<i>Wholly owned subsidiaries</i>				
Parkaden AB	2	100	4	50
Total, Group	93	58	92	54
of which executives	7	86	7	86

Of the Group's 27 managers (26), 10 are women (9) or 37 per cent (35). The Board of the Parent Company comprised 7 men (7) and 2 women (2). In the Group, there is one other member of the Board (1 man). The Group only has employees in Sweden.

**Note 8. Salaries and remuneration**

SEK K	Group		Parent Company	
	2011	Of which bonus	2011	Of which bonus
<i>Salaries and other remuneration</i>				
Fee to the Chairman of the Board	350	350	350	350
Fee to other Board members	1,245	1,245	1,225	1,225
Payment and benefits, President	3,839	75	3,839	75
Payment and benefits, other executives	7,996	220	7,996	220
Payment and benefits, other employees	38,609	275	37,560	275
Total	52,039	570	50,970 <sup>1)</sup>	570
<i>National insurance expenses, including special employer's contribution</i>				
Chairman of the Board	110	110	110	110
Other Board members	348	354	342	348
President	1,507	1,404	1,507	1,404
Other executives	2,884	2,812	2,884	2,812
Other employees	13,070	12,746	12,769	12,437
Total	17,919	17,426	17,612	17,111
<i>Pension expenses</i>				
President	1,245	924	1,245	924
Other executives	1,573	1,719	1,573	1,719
Other employees	4,775	4,374	4,699	4,294
Total	7,593	7,017	7,517	6,937

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

Note 8 continued on page 73.

A director's fee was paid during the year to the Chairman of the Board Fredrik Lundberg to the amount of SEK 350,000 and to Board members Claes Boustedt, Bengt Braun, Peter Egardt, Hans Mertzig, Sten Peterson, Anna-Greta Sjöberg and Louise Lindh to the amount of SEK 175,000 each. President Ivo Stopner does not receive any payment for his work on the Board. Within the Group, there is also Arne Lundin, who is a member of the board of Parkaden AB. Arne Lundin received a director's fee of SEK 20,000.

Guidelines for salary, bonus and other remuneration to senior executives are decided at the Annual General Meeting. For 2011, the meeting decided that the same guidelines should be applied as previously.

Salary conditions for senior executives shall be formulated in line with the market plus an incentive element in the form of a bonus, which is only payable if the Company reports a positive result without consideration given to unrealized changes in value. Such a bonus shall be decided for one year on each occasion, shall be linked to predetermined, quantifiable criteria, and shall be subject to a ceiling. The bonus part, which shall not be pensionable, aims to provide the management with a special incentive to work to achieve positive results for the Company and thus support the interests of the shareholders.

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

The bonus for the President can amount to a maximum of SEK 500,000/year and for other executives a maximum of SEK 250,000/person per year. The bonus payable to the current number of senior executives can amount to a maximum of SEK 2 million.

The retirement age for the President is 65 years, although with the right for the President or the Company to decide on retirement with a full pension from the age of 60. Pensions for members of the Group management, including the President, are covered by the ITP plan and are defined benefit. In addition, there is a defined contribution pension for the President for the part of the salary not covered by the ITP plan.

If the President and other executives are given notice of termination of employment by the Company, the total fixed salary during the period of notice plus severance pay shall not exceed an amount equivalent to the fixed salary for two years. In the case of notice of termination of employment being given by the President or other senior executives, the period of notice shall be a maximum of six months, without any right to severance pay. In all cases, any payment received from a new employer shall be offset.

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

The Board of Directors shall be entitled to deviate from the guidelines if in an individual case there are particular reasons for doing so. These guidelines were followed during 2011 and a proposal that the same guidelines be applied for 2011, with a slightly adjusted ceiling amount, will be presented at the Annual General Meeting. The new ceiling amounts mean that the maximum bonus payable to the President is three months' salary per year and the maximum payable to other executives is the higher of three months' salary or SEK 250,000 per person per year. The maximum bonus payable to the present number of executives and with the present salary levels is SEK 2.7 million. It is proposed that the new guidelines come into effect from the 2012 Annual General Meeting.

Pensions for Group employees, including the President, are covered by the ITP plan and are defined benefit pensions. Alecta's surplus in the form of the collective consolidation level as of December had not at the time of the signing of this annual report been published and consequently this cannot be given. Alecta's most recent official consolidation level, as of September, amounted to 113 per cent. (December 2010: 146 per cent). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance undertakings, calculated according to Alecta's insurance calculation assumptions, which do not concur with IAS 19.

For the President and senior executives there was a bonus scheme in place during the year based on result, customer satisfaction and personal objectives. Other permanent employees in the Group were also covered by a bonus scheme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers with personnel responsibility there was also a personal assessment and individual objectives. The bonus payable was a maximum of half a month's salary, although subject to a minimum of SEK 15,000 for full-time employees. For managers, the bonus was a maximum of one month's salary.

Both bonus schemes are subject to a decision, are valid for one year on each occasion and are subject to a ceiling. A bonus is only payable if the Company reports a positive result without taking into account unrealized changes in value. The bonus is not pensionable.

In the final accounts, a provision has been made for a bonus for profit targets and customer satisfaction. For personal objectives, a provision is made equivalent to 75 per cent of the maximum outcome. The bonus outcome for 2011 has been charged with a cost for 2010 of SEK 168,000.

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

SEK m	Group		Parent Company	
	2011	2010	2011	2010
KPMG				
Audit work	0.9	0.9	0.9	0.9
Tax consulting	0	–	0	–
Other assignments	0.2	0.3	0.2	0.3
Total	1.1	1.2	1.1	1.2

#### Note 10. Operational lease agreements – Group as the Lessee

Annual charges, SEK m	Group		Parent Company	
	2011	2010	2011	2010
– 1 year	2.7	0.2	–	0.2
1 year – 5 year	16.4	18.9	8.1	7.9
5 year –	0.3	0.3	0.3	0.3

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

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

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Maintenance	46.3	28.4	173.8	172.1
(of which special projects)	0	0.8	3.1	36.7
Operation and administration	234.6	230.5	82.8	75.1
Ground rent	15.5	13.3	8.1	8.1
Property tax	126.1	124.1	86.1	86.0
Depreciation	3.3	3.7	75.3	66.9
Personnel costs	79.4	79.2	77.9	77.5
Total	505.2	479.2	504.0	485.7

#### Note 12. Changes in value

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Realized changes in value in investment properties	1.0	–	-14.7	–
Unrealized changes in value in investment properties	1,243.9	1,490.3		
Unrealized changes in value in interest derivatives	-99.2	51.4	-99.2	51.4
Total	1,145.7	1,541.7	-113.9	51.4

#### Note 13. Financial income

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Purchase sum etc. on sale of subsidiary	10.2	16.0	88.3	16.0
Interest income on bank holdings	0.6	0.8	0.3	0.8
Interest income on current investments	2.1	0.7	2.1	0.7
Interest income, other	0.1	0.2	–	–
Total	13.0	17.7	90.7	17.5

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

**Note 14. Financial expense**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Interest expense to credit institutions	101.6	37.4	101.6	37.4
Interest expense, swaps	39.5	81.9	39.5	81.9
Interest expense, other	-5.8	1.1	-5.8	1.3
Total	135.3	120.4	135.3	120.6

Of the financial expense, SEK 95.8 million (38.5) refers to financial instruments not valued at fair value.

**Note 15. Appropriations**

SEK m	Parent Company	
	2011	2010
Change in accumulated additional depreciation	4.5	3.2
Change in tax allocation reserve	-33.0	95.0
Total	-28.5	98.2

**Note 16. Income taxes**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
<i>Actual tax expense</i>				
Tax expense for the year	-128.6	-165.5	-128.3	-165.4
Tax attributable to previous years	-12.2	-0.3	-12.0	0.0
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation of properties	-86.6	-76.8	13.4	-1.3
Unrealized changes in value, investment properties	-312.2	-392.0	-	-
Unrealized change in value, interest derivatives	26.1	-13.5	26.1	-13.5
Effect, pension provision	0.6	-	0.6	-
Effect, allocation to untaxed reserves	-8.1	29.5	-	-
Total tax	-521.0	-618.6	-100.2	-180.2
<i>Result before tax</i>	1,956.3	2,351.9	457.6	686.3
<i>Tax according to the current tax rate 26.3%</i>				
Tax according to the current tax rate 26.3%	-514.5	-618.5	-120.3	-180.5
Tax attributable to previous years	-12.2	-0.3	-12.0	0.0
Revaluation of deferred tax attributable to previous years	11.4	-	11.4	-
Non-taxable income in conjunction with the disposal of a subsidiary	-	-	23.9	-
Non-taxable income	0.1	4.5	0.0	4.4
Non-deductible expenses	-0.6	-0.8	-0.6	-0.6
Standard income, tax allocation reserve	-2.6	-3.5	-2.6	-3.5
Other	-2.6	-	-	-
Total tax	-521.0	-618.6	-100.2	-180.2

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

The subsidiary Fastighets AB Stockholms City is involved in a dispute with the National Tax Agency on how much is to be capitalized as a building. As the Company does not share the view of the Tax Agency, the decision was appealed. The County Administrative Court and the Administrative Court of Appeal found in favour of the Company. The National Tax Agency has filed for leave to appeal with the Supreme Administrative Court. The amount of taxes and charges is approximately SEK 25 million, does not have any impact on the total reported tax expense for the Group, and is only a shift between actual and deferred tax.

**Note 17. Investment properties**

GROUP			
Investment properties were reported according to the fair value method.			
SEK m	2011		2010
Investment properties, Group	22,251.2		20,148.3
Information about changes in the carrying amounts of investment properties			
SEK m	Purchased	Investment properties	
		Sold	Owned for the full year
2011			
Opening fair value	–	76.9	20,071.4
Acquisition value	542.5	–	–
Investment in properties	–	2.7	399.9
Disposal	–	-86.1	–
Unrealized change in value	–	6.5	1,237.4
Closing fair value	542.5	–	21,708.7
2010			
Opening fair value	–	–	18,125.3
Acquisition value	175.0	–	–
Property settlement	-175.0	–	175.0
Investment in properties	–	–	357.7
Unrealized change in value	–	–	1,490.3
Closing fair value	–	–	20,148.3

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

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

The investment amount includes capitalized loan charges totalling SEK 7.0 million. The loan charge has been calculated based on a rate of interest of 3.7 per cent.

**Valuation method**

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

The assessment of the yield requirements is based on information gathered on the market return on investment requirements for purchases and sales of comparable properties in similar locations. If few or no deals were concluded in the property's sub-area, transactions in the adjoining area are analysed. Deals not concluded also provide guidance on the market yield requirements. Account has also been taken of the property type, technical standard and building construction. The yield requirements used in the valuation vary between different regions and different sub-areas within the regions. Information is checked with valuation and consulting companies. Hufvudstaden's average yield requirement since 2006 has varied between 4.6 per cent and 5.3 per cent and as of December 31, 2011, the figure was 4.8 per cent. For leasehold properties, the calculation is based on a yield requirement that is 0.25 percentage points higher.

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

Income has been reduced to take into account an assessed, long-term rental vacancy level. The vacancy level is based on the true outcome of the property holdings over a business cycle and the expected rental situation for the individual property. In the valuation, an average vacancy level of 5 per cent has been estimated. The actual vacancy level during the period 2002–2011 varied between 3 and 9 per cent and as of December 31, 2011, the figure was 3.9 per cent.

A deduction has been made for standard costs for operation and maintenance, excluding costs passed on and part of the property administration. These are based on the actual outcome and are adjusted for non-permanent deviations. The average cost per square metre over the most recent five-year period has been in the range SEK 400–450 and the estimated cost in the valuation as of December 31, 2011 was on the same level.

*Note 17 continued on page 75.*



The following information has been used in the valuation:

	Rental revenue, SEK m	Net operat- ing profit, SEK m	Direct yield require- ment, % <sup>1)</sup>
Stockholm, commercial			4.5–5.1
Gothenburg, commercial			5.0–6.0
Property holdings, Group	1,460.9	1,072.6	4.8 <sup>2)</sup>

1) Office and retailing properties

2) Average.

#### External valuation

To assure the valuation, external valuations have been made by two valuation companies, Newsec Advice AB and Forum Fastighetsekonomi AB. The external valuations as of December 31, 2011 cover eight properties and are equivalent to 32 per cent of the internally assessed fair value and the corresponding figure for the whole of 2011 was 55 per cent. The starting point for the selection of the properties was that the objects selected should represent different property categories, towns, locations, technical standards and construction standards. The properties that underwent an external valuation were Grönlandet Södra 11, Hästhuvudet 13, Kvasten 6, Orgelpipan 7, Packarhuset 4, Pumpstocken 10 (part of), Rännilen 19 (part of) in Stockholm, and Nordstaden 8:24 in Gothenburg.

The external valuation companies have set a fair value of SEK 7.4 billion. Hufvudstaden's internal valuation of the same properties was SEK 7.1 billion. The internal valuations thus concur well with the external valuations.

#### Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of the valuation. The price can only be set, however, when a transaction has been completed. In conjunction with a property valuation, a range is often given to indicate the degree of uncertainty surrounding the estimates of fair value. The value range is usually +/- 5 per cent but can vary depending, among other things, on the market situation, the technical standard of the property and investment requirements. Hufvudstaden's property holdings are valued at SEK 22.3 billion with a degree of uncertainty of +/- 5 per cent and consequently this means that the assessed fair value varies by +/- SEK 1.1 billion. Below are the key factors that influence the valuation and the consequent impact on profit.

#### Sensitivity analysis, property valuation

	Change, +/-	Impact on profit before tax, +/-
Rent revenue	SEK 100 per sq. m	SEK 750 m
Property costs	SEK 50 per sq. m	SEK 375 m
Rental vacancy level	1.0 percentage points	SEK 300 m
Yield requirement	0.5 percentage points	SEK 2,300 m

#### Tax values, investment properties, Group

SEK m	2011	2010
Tax values, buildings	7,226.8	7,021.6
Tax values, land	5,637.8	5,618.6
	12,864.6	12,640.2

#### PARENT COMPANY

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

SEK m	2011	2010
Investment properties, Parent Company	6,369.6	6,240.6

#### Investment properties, excluding land

SEK m	2011	2010
Opening acquisition values	2,281.8	1,998.4
Investments for the year	222.9	283.4
Sales for the year	-8.8	-
Closing acquisition values	2,495.9	2,281.8
Opening depreciation	-700.1	-649.9
Depreciation for the year	-58.9	-50.2
Sales for the year	2.7	-
Closing depreciation	-756.3	-700.1
Opening revaluations according to the adopted Balance Sheet for the preceding year	1,147.0	1,161.0
Depreciation for the year	-13.8	-14.0
Sales for the year	-14.5	-
Closing revaluations	1,118.7	1,147.0
Closing residual value according to plan	2,858.3	2,728.7

#### Land

SEK m	2011	2010
Opening acquisition value	470.3	408.1
Investments for the year	-	62.2
Sales for the year	-0.4	-
Closing acquisition value	469.9	470.3
Opening value, revaluations	3,041.6	3,041.6
Sales for the year	-0.2	-
Closing value, revaluations	3,041.4	3,041.6
Closing residual value according to plan	3,511.3	3,511.9

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: 5–20 per cent
- Land improvements: 3.75–5 per cent

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

SEK m	2011	2010
Investment properties, Parent Company	13,846.6	12,716.3

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

The following information has been used in the valuation:

	Rent revenue, SEK m	Net operat- ing profit, SEK m	Direct yield require- ment, %
Stockholm, commercial			4.6–5.1
Gothenburg, commercial			5.3–6.0
Property holdings, Parent Company	948.7	696.6	4.9 <sup>1)</sup>

1) Average.

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

SEK m	2011	2010
Tax values, buildings	4,504.3	4,464.1
Tax values, land	4,085.8	4,189.0
	8,590.1	8,653.1

**Note 18. Tangible fixed assets**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Opening acquisition value	30.0	35.1	17.6	18.1
Investments for the year	2.5	1.8	1.9	1.6
Disposals	-1.6	-6.9	-1.6	-2.1
Closing acquisition value	30.9	30.0	17.9	17.6
Opening depreciation	-23.6	-26.6	-13.2	-12.6
Depreciation for the year	-3.3	-3.7	-2.5	-2.7
Disposals	1.6	6.7	1.6	2.1
Closing accumulated depreciation	-25.3	-23.6	-14.1	-13.2
Closing residual value according to plan	5.6	6.4	3.8	4.4

**Note 19. Participation in Group Companies**

	Company reg. no.	Reg. office	Capital (votes), %	Number	Nominal value, SEK 1,000	Carrying amount 2011, SEK m
PARENT COMPANY						
Shares in subsidiaries						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget Hamngatssgaraget	556068-6601	Stockholm	100	3,000	300	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5,000	500	0.6
Fastighets AB Kåkenhusen <sup>1)</sup>	556834-3460	Stockholm	100	50,000	50	203.0
Sigillet Inom Vallgraven 12:2 AB <sup>1)</sup>	556722-5643	Stockholm	100	1000	100	63.3
						3,090.8
Shares in dormant companies						
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	100	0.0
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	0.0
Förvaltnings AB Norrmalmstorg nr. 1	556019-5405	Stockholm	100	150	150	0.0
Huvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, Total						3,091.1
<sup>1)</sup> Acquired in 2011. Otherwise, ownership remains unchanged compared to the preceding year.						
OTHER GROUP COMPANIES						
Owned by AB Citypalatset						
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7,776	239.5
Owned by Fastighetsaktiebolaget Stockholms City						
Hotel Stockholm Aktiebolag	556031-4303	Stockholm	100	10,000	1,000	3.4
Owned by AB Nordiska Kompaniet						
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	168	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	100	0.1
						0.5
Other Group companies, total						243.4
Change in Parent Company's holdings in Group companies						
Parent Company						
SEK m	2011	2010				
Opening carrying amount	2,824.8	2,824.8				
Change for the year	266.3	–				
Closing carrying amount	3,091.1	2,824.8				
The Group has no foreign subsidiaries.						

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

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Opening carrying amount	5.9	5.0	5.9	5.0
Change for the year	0.2	0.9	0.2	0.9
Closing carrying amount	6.1	5.9	6.1	5.9

**Note 21. Accounts receivable**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Accounts receivable	7.6	9.7	0.5	1.1
Rent receivables	1.1	0.7	–	0.7
Total	8.7	10.4	0.5	1.8

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

Rent receivables are charged in advance, the majority on a quarterly basis. Accounts receivable are invoiced subject to terms of payment of 30 days. Bad debt losses for the year amounted to SEK 4.1 million (0.4). Accounts receivable that have fallen due, but which have not been impaired, amounted to SEK 2.0 million (2.3).

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

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Accrued rent revenue	14.3	14.0	9.4	8.3
Prepaid expenses	11.6	2.6	4.0	0.3
Accrued interest income	2.3	2.3	2.3	2.3
Total	28.2	18.9	15.7	10.9

**Note 23. Cash and bank holdings**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Bank balances	26.7	27.9	26.4	27.6
Total	26.7	27.9	26.4	27.6

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

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

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

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

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

**Dividend**

In 2011, a dividend was paid of SEK 2.30 per share or a total of SEK 474,411,646.

**Asset management**

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

**Share capital**

SEK m	2011	2010
<i>Breakdown of share series</i>		
A 202,996,869 shares, par value SEK 5	1,015.0	1,015.0
C 8,275,064 shares, par value SEK 5	41.4	41.4
Total	1,056.4	1,056.4

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

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

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

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

Hufvudstaden's aim is to increase the profit on current operations and to have a well-consolidated Balance Sheet with an equity ratio of at least 40 per cent over time. The shareholders should have good dividend growth over time and the dividend should constitute more than half of the net profit from current operations unless investments or the Company's financial position generally justify a deviation.

**Parent Company****Restricted funds**

Restricted funds may not be reduced through a dividend.

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

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

**Non-restricted equity**

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



**Note 25. Liabilities to credit institutions**

SEK m	Group		Parent Company	
	2011	2010	2011	2010
Loans	4,375.0	3,600.0	4,375.0	3,600.0
Total	4,375.0	3,600.0	4,375.0	3,600.0
Credit facility granted	40.0	40.0	40.0	40.0
Loan assurances	575.0	1,300.0	575.0	1,300.0

As of December 31, 2011, Hufvudstaden had non-current loan assurances of SEK 3.0 billion. The loan assurances are subject to undertakings regarding the equity ratio and interest coverage ratio. At the year-end SEK 575 million was unutilized.

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

**Bank loans 31-12-2011**  
**Group and Parent Company**

Year due	Average AER, % <sup>1)</sup>	Nominal amount,
		SEK m
2012	2.9	250.0
2013	3.1	950.0
2014	–	–
2015	–	–
2016	4.0	425.0
2017	3.0	2,750.0
Total		4,375.0

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

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

**Interest swaps 31-12-2011**  
**Group and Parent Company**

Year due	Average AER		Nominal amount, SEK m	Fair value, SEK m
	Fixed interest, %	Variable interest, % <sup>2)</sup>		
2012 <sup>1)</sup>	4.8	2.8	250.0	-4.5
2013	3.6	2.8	600.0	-12.2
2014	3.2	2.8	200.0	-8.1
2015	3.4	2.8	300.0	-14.3
2016 <sup>3)</sup>	3.3	2.8	400.0	-22.5
2017	4.6	2.8	1,000.0	-122.0
Total			2,750.0	-183.6

1) Interest is paid annually.

2) Interest terms are 3 months Stibor. Interest is paid quarterly.

3) SEK 250 million has a variable rate of interest up to and including June 2012, thereafter a fixed rate of interest of 3.8 per cent, excluding a margin, for 5 years. Swap contracts are denominated in SEK.

For a presentation of the finance policy, risks and interest exposure, see Note 2.

**Note 26. Deferred tax liability**

SEK m	2011	Group		Parent Company	
		2010	2011	2010	2011
Investment properties	5,031.3	4,630.1	1,127.2	1,140.6	
Interest derivatives	-48.3	-22.2	-48.3	-22.2	
Untaxed reserves	189.0	180.9	–	–	
Pension provision	-0.6	–	-0.6	–	
Total	5,171.4	4,788.8	1,078.3	1,118.4	

No deficit deduction as of the year-end 2011.

*Change in deferred tax*

SEK m	Balance as of January 1	Reported within profit or loss	Adjustment in conjunction with acquisition/disposal	Balance as of December 31
<b>GROUP</b>				
<b>2011</b>				
Investment properties	4,630.1	398.8	2.4	5,031.3
Interest derivatives	-22.2	-26.1	–	-48.3
Untaxed reserves	180.9	8.1	–	189.0
Pension provision	–	-0.6	–	-0.6
	4,788.8	380.2	2.4	5,171.4
<b>2010</b>				
Investment properties	4,161.2	468.9	–	4,630.1
Interest derivatives	-35.7	13.5	–	-22.2
Untaxed reserves	210.4	-29.5	–	180.9
	4,335.9	452.9	–	4,788.8

Note 26 continued on page 79.

SEK m	Balance as of January 1	Reported within profit or loss	Balance as of December 31
<b>PARENT COMPANY</b>			
<b>2011</b>			
Investment properties	1,140.6	-13.4	1,127.2
Interest derivatives	-22.2	-26.1	-48.3
Pension provision	–	-0.6	-0.6
	1,118.4	-40.1	1,078.3
<b>2010</b>			
Investment properties	1,139.3	1.3	1,140.6
Interest derivatives	-35.7	13.5	-22.2
	1,103.6	14.8	1,118.4

**Note 27. Other provisions**

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

**Note 28. Other liabilities**

SEK m	2011	Group 2010	Parent Company 2011	2010
VAT settlement	49.5	52.3	22.5	27.4
Other	37.4	41.8	4.8	12.5
Total	86.9	94.1	27.3	39.9

**Note 29. Untaxed reserves**

SEK m	Parent Company	
	2011	2010
Accumulated depreciation in excess of plan		
Opening balance	78.0	81.1
Depreciation for the year	-4.5	-3.1
Closing balance	73.5	78.0
Tax allocation reserves	511.0	478.0
Total	511.0	478.0
Total untaxed reserves	584.5	556.0

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

SEK m	2011	Group 2010	Parent Company 2011	2010
Accrued interest	15.0	10.9	15.0	10.9
Prepaid rent	249.2	236.1	141.2	134.8
Other	47.8	46.2	49.5	54.4
Total	312.0	293.2	205.7	200.1

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

SEK m	2011	Group 2010	Parent Company 2011	2010
Property mortgages for liabilities at credit institutions	2,457.1	1,806.2	2,457.1	1,806.2
(of which mortgages on subsidiaries' properties)	–	–	(955)	(606)
Other non-current receivables	6.0	5.7	6.0	5.7
Total	2,463.1	1,811.9	2,463.1	1,811.9

Pledged assets for own liabilities include mortgages which Hufvudstaden has lodged as collateral for loans on its own properties. Mortgages not used to raise loans are filed with the Company. The Group's contingent liabilities refer mainly to tax cases involving disputed amounts for which no provision has been made. See also Note 16.

**Note 32. Affiliations**

Hufvudstaden AB is under the controlling influence of LE Lundbergföretagen and Fredrik Lundberg. No material transactions have taken place with LE Lundbergföretagen. Fredrik Lundberg's director's fee for 2011 was SEK 350,000. Details of payments to Board members and senior executives are to be found in Note 8.

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

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

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







**NORDISKA KOMPANIET**

*Hamngatan, Stockholm*

## Proposed distribution of unappropriated earnings

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

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

Retained earnings	SEK 1,732,047,266
Profit for the year	SEK 357,450,660
	<hr/>
	SEK 2,089,497,926
Dividend to the shareholders,	
SEK 2.45 per share	SEK 505,351,536 <sup>1)</sup>
To be carried forward	SEK 1,584,146,390
	<hr/>
	SEK 2,089,497,926

*1) See Definitions, page 93, Dividend.*

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

Stockholm, February 9, 2012

Fredrik Lundberg  
*Chairman*

Claes Boustedt

Bengt Braun

Peter Egardt

Louise Lindh

Hans Mertzig

Sten Peterson

Anna-Greta Sjöberg

Ivo Stopner  
*President*

My audit report was submitted on February 13, 2012

George Pettersson  
*Authorized Public Accountant*  
KPMG



# Auditor's Report

To the annual meeting of the shareholders of Hufvudstaden AB (publ), corporate identity number 556012-8240.

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

I have audited the annual accounts and the consolidated accounts of Hufvudstaden AB (publ) for 2011. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 46–82.

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

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

### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinions*

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and of their financial performance and cash flows in accordance with International Financial Reporting

Standards, as adopted by the EU, and the Annual Accounts Act. A Corporate Governance Report has been prepared. The Board of Director's report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

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

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

In addition to my audit of the annual accounts and consolidated accounts, I have examined the proposed appropriations of the Company's profit or loss and the administration of the Board of Directors and the President of Hufvudstaden AB (publ) for 2011.

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

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

### *Auditor's responsibility*

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

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### *Opinions*

I recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm February 13, 2012

George Pettersson  
Authorized Public Accountant  
KPMG



## Board of Directors and Auditors

The Board of Directors consists of nine members, without any deputies, all of whom are elected at the Annual General Meeting. The members include persons who have links to Hufvudstaden's largest shareholder LE Lundbergföretagen. The President is also a member of the Board of Directors. Other executives in the Company take part in Board meetings to present specific points. During the 2011 financial

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



**Fredrik Lundberg**

*Born 1951. MSc, MBA, Honorary PhD in Economics, Honorary PhD in Engineering. Chairman, board member since 1998. President and CEO of LE Lundbergföretagen AB. Chairman of Holmen AB. Deputy Chairman of Svenska Handelsbanken AB. Board member of LE Lundbergföretagen AB, AB Industrivärden, Sandvik AB and Skanska AB. Holding in Hufvudstaden: 1,659,412 shares.*



**Claes Boustedt**

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



**Bengt Braun**

*Born 1946. MBA, LL.M. Board member since 2000. Chairman of the Board of Euro Comfort Holding GmbH and Aleris Holding AB. Deputy Chairman of Bonnier AB and Hjärnfonden. Board member of Bonnier Holding AB, TV4, Independent News & Media Plc and Mertzig Asset Management AB. Previous experience includes the position of President and CEO of Bonnier AB. Holding in Hufvudstaden: 3,750 shares.*

### Auditors

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



**Peter Egardt**  
 Born 1949. BA.  
 Board member since 2003.  
 County Governor, County of Uppsala.  
 Chairman of the Swedish National  
 Space Board and the Swedish National  
 College of Defence.  
 Member of the Board of Governors  
 of the Bank of Sweden.  
 Previous experience includes the position  
 of President of the Stockholm Chamber of  
 Commerce and the Association of Swedish  
 Chambers of Commerce.  
 Holding in Hufvudstaden: 16,000 shares.



**Louise Lindh**  
 Born 1979. MBA.  
 Board member since 2007.  
 Vice President,  
 Fastighets AB LE Lundberg.  
 Member of the Board  
 of LE Lundbergföretagen AB, Holmen AB  
 and Fastighets AB LE Lundberg.  
 Holding in Hufvudstaden: 29,166 shares.



**Hans Mertzig**  
 Born 1941. Economist.  
 Board member since 2000.  
 President of Mertzig Asset  
 Management AB.  
 Previous experience includes the position  
 of asset manager at Ramsbury AB  
 and the KK Foundation.  
 Holding in Hufvudstaden: –



**Sten Peterson**  
 Born 1956. MSc.  
 Board member since 2006.  
 President of  
 Byggnads AB Karlsson & Wingsjö.  
 Member of the Board  
 of LE Lundbergföretagen AB,  
 Fastighets AB LE Lundberg  
 and Byggnads AB Karlsson & Wingsjö.  
 Holding in Hufvudstaden: 2,000 shares.



**Anna-Greta Sjöberg**  
 Born 1967. MBA.  
 Board member since 2006.  
 President of Crispa AB.  
 Chair of St. Eriks Vårdbolag AB.  
 Member of the Board of LKAB.  
 Previous experience includes the position  
 of Managing Director of the Royal Bank  
 of Scotland, Nordic Branch.  
 Holding in Hufvudstaden: 3,000 shares.



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

#### Secretary

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

## President and Senior Executives

### **Ivo Stopner**

*Born 1962. MSc. President, employed since 1990.*

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

*Ivo Stopner and family have no material shareholding or partnership in companies with which the Company has significant business relations.*

### **Ki Hummelgren**

*Born 1968. Head of Human Resources, employed 2008.*

*Holding in Hufvudstaden: –*

### **Magnus Jacobson**

*Born 1958. MBA. Head of Finance, employed 2002.*

*Holding in Hufvudstaden: –*

### **Sverker Källgård**

*Born 1968. MSc. Head of the Stockholm City West Business Area, employed 2005. Holding in Hufvudstaden: –*

### **Daniel Massot**

*Born 1970. MSc. Head of the Gothenburg Business Area,*

*employed 2009. Holding in Hufvudstaden: –*

### **Anders Nygren**

*Born 1970. MSc. Head of Property Development, employed 2006.*

*Holding in Hufvudstaden: –*

### **Bo Wikare**

*Born 1963. MSc. Head of the Stockholm City East Business Area, employed 1994. Holding in Hufvudstaden: 62 shares.*





*The Hufvudstaden executive management pictured on the newly added office floor at Femman in Gothenburg. From the left: Anders Nygren, Bo Wikare, Ivo Stopner, Ki Hummelgren, Magnus Jacobson, Sverker Källgård and Daniel Massot.*

## Business Areas in figures

Property holdings (comparable holdings)	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2011		2010		2011		2010		2011		2010		2011		2010	
	m /sq. m.		m /sq. m.		m /sq. m.		m /sq. m.		m /sq. m.		m /sq. m.		m /sq. m.		m /sq. m.	
Gross rent, including charge for consumables	651.0	4,496	638.8	4,402	601.0	4,015	588.6	3,933	187.1	2,898	179.7	2,965	1,439.1	4,008	1,407.1	3,960
(of which property tax supplement)	59.6	412	57.1	394	39.6	265	39.7	265	15.0	232	15.5	256	114.2	318	112.3	316
Rent losses on vacant space	-42.5	-294	-67.5	-465	-20.8	-139	-16.9	-113	-8.6	-133	-3.4	-56	-71.9	-200	-87.8	-247
Bad debt losses	-1.1	-8	-0.5	-3	-2.1	-14	0.1	1	-0.8	-12	0.1	2	-4.0	-11	-0.3	-1
<b>Net sales</b>	<b>607.4</b>	<b>4,194</b>	<b>570.8</b>	<b>3,934</b>	<b>578.1</b>	<b>3,862</b>	<b>571.8</b>	<b>3,821</b>	<b>177.7</b>	<b>2,753</b>	<b>176.4</b>	<b>2,911</b>	<b>1,363.2</b>	<b>3,797</b>	<b>1,319.0</b>	<b>3,712</b>
Maintenance	-33.2	-229	-15.7	-108	-11.4	-76	-11.6	-78	-1.5	-23	-0.7	-12	-46.1	-128	-28.0	-79
Operating costs	-49.5	-342	-45.0	-310	-101.5	-678	-96.6	-646	-30.5	-472	-29.5	-487	-181.5	-506	-171.1	-481
Administration	-24.9	-172	-30.1	-207	-22.3	-149	-26.7	-178	-6.5	-101	-6.8	-112	-53.7	-150	-63.6	-179
Ground rent	-0.2	-1	-0.2	-1	-15.3	-102	-13.1	-88	-	-	-	-	-15.5	-43	-13.3	-37
Property tax	-64.2	-443	-62.6	-431	-43.8	-293	-43.8	-293	-17.6	-273	-17.5	-289	-125.6	-350	-123.9	-349
<b>Total property expenses</b>	<b>-172.0</b>	<b>-1,187</b>	<b>-153.6</b>	<b>-1,057</b>	<b>-194.3</b>	<b>1,298</b>	<b>-191.8</b>	<b>-1,283</b>	<b>-56.1</b>	<b>-869</b>	<b>-54.5</b>	<b>-900</b>	<b>-422.4</b>	<b>1,177</b>	<b>-399.9</b>	<b>-1,125</b>
<b>Gross operating profit</b>	<b>435.4</b>	<b>3,007</b>	<b>417.2</b>	<b>2,877</b>	<b>383.8</b>	<b>2,564</b>	<b>380.0</b>	<b>2,538</b>	<b>121.6</b>	<b>1,884</b>	<b>121.9</b>	<b>2,011</b>	<b>940.8</b>	<b>2,620</b>	<b>919.1</b>	<b>2,587</b>

Property data	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	2011		2010		2011		2010		2011		2010		2011		2010	
December 31																
Number of properties	17		16		9		9		4		4		30		29	
Floor space, sq. m.	151,231		144,851		149,676		149,656		64,551		63,036		365,458		357,543	
Rental vacancy level, %	3.7		8.7		2.8		2.0		8.0		1.8		3.9		5.1	
Floor space vacancy level, %	5.1		10.6		4.3		4.3		11.5		4.3		5.9		6.8	
Total rentable parking spaces	172		172		1,295		1,295		51		51		1,518		1,518	

Rentable space and annual rent	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	Area, Sq. m.		Annual rent, SEK m		Area, Sq. m.		Annual rent, SEK m		Area, Sq. m.		Annual rent, SEK m		Area, Sq. m.		Annual rent, SEK m	
December 31, 2011																
Offices	103,037		451.2		45,953		162.1		36,647		72.4		185,637		685.7	
Stores and restaurants	35,772		208.2		44,551		345.1		22,162		99.0		102,485		652.3	
Cinemas	-		-		1,893		1.4		-		-		1,893		1.4	
Storage and miscellaneous	6,543		12.9		17,499		30.1		3,713		6.8		27,755		49.8	
Garages	4,789		6.1		39,477		40.6		1,250		1.4		45,516		48.1	
Residential	1,090		1.9		303		0.3		779		0.8		2,172		3.0	
<b>Total</b>	<b>151,231</b>		<b>680.3</b>		<b>149,676</b>		<b>579.6</b>		<b>64,551</b>		<b>180.4</b>		<b>365,458</b>		<b>1,440.3</b>	

Floor space vacancy level and rental vacancy level	Stockholm City East Business Area				Stockholm City West Business Area				Gothenburg Business Area				Property management, total			
	Vacant floor space, sq. m.		Rental vacancy level, SEK m		Vacant floor space, sq. m.		Rental vacancy level, SEK m		Vacant floor space, sq. m.		Rental vacancy level, SEK m		Vacant floor space, sq. m.		Rental vacancy level, SEK m	
December 31, 2011																
Offices	5,588		21.5		2,784		10.9		6,207		11.5		14,579		43.9	
Stores and restaurants	-		-		844		2.3		500		2.1		1,344		4.4	
Cinemas	-		-		-		-		-		-		-		-	
Storage and miscellaneous	1,308		2.5		2,797		3.0		573		0.7		4,678		6.2	
Garages	445		0.5		54		0.1		75		0.1		574		0.7	
Residential	311		0.6		-		-		46		0.1		357		0.7	
<b>Total</b>	<b>7,652</b>		<b>25.1</b>		<b>6,479</b>		<b>16.3</b>		<b>7,401</b>		<b>14.5</b>		<b>21,532</b>		<b>55.9</b>	

<b>Lease term structure<sup>1)2)3)</sup></b> December 31, 2011							
<b>NUMBER OF CONTRACTS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017–</b>	<b>Total</b>
<b>Stockholm City East Business Area</b>							
Offices	29	42	61	34	10	12	188
Stores	19	22	27	11	13	5	97
Other	295	97	78	20	16	34	540
<b>Total</b>	<b>343</b>	<b>161</b>	<b>166</b>	<b>65</b>	<b>39</b>	<b>51</b>	<b>825</b>
Proportion, %	41.6	19.5	20.1	7.9	4.7	6.2	100.0
<b>Stockholm City West Business Area</b>							
Offices	30	22	15	5	9	2	83
Stores	72	50	47	19	3	2	193
Other	126	67	58	26	3	8	288
<b>Total</b>	<b>228</b>	<b>139</b>	<b>120</b>	<b>50</b>	<b>15</b>	<b>12</b>	<b>564</b>
Proportion, %	40.4	24.6	21.3	8.9	2.7	2.1	100.0
<b>Gothenburg Business Area</b>							
Offices	23	15	8	4	3	4	57
Stores	14	21	19	14	4	2	74
Other	20	39	40	8	1	2	110
<b>Total</b>	<b>57</b>	<b>75</b>	<b>67</b>	<b>26</b>	<b>8</b>	<b>8</b>	<b>241</b>
Proportion, %	23.7	31.1	27.8	10.8	3.3	3.3	100.0
<b>Hufvudstaden, Total</b>							
Offices	82	79	84	43	22	18	328
Stores	105	93	93	44	20	9	364
Other	441	203	176	54	20	44	938
<b>Total</b>	<b>628</b>	<b>375</b>	<b>353</b>	<b>141</b>	<b>62</b>	<b>71</b>	<b>1,630</b>
Proportion, %	38.5	23.0	21.7	8.7	3.8	4.3	100.0
<b>ANNUAL RENT, SEK M</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017–</b>	<b>Totalt</b>
<b>Stockholm City East Business</b>							
Offices	48.8	72.3	117.0	59.8	21.0	124.8	443.7
Stores	34.9	34.5	35.5	18.1	53.5	19.2	195.7
Other	10.9	3.8	11.1	7.7	4.2	1.9	39.6
<b>Total</b>	<b>94.6</b>	<b>110.6</b>	<b>163.6</b>	<b>85.6</b>	<b>78.7</b>	<b>145.9</b>	<b>679.0</b>
Proportion, %	13.9	16.3	24.1	12.6	11.6	21.5	100.0
<b>Stockholm City West Business Area</b>							
Offices	42.8	36.5	16.9	17.4	37.1	3.8	154.5
Stores	122.4	69.5	84.4	29.2	23.6	1.9	331.0
Other	15.7	13.0	11.9	5.9	0.4	2.6	49.5
<b>Total</b>	<b>180.9</b>	<b>119.0</b>	<b>113.2</b>	<b>52.5</b>	<b>61.1</b>	<b>8.3</b>	<b>535.0</b>
Proportion, %	33.8	22.2	21.2	9.8	11.4	1.6	100.0
<b>Gothenburg Business Area</b>							
Offices	36.1	3.8	1.8	6.4	5.3	19.2	72.6
Stores	21.1	22.0	22.2	17.3	7.1	1.5	91.2
Other	2.0	2.7	4.4	2.8	1.4	0.1	13.4
<b>Total</b>	<b>59.2</b>	<b>28.5</b>	<b>28.4</b>	<b>26.5</b>	<b>13.8</b>	<b>20.8</b>	<b>177.2</b>
Proportion, %	33.4	16.1	16.0	15.0	7.8	11.7	100.0
<b>Hufvudstaden, total</b>							
Offices	127.7	112.6	135.7	83.6	63.4	147.8	670.8
Stores	178.4	126.0	142.1	64.6	84.2	22.6	617.9
Other	28.6	19.5	27.4	16.4	6.0	4.6	102.5
<b>Total</b>	<b>334.7</b>	<b>258.1</b>	<b>305.2</b>	<b>164.6</b>	<b>153.6</b>	<b>175.0</b>	<b>1,391.2</b>
Proportion, %	24.1	18.6	21.9	11.8	11.0	12.6	100.0

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

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

3) Excluding residential leases.



# Properties

Property designation	Address	Site area, sq. m.	Year of purchase	Year of construction/ redevelopment	Tax assessment 2010, SEK m
<b>Stockholm City East Business Area</b>					
<i>Kungsgatan Management Area</i>					
Hästhuvudet 13	Sveavägen 21–23, Kungsgatan 40–42, Apelbergsgatan 35–37, Olofsgatan 2–4	1,302	1929/99	1919/32/94/2001	297.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	302.0
Kåkenhusen 38 <sup>2)</sup>	Brunnsgatan 3, Norrlandsgatan 31–33	1,146	2011	1932	272.0
Kåkenhusen 39	Kungsgatan 4 A–B–10, Brunnsgatan 5–9, Norrlandsgatan 29	3,788	1921	1926/28/30/84/85/89/91	575.0
Oxhuvudet 18 <sup>1)</sup>	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 29–33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	1,013.0
<i>Total</i>		11,830			2,459.0
<i>Normalmstorg Management Area</i>					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	173.0
Kvasten 6 <sup>1)</sup>	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	309.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	175.0
Norrmalm 2:63 <sup>3)</sup>	Normalmstorg, Café Palmhuset		1992	1993	6.0
Packarhuset 4 <sup>1)4)</sup>	Normalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	920.0
Pumpstocken 10 <sup>1)</sup>	Birger Jarlsgatan 13–15, Mäster Samuelsgatan 2–4, Biblioteksgatan 10–12, Jakobsbergsgatan 1–3	2,886	1917/78 91/2000	1865/97/1901/29/84 96/97/2006	676.2
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	143.0
Rännilen 11	Biblioteksgatan 8, Mäster Samuelsgatan 5	775	1958	1902/85	144.0
Rännilen 18 <sup>1)</sup>	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986/2009	366.0
Rännilen 19	Normalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39 2007	1902/42/64/90/2002	601.0
Skåren 9	Smålandsgatan 20, Norrlandsgatan 10	2,195	1917	1984/2001	543.0
Vildmannen 7 <sup>1)</sup>	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	189.6
<i>Total</i>		17,663			4,245.8
<b>Total, Stockholm City East Business Area</b>		29,493			6,704.8
<b>Stockholm City West Business Area</b>					
<i>NK Management Area, Stockholm</i>					
Hästen 19 <sup>1)</sup> and 20, Spektern 14 <sup>5)</sup>	Hamngatan 18–20, 29–33, Regeringsgatan 26–32, 36–40	8,875	1998	1915/91	2,057.0
<i>NK Management Area, Gothenburg</i>					
Inom Vallgraven 10:9 <sup>6)</sup>	Östra Hamngatan 42, Kyrkogatan 54, Fredsgatan 5–7, Drottninggatan 39, 45	4,520	1998	1964/94	614.0
<i>Parkaden Management Area</i>					
Hästskon 10 <sup>7)</sup>	Regeringsgatan 49–53, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	323.0
<i>West Management Area</i>					
Achilles 1 <sup>8)</sup>	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th Century/1974	143.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	208.0
Kungl Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	107.0
Medusa 1 <sup>1)9)</sup>	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	73.1
Orgelpipan 7 <sup>10)</sup>	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	674.0
Svärdfisken 2 <sup>1)</sup>	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	192.0
<i>Total</i>		12,075			1,397.1
<b>Total, Stockholm City West Business Area</b>		30,391			4,391.1
<b>Gothenburg Business Area</b>					
Inom Vallgraven 12:8	Drottninggatan 50–52, Södra Hamngatan 45, Fredsgatan 2–4	1,712	1967/2010	1875/1929/1930	133.0
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	221.0
Inom Vallgraven 12:2 <sup>11)</sup>	Södra Hamngatan 47	415	2011		15.4
Nordstaden 8:24	Postgatan 26–32, Nordstadstorget 6, Spannmålsgatan 19, Nils Ericssonsgatan 17	8,404	1979	1972	1,212.0
Nordstaden GA:5 <sup>12)</sup>	Nordstadstorget and others				187.3
<b>Total, Gothenburg Business Area</b>		14,688			1,768.7
<b>TOTAL</b>		74,572			12,864.6
<b>Property sold</b>					
Inom Vallgraven 20:4 <sup>13)</sup>	Kungsgatan 46, Kyrkogatan 21	982	1974	1914	63.0

Offices	Stores	Restaurants	Rentable space, sq. m.				Other	Total
			Cinemas	Storage	Garage	Residential		
4,971	1,866			239				7,076
6,407	1,809			1,028				9,244
5,581		1,103		4				6,688
11,600	3,336	548		500				15,984
20,895	5,102			1,986	1,643		5	29,631
49,454	12,113	1,651		3,757	1,643		5	68,623
2,845	800			286	792			4,723
3,523	2,751	243		190	206			6,913
2,470	534	203		256				3,463
	52	137						189
10,883	3,269	704		415				15,271
7,757	3,857	513		81		192	1	12,401
2,022	569	167						2,758
1,603	883	539		2				3,027
5,183	865	444		367				6,859
7,652	2,319			750	1,009			11,730
7,710	1,642			411	1,139			10,902
1,935	1,517			21		898	1	4,372
53,583	19,058	2,950		2,779	3,146	1,090	2	82,608
103,037	31,171	4,601		6,536	4,789	1,090	7	151,231
11,322	21,958	2,088		3,498			15	38,881
5,171	9,729	207		1,278			2	16,387
	2,696	512		8,670	24,482		1	36,361
4,000	351			604				4,955
7,564	378	263		871				9,076
2,775								2,775
1,282	242	271		103		303		2,201
9,946	3,762	1,919		2,065	13,889		1	31,582
3,893	175		1,893	391	1,106			7,458
29,460	4,908	2,453	1,893	4,034	14,995	303	1	58,047
45,953	39,291	5,260	1,893	17,480	39,477	303	19	149,676
2,107	1,661			473		779		5,020
10,368	3,115	404		1,075	1,250			16,212
24,172	16,238	744		2,113			52	43,319
36,647	21,014	1,148		3,661	1,250	779	52	64,551
185,637	91,476	11,009	1,893	27,677	45,516	2,172	78	365,458
770	1,690			31				2,491

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

2) The property was acquired on December 14, 2011. Owned by the subsidiary Fastighets AB Kåkenhusen.

3) The property is held on a lease.

4) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.

5) Owned by the subsidiary AB Nordiska Kompaniet. Hästen 20 och Spektern 14 are leaseholds. The ground rent for Hästen 20 is SEK 2.5 million and is fixed until May 1, 2012. The ground rent for Spektern 14 is SEK 0.5 million and is fixed until October 1, 2015. Both ground rents are adjusted every 10 years. The tax assessment value of the land is included to the amount of SEK 686.0 million.

6) Owned by the subsidiary AB Nordiska Kompaniet.

7) Owned by the subsidiary AB Hamngatgaraget. Leasehold. The ground rent is SEK 4.4 million, fixed until August 31, 2014 and adjusted every 10 years. The tax assessment value of the land is included to the amount of SEK 93.0 million.

8) The property is a listed building.

9) Owned by the subsidiary Fastighetsaktiebolaget Medusa.

10) Leasehold. The ground rent is SEK 7.9 million, fixed until November 1, 2014 and adjusted every 10 years. The tax assessment value of the land is included to the amount of SEK 284.0 million.

11) The property was acquired on December 15, 2011. Owned by the subsidiary Sigillet Inom Vallgraven 12:2 AB.

12) The property is jointly owned and includes parking operations, some leasing of premises as well as servicing and maintenance of pedestrian precincts, loading areas, cooling and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 29.6 per cent, equivalent to 25,359 square metres.

13) The property was sold on December 15, 2011.





**BIBLIOTEKSTAN**

*Mäster Samuelsgatan, Stockholm*



## Definitions and glossary

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

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

*Average number of employees calculated on a full-time basis.* The average number of persons employed during the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Properties' carrying amount per share.* The carrying amount of the properties in relation to the number of outstanding shares at the year-end.

*Property tax supplement.* Reimbursement of property tax from tenants.

*Renegotiated leases.* New or extended leases with existing tenants whose earlier leases came to an end during the year.

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

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

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

*Return on capital employed.* Profit before tax plus interest expense in relation to the average capital employed.

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

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

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

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

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

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

*Yield gap.* The difference between the long-term interest rate and the properties' yield.

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

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

# Addresses

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Website.....www.hufvudstaden.se  
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*Parkaden AB*

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SE-111 77 STOCKHOLM

Visiting address: Regeringsgatan 47

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E-mail.....info@parkaden.se  
Website..... www.parkaden.se

## NK Department stores

*NK Stockholm*

NK 100

SE-111 77 STOCKHOLM

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Website..... www.nk.se

*NK Gothenburg*

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Visiting address: Östra Hamngatan 42/  
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