



HUFVUDSTADEN 2017



NORDSTAN

Östra Hamngatan, Gothenburg

*Cover: Bibliotekstan,
Norrländsgatan, Stockholm*



BIBLIOTEKSTAN

Biblioteksgatan, Stockholm



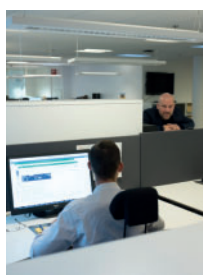
NORDISKA KOMPANIET

Hamngatan, Stockholm

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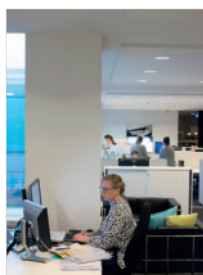
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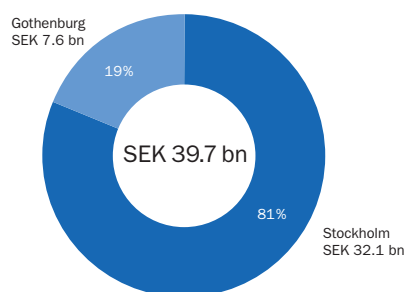
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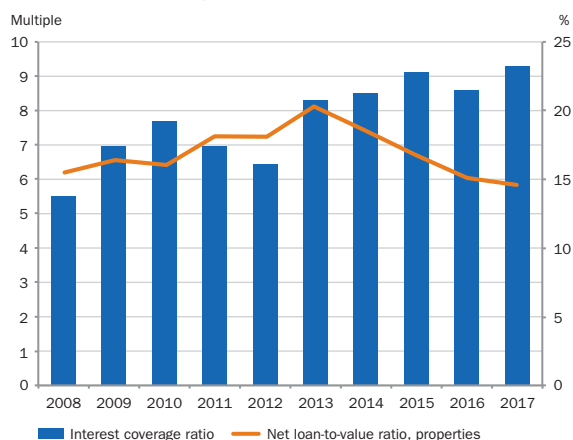
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THIS IS HUFVUDSTADEN

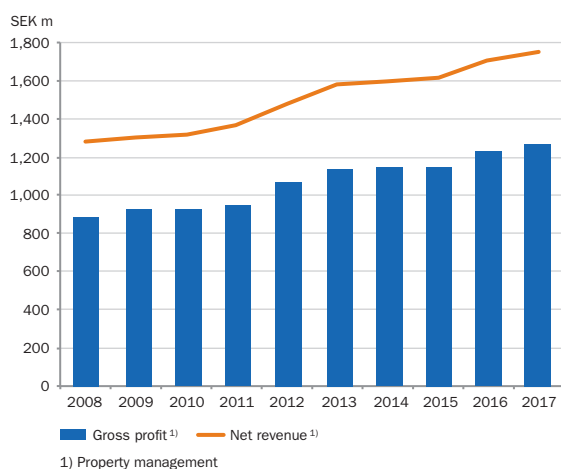
Fair value, properties



Interest coverage ratio and net loan-to-value ratio



Gross profit and net revenue



Hufvudstaden is a property company listed on the Nasdaq Stockholm Large Cap list. We have managed and developed properties for more than 100 years in Stockholm and more than 60 years in Gothenburg. Our financial position is solid, with a low loan-to-value ratio and good earning capacity. The holdings comprise 29 properties, mainly office and retail premises in the most central areas of the two foremost growth regions in Sweden – Stockholm and Gothenburg. At the end of 2017, the fair value of the properties totalled SEK 39.7 billion.

In recent years, we have intensified our investment in development projects, although still retaining our long-term approach to business and a consistently high level of quality in the management process.

Management of the Company's property holdings is split between three business areas. The Group also includes the wholly owned subsidiary AB Nordiska Kompaniet, which owns the NK brand and has department stores in Stockholm and Gothenburg. In recent years, we have intensified our investment in development projects, although still retaining our long-term approach to business and a consistently high level of quality in the management process. We will continue to achieve our financial objectives and in doing so generate a good return over time and with limited risk for the shareholders.

Vision and aim

Hufvudstaden's vision is to be consistently perceived as, and prove to be, the most interesting and vibrant property company in Sweden, and its aim is to have the most satisfied customers in the industry. To measure this, we take part in the annual *Fastighetsbarometern* Customer Satisfaction Survey, in which we have been ranked among the top three companies since the Survey began in 1997. We focus on providing our customers with a high level of service and this involves working closely with our tenants. All the properties are within walking distance of our offices and we have our own staff who manage and develop the properties.

Sustainable development

The long-term approach adopted by Hufvudstaden is unique, and the sustainability work that is being conducted is an integral part of our operations, regardless of whether the focus is on financial development or on environmental and social issues. Good relations, a healthy working environment and strict observance of good business ethics are crucial to our long-term success.

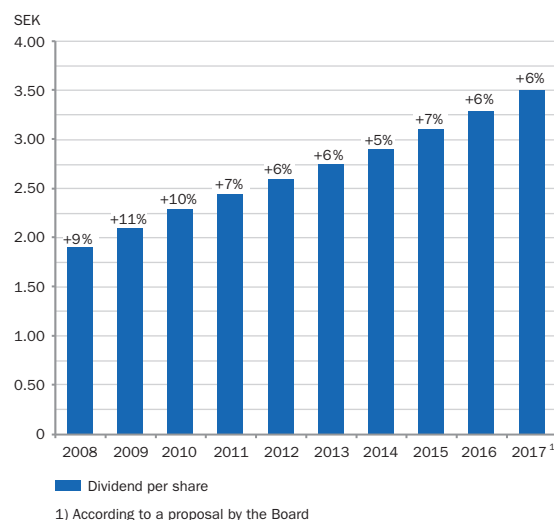
YEAR IN BRIEF

- Profit after tax for the year was **SEK 3,895 million** (5,284). The decrease can be attributed to lower unrealized changes in the value of the property holdings.
- Gross profit rose by 3 per cent to **SEK 1,301 million** (1,262). The increase can be attributed mainly to higher rental revenue, although it has been counteracted by costs related to vacant space that arose in conjunction with development projects.
- Profit for the year after tax totalled **SEK 3,035 million** (4,120), equivalent to **SEK 14.71** per share (19.98).
- The Board proposes an increase in the dividend to **SEK 3.50** per share (3.30).
- The fair value of the property holdings at the year-end was **SEK 39.7 billion** (36.5), resulting in a net asset value of **SEK 152** per share (138).
- The rental vacancy level at the year-end was **3.9 per cent** (3.9). Excluding current development projects, the rental vacancy level was **2.4 per cent** (2.6).

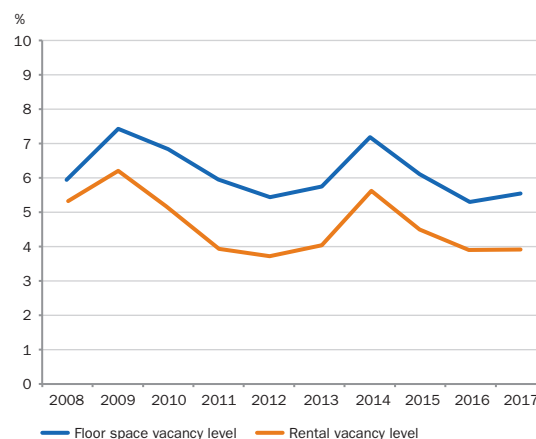
Financial summary (SEK m)

	2017	2016
Net revenue, property management	1,751	1,703
Gross profit, property management	1,262	1,226
Unrealized changes in value, investment properties	2,848	4,160
Operating profit	4,031	5,425
Profit for the year	3,035	4,120
Net profit from current operations	876	841
Fair value, properties, SEK bn	39.7	36.5
Rental vacancy level, %	3.9	3.9
Net loan-to-value ratio, properties, %	14.6	15.2
Interest coverage ratio, multiple	9.3	8.6

Dividend growth



Vacancy level



BUSINESS CONCEPT, OBJECTIVES AND STRATEGIES

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

Vision

Hufvudstaden will be consistently perceived as, and prove to be, the most interesting and vibrant property company in Sweden.

Business concept

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

Strategies to achieve the objectives

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

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

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

Business development. Active business development and adaptation to advances in digitalization in society will create added value in the property holdings.

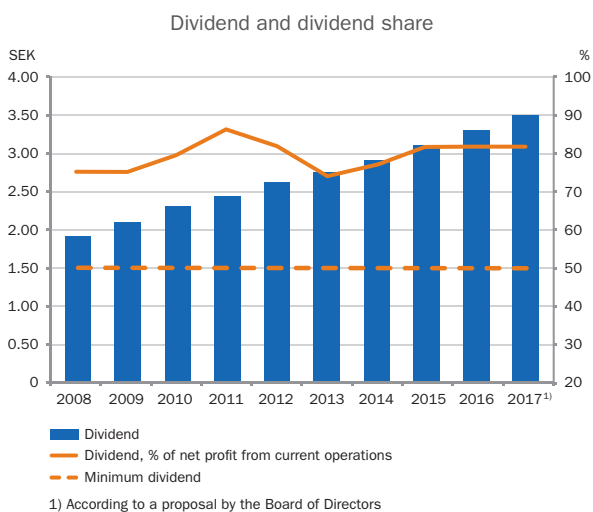
FINANCIAL OBJECTIVES

Objective

Hufvudstaden shares will have good dividend growth over time and the dividend will amount to more than half the net profit from current operations.

Outcome

According to a proposal presented by the Board of Directors, the total dividend will amount to SEK 721.9 million, equivalent to 82 per cent of the net profit from current operations.

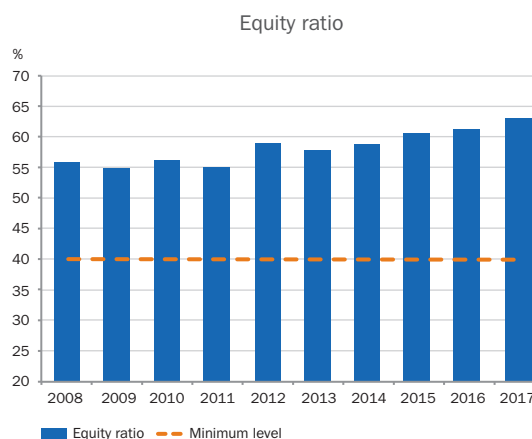


Objective

The equity ratio will be at least 40 per cent over time.

Outcome

The equity ratio at the end of 2017 was 63 per cent.



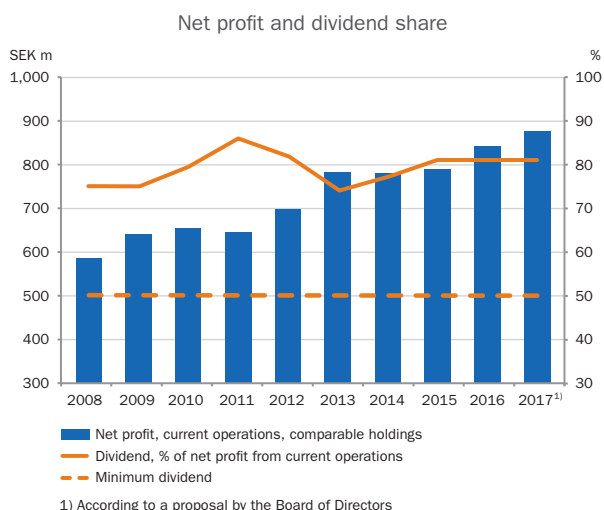
OPERATING AND SUSTAINABILITY OBJECTIVES

Objective

Hufvudstaden will gradually increase profit from current operations.

Outcome

Net profit from current operations increased by 4 per cent during the year.

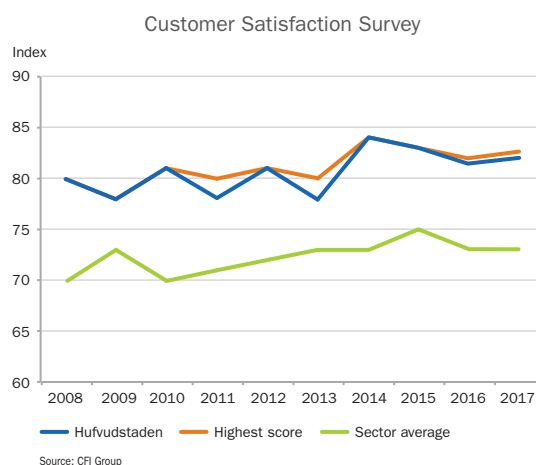


Objective

Hufvudstaden will have the most satisfied customers in the industry.

Outcome

Hufvudstaden takes part in the annual *Fastighetsbarometern* Customer Satisfaction Survey, which takes place among office tenants. In this year's Customer Satisfaction Survey, we came top in the Large Company category and third overall.



Objective

Hufvudstaden will have the most developed property holdings in the industry.

Outcome

In addition to major development projects, 31,000 square metres of floor space have been adapted for new and existing tenants.

The Customer Satisfaction Survey includes questions dealing with how the office tenants perceive our properties. This year's survey produced the following results:

Question	Hufvudstaden	Highest score	Sector average	Maximum
Location	89	91	82	100
Service	87	87	76	100
Fault response	86	86	76	100
Premises	80	85	71	100
Indoor climate	66	70	60	100
Adaptation	83	83	74	100

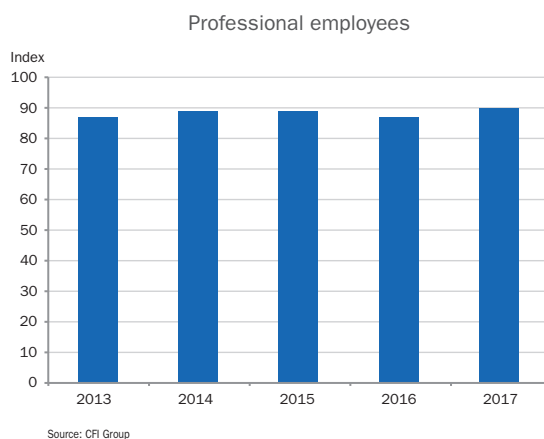
Source: CFI Group

Objective

Hufvudstaden will have the most professional personnel in the industry, with firm commitment to the customer, good business acumen and professional know-how.

Outcome

Each year, Hufvudstaden asks our office tenants how they perceive our employees based on established objectives. The outcome for the year improved from the already high level.



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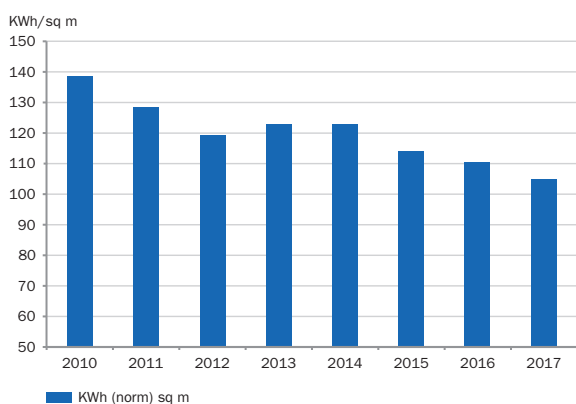
Objective

By 2020, energy use will have fallen by 30 per cent compared to 2010.

Outcome

We reduced energy use by 5 per cent during 2017, and by 24 per cent since 2010.

Normal-year-adjusted energy use per square metre with a deduction for power used in company operations



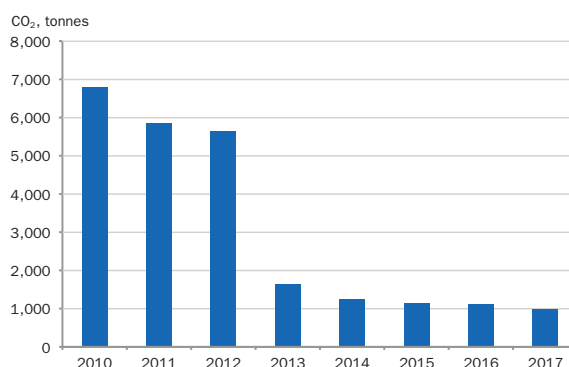
Objective

By 2020, carbon dioxide emissions from property operations will have fallen by 90 per cent compared to 2010.

Outcome

Carbon dioxide emissions from property operations fell by 13 per cent during 2017, and by 85 per cent since 2010.

Carbon emissions from energy use



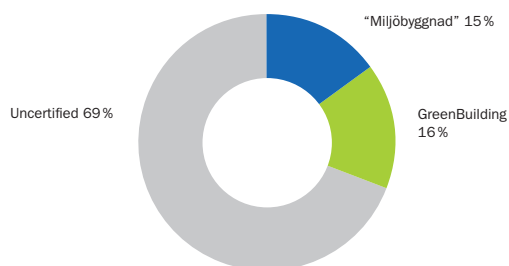
Objective

Hufvudstaden's ambition is to environmentally certify its property holdings, focusing on major redevelopment and new construction projects.

Outcome

No major projects were completed during the year on properties that were not previously certified.

Proportion of total holdings that have been certified



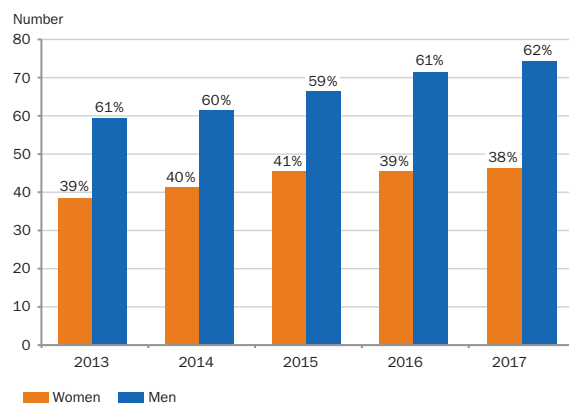
Objective

Hufvudstaden will seek to achieve equality within the Company.

Outcome

During the annual staff conference, equality was addressed through discussions based on a series of fictitious predicaments and situations. At the end of the year, department-based workshops were run following the emergence of the #metoo movement during the autumn.

Employees





DROTTNINGGATAN
Stockholm

STATEMENT BY THE PRESIDENT

A positive year for Hufvudstaden

At the beginning of the year, storm clouds had begun to gather on several fronts. Despite this ominous start, 2017 as a whole proved to be a positive year for the global economy, with widespread recovery in Europe, good growth and rising employment in the USA, and a steady rate of expansion in China.

In Sweden, the favourable economic climate has shown no signs of weakening. The GDP growth rate of almost 3 per cent is higher than the average for the whole of this century. Consumption has continued to increase, driven by a rise in the number of people in employment and higher average earnings.

The Swedish Central Bank continued with its expansive monetary policy. The key rate throughout 2017 remained at -0.5 per cent, and inflation was in line with the 2 per cent target for the year. Bolstered by good public finances, the outlook for private individuals and companies remained positive, and Hufvudstaden could once again report a rise in earnings.

Focus on business development

Digital development is gaining momentum, posing a challenge to established societal structures and business models. Access to information is growing, a great deal is happening in real time, and the level of transparency is higher than ever. There is a growing demand among customers for flexible solutions, and in the retail sector consumer purchasing patterns are being adapted to the expansion in digitalization, which is having a significant impact on the entire property sector.

During the year, Hufvudstaden stepped up its rate of investment in business development, injecting further resources into enhancing its project, retail-



ing and digital expertise. A number of in-house projects have been initiated in an effort to raise the level of novel thinking and innovation within the Company.

The recently completed reorganization has put us in a better position to focus on our prioritized operating areas. As part of this process, NK became a separate business area, and the Executive Management increased in number from seven to eight.

Strong office market in Stockholm and Gothenburg

Demand for flexible office space in prime locations has remained high in both Stockholm and Gothenburg, with a continued low level of vacant space of just 2–3 per cent in the best locations. In Stockholm, market rents increased by almost 20 per cent, with a new record

high of more than SEK 8,000 per square metre. Office rents in Stockholm are now among the highest in Europe. The rent trend in Gothenburg during the year revealed a rise of around 5 per cent, bringing the square metre cost to a new high of around SEK 3,500, which in historical terms is also unique. Hufvudstaden's renegotiation of leases during the year resulted in an average rent increase of around 20 per cent.

Retail sector undergoing change

Profitability in the retail sector has been under pressure in recent years due to a low level of inflation in combination with rising real costs. Competition from new physical marketplaces has gradually increased, but even more so from the emergent e-trade sector.

Overall growth in the retail trade during the year has been positive, with a rise of just over 2 per cent. For the first time ever, the rise can be ascribed mainly to e-trade. In the physical stores, turnover has either stagnated or fallen. The mar-

ketplaces that came out best were either those in prime CBD locations or in outer areas that have in recent years attracted large-scale investment.

Hufvudstaden's sought-after properties offer excellent potential for counteracting the change in consumer purchasing patterns. Turnover in Bibliotekstan remained stable during 2017. At the NK department stores, net sales were down slightly on the previous year, although the rent trend has remained positive as a result of new and renegotiated leases. A number of new leases have been signed with international brands, and we intend to reinforce NK's digital presence even further.

Rising property values

The strong rate of expansion in the commercial property market continued

during 2017, and considerable interest was shown by both Swedish and international investors. Economic growth, a shortage of good investment alternatives, good access to financing, low interest rates, and a very strong office market, primarily in Stockholm, led to a rise in property values. The total transaction volume in Sweden was around SEK 160 billion. Although figures are below the record-breaking level of the previous year, 2017 will still go down as one of the most transaction-intensive years ever.

Hufvudstaden's property holdings were valued at the year-end at SEK 39.7 billion (36.5), an increase of 9 per cent. The increase can be attributed mainly to rising rent levels and a slight fall in yield requirements.

The net asset value at the year-end was SEK 152 per share (138), and the share price closed at SEK 131.40.

Increased profitability through projects

Hufvudstaden's portfolio of current and planned projects stands at around SEK 3 billion. At present, we estimate that we can invest SEK 6–8 billion in projects or property acquisitions over the next 5–10 years without jeopardizing our strong financial position or exposing the company to any tangible risk. Profitability can thus be improved, and further shareholder value can be generated.

In Stockholm, a project commenced in the NK department store to create a clearer link with the neighbouring Parkaden property. NK will acquire a further large entrance, more exclusive brands, and an improved level of service for our NK-customers. The project is due for completion in 2020.

In Gothenburg, extensive redevelopment of the Femman Precinct in the Nordstan Shopping Centre was completed. At NK, work on the foundations commenced, which will result in both the ground floor and the lower ground floor acquiring further high-end retail space.

In the Vildmannen 7 property in Stockholm, a major redevelopment project was in progress and was due to be completed in spring 2018. The property was unfortunately ravaged by fire at the end of the year, and much of the building was destroyed. The aim is to as quickly as possible erect a building that will appeal to both our customers and other visitors to Bibliotekstan.

Hufvudstaden is well placed to respond to future challenges and opportunities.

Sustainable enterprise

Sustainability at all levels is paramount if we are to continue to report good profitability over time. In response to the growing level of knowledge and interest in sustainability, we strive to maintain an ongoing dialogue with our customers, suppliers and employees. Prioritized issues include waste management, energy use, and a sustainable choice of materials in redevelopment work. Since 2010, Hufvudstaden's energy use has fallen by 24 per cent and climate impact by 85 per cent.

In this year's Customer Satisfaction Survey among office tenants, Hufvudstaden came top in the Large Company category, and the Company's shares have been approved for inclusion in the Swedbank Robur and Nordea Sustainability funds.

Positive profit trend

Earnings continued to improve, with gross profit up by more 3 per cent at SEK 1,301 million (1,262). This can be attributed principally to higher rents in conjunction with new and renegotiated leases, along with strong growth in parking revenue. The increase has been

offset slightly by a rise in the level of vacant space, mainly due to current or planned projects.

Profit before tax was SEK 3,895 million (5,284), the decrease can be explained by a slow-down in the rise in value of the property holdings compared with the previous year.

2018 and the future

During 2018, we will continue to adapt our business processes to changing needs and purchasing patterns among our customers. There will be a particular focus on our marketplaces in the retail sector, especially at NK, which will be developed both instore and online.

We will also increase our investment in projects in our endeavour to boost the Company's long-term cash flow and earnings. The ambition is to maintain good dividend growth over time and increase the net asset value. The possibility of making property acquisitions as a complement to existing holdings cannot be excluded, and a sustained increase in revenue from current operations will be sought.

Hufvudstaden is in a very strong financial position, with properties in prime locations in Stockholm and Gothenburg. Our customers are among the most successful in their sectors, and we have a clear picture of what needs to be prioritized in the future. I am convinced that Hufvudstaden is well placed to respond to future challenges and opportunities.

Finally, I would like to extend my sincere thanks to everyone in the Company for their remarkable work and commitment during the past year.

Stockholm, February 2018

Ivo Stöpner
President



VÄSTRA TRÄDGÅRDSGATAN

Stockholm



BIBLIOTEKSTAN

Biblioteksgatan, Stockholm

PROPERTY MARKET

External events

In Europe, the economy in almost every country has strengthened during the year. The UK economy has up to now demonstrated resilience in the face of the uncertainty surrounding the negotiations on EU withdrawal. The USA has continued to report solid economic growth, which has led to a stronger labour market. The Federal Reserve raised its key rate three times, closing the year at 1.25–1.50 per cent. The Chinese economy gathered momentum during the year in the wake of growing global demand, infrastructural investment, and stimulation of the construction and housing market following relaxation of credit restrictions.

Geopolitical risks and terror attacks featured prominently in the news during 2017. On the Korean peninsula, tension between North Korea and the USA and its South Korean and Japanese allies has escalated. In the Middle East, the territory previously gained by IS has been retaken, although the situation in several countries in the region continues to be unstable. In Europe, discussions took place on how migration flows should be addressed, whilst at the same time a number of cities fell victim to acts of terrorism. In April, a terrorist attack took place on Drottninggatan in Stockholm, leaving several people dead or injured.

The Swedish economy continues to prosper. Economic growth measured in

terms of the increase in GDP was around 2.5 per cent during 2017, down slightly on the previous year but still above the average for this century. The primary driving force behind continued growth are permanent gross investments in areas such as housing, machinery and equipment. Growth was also boosted by a rise in exports in the wake of an increasingly stronger global economy.

The rate of employment rose significantly during the year, and the number of people in employment increased in the majority of age groups. However, this had a limited impact on unemployment, which at the end of the year was 6.7 per cent. This can be attributed to a divided labour market, where people with a low level of education and those born abroad continue to find it more difficult to become established on the labour market. The strong labour market has contributed to pay levels increasing in a number of sectors with the greatest shortage of workers. The collective bargaining system, with longer pay agreements, has had a restraining effect on inflation. In line with intensified resource utilization in the economy, the rate of inflation rose to around 2.0 per cent using the consumer price index plus a fixed rate of interest. The Swedish Central Bank continued to apply its expansive monetary policy, and the key rate remained unchanged at -0.5 per cent throughout the year. The strong business climate has also

resulted in a surplus in public finances despite high costs related to migration. During the autumn, uncertainty began to emerge on the housing market, resulting in falling prices. This uncertainty can be attributed to the mortgage repayment requirement, increased new production in certain housing segments, and indications of a rise in mortgage rates. As a result of this uncertainty, the number of new homes being built is expected to peak this year. The contribution made by housing construction to growth will therefore fall over the coming years, although increased industrial and public-sector investment, coupled with a growth in exports, is expected to compensate for the downturn.

In summary, the strong business climate in Sweden during 2017, coupled with the limited availability of modern vacant office premises, has resulted in a rise in market rents for offices, mainly in Stockholm. The positive trend on the rental market, low interest rates, and a lack of attractive alternative investments, have exerted further pressure on yield requirements for properties located in the most central areas of Stockholm and Gothenburg, with a resulting rise in property prices.

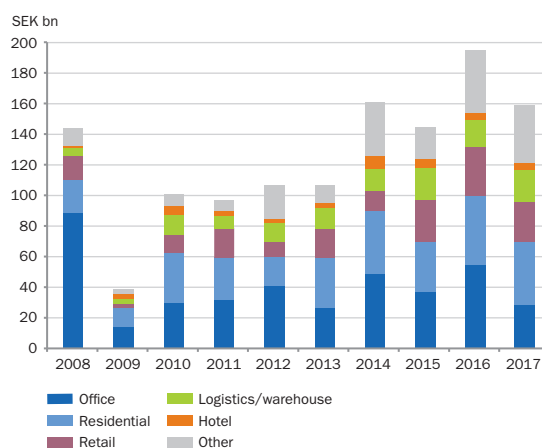
Hufvudstaden's submarkets

In Stockholm, Hufvudstaden owns and manages 24 properties, all located in the most attractive and more central

Transaction volume per investor category



Transaction volume according to type of property



areas. The properties house modern, high-quality office and retail space in which successful companies can carry on their business operations.

The population of Greater Stockholm is 2.3 million, and over the past 10 years it has increased by around 18 per cent. This can be compared with the national figure of around 10 per cent. Forecasts show that the population will continue to rise at around the same rate over the next 10 years.

Largest property owners in the Stockholm CBD

	Rentable floor space sq m
Vasakronan	373,000
AMF	294,000
Hufvudstaden	263,000
Skandia Fastigheter	130,000
Pembroke Real Estate	103,000
SEB Trygg Liv	102,000

Source: Brunswick Real Estate

Greater Stockholm is often described as the driving force behind growth in Sweden, and preliminary figures from Statistics Sweden indicate that the growth rate in terms of GRP (Gross Regional Product) was 3.2 per cent per annum during the period 2001–2016, whilst the GDP growth rate for the country was 2.2 per cent per annum. Stockholm also reports a high rate of economic growth measured per inhabitant. According to preliminary statistics released for 2016, GRP per inhabitant

in the Greater Stockholm area was SEK 627,000, compared with the national GDP figure per inhabitant of SEK 444,000. During this century, the accumulated increase for both Greater Stockholm and for the country was around 65 per cent. The higher rate of growth in Greater Stockholm can be attributed in the main to a very prominent service sector, including property, finance, IT, communications and corporate services. According to Statistics Sweden, the service sector employs around 30 per cent of the working population. This can be compared with the national average of around 19 per cent.

Tourism is growing and is becoming one of the most important parts of the economy. A strong tourist sector creates jobs, raises the level of consumption, generates higher export revenue, and promotes investment in the infrastructure. The most recent statistics published by the Swedish Agency for Economic and Regional Growth/Statistics Sweden show that tourism in Sweden generated revenue of almost SEK 300 billion in 2016, an increase of some 7 per on the previous year. Accumulated since 2000, revenue from tourism has almost doubled. Although the statistics cannot be broken down to the regional level, figures for the number of hotel nights in Greater Stockholm show a rise of more than 40 per cent during the period 2008–2016. This figure is around 85 per cent higher

than the national average. It appeared as if the positive trend was set to continue during 2017. Preliminary statistics show that Greater Stockholm increased by 4 per cent compared with 2016, which is double the rate for the country as a whole.

In Hufvudstaden's submarket in Gothenburg, the Company owns five properties. As is the case in Stockholm, the properties house modern, high-quality office and retail space in the more central parts of the city.

The population of Greater Gothenburg was 1.0 million. The rate of increase has been around 13 per cent over the past 10 years, and the forecast is that the population will continue to grow at about the same rate during the coming decade.

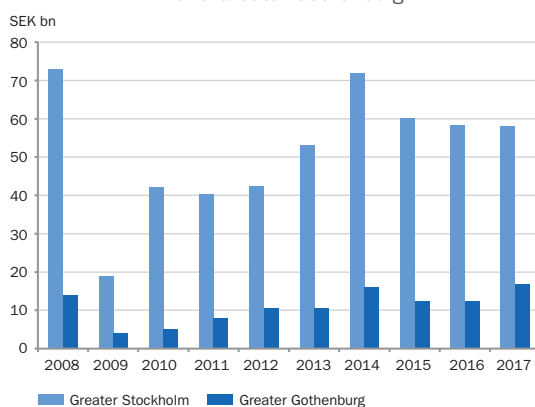
The transformation of Gothenburg from being a city dominated by heavy industry to a more diversified commercial and industrial base is continuing. The service sector has increased steadily, and according to Statistics Sweden it

Largest property owners in the Gothenburg CBD

	Rentable floor space sq m
Vasakronan	282,000
Wallenstam	205,000
Balder	108,000
Hufvudstaden	105,000
Bygg-Göta Göteborg	88,000
SEB Trygg Liv	82,000

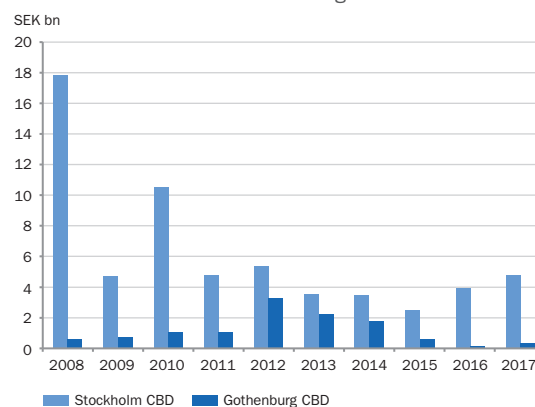
Source: Brunswick Real Estate

Transaction volume in Greater Stockholm and Greater Gothenburg



Source: Brunswick Real Estate

Transaction volume in the Stockholm CBD and Gothenburg CBD



Source: Brunswick Real Estate

Stockholm

The map shows Hufvudstaden's property holdings with the construction year and rentable space. For further information, see property list, pages 100–101.

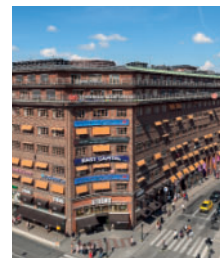
— Central Business District (CBD)



Hästhuvudet 13
Construction year: 1919
Rentable space: 7,106 sq m



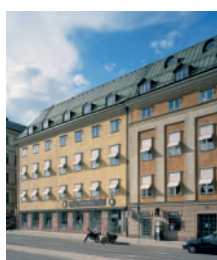
Grönlandet Södra 11
Construction year: 1911
Rentable space: 9,110 sq m



Oxhuvudet 18
Construction year: 1931
Rentable space: 29,509 sq m



Medusa 1
Construction year: 1878
Rentable space: 2,203 sq m



Achilles 1
Construction year: 17th century
Rentable space: 4,975 sq m



Svärdfisken 2
Construction year: 1851
Rentable space: 7,466 sq m



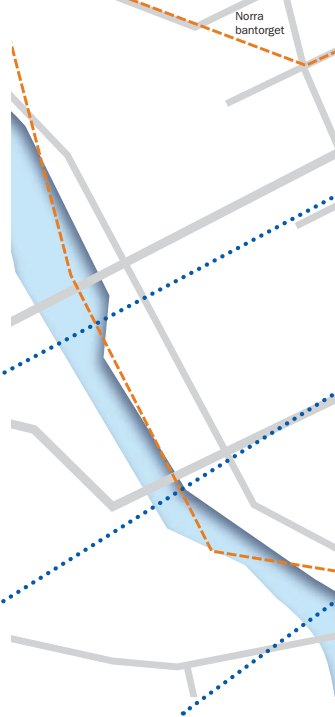
Järnplåten 28
Construction year: 1958
Rentable space: 9,270 sq m



Orgelpipan 7
Construction year: 1964
Rentable space: 30,440 sq m

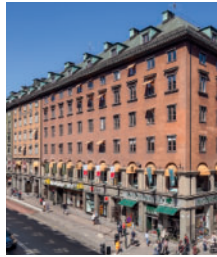


Hästen 19 (NK)
Construction year: 1915
Rentable space: 39,357 sq m





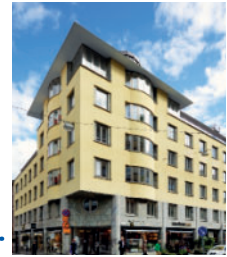
Hästskon 10
Construction year: 1964
Rentable space: 36,315 sq m



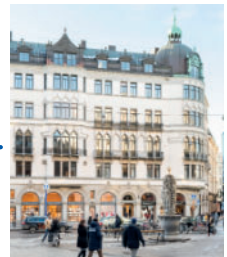
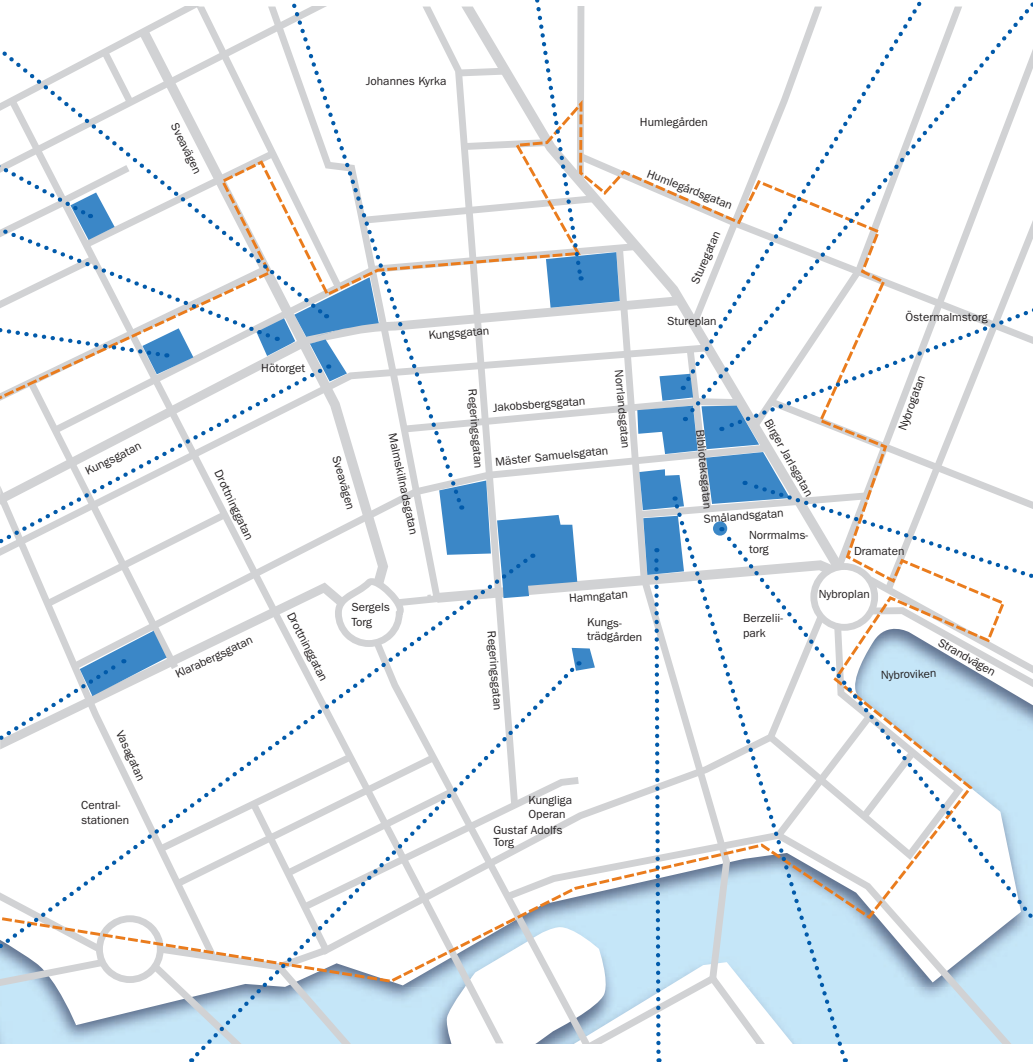
Kåkenhusen 40
Construction year: 1926
Rentable space: 22,797 sq m



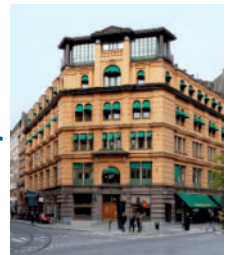
Vildmannen 7
Construction year: 1897
Much of the building was totally destroyed by fire.



Kvasten 2
Construction year: 1987
Rentable space: 4,672 sq m
Kvasten 6
Construction year: 1917
Rentable space: 7,040 sq m
Kvasten 9
Construction year: 1978
Rentable space: 3,437 sq m



Pumpstocken 10
Construction year: 1865
Rentable space: 12,410 sq m

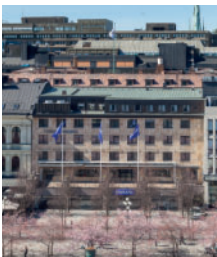


Rännen 8
Construction year: 1900
Rentable space: 2,774 sq m

Rännen 11
Construction year: 1902
Rentable space: 3,018 sq m

Rännen 18
Construction year: 1888
Rentable space: 6,911 sq m

Rännen 19
Construction year: 1902
Rentable space: 11,291 sq m



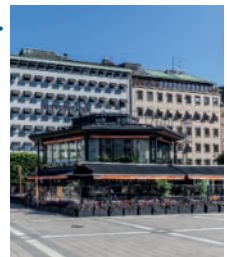
Kungliga Trädgården 5
Construction year: 1984
Rentable space: 2,764 sq m



Packarhuset 4
Construction year: 1932
Rentable space: 15,326 sq m



Skären 9
Construction year: 1984
Rentable space: 11,008 sq m



Norrmalm 2:63
Construction year: 1993
Rentable space: 194 sq m

now employs around 22 per cent of the working population, a couple of percentage points higher than the national average. According to Statistics Sweden, growth in Västra Götaland, an area slightly larger than Greater Gothenburg, reveals an average increase of 2.6 per cent per annum during the period 2001–2016. This puts the region's growth rate among the highest in Sweden. According to preliminary figures for 2016, the GRP per inhabitant was SEK 453,000. This represents an increase of almost 70 per cent since 2000, and the highest figure for all regions in Sweden after Greater Stockholm.

As is the case in Stockholm, tourism is a vital part of the economy in Gothenburg. The number of hotel nights in Greater Gothenburg reveals an increase of around 40 per cent during the period 2008–2016. This is almost 70 per cent higher than for the whole country during the same period. The preliminary figures for 2017 indicate an increase of just over 1 per cent compared with the previous year.

Infrastructure investments are crucial if we are to cope with the increase in population in Stockholm and Gothenburg. The Swedish Transport Agency presented a proposal in 2017 for a new national plan for the transport system for 2018–2029. The plan includes investment in excess of SEK 620 billion, up SEK 100 billion on the preceding period. More than half of the plan covers the development of the transport system, and the remainder covers maintenance, operation and reinvestment.

The regional division of the plan for

the transport system 2018–2029 has not yet been finalized. According to a decision reached as part of the previous plan, the investment schedule for Greater Stockholm amounted to around SEK 111 billion, covering investments in both road and rail traffic. The biggest projects include Förbifart Stockholm, which is 21 kilometres in length, including an 18-kilometre tunnel. The road will link the southern and northern parts of Stockholm, and will ease pressure on Essingeleden and the inner city. Major investments in rail traffic are related to boosting capacity on two rail lines, Mälarbanan and Roslagsbanan, and expansion of the underground system to areas such as Barkarby, Hagastaden, Nacka and Söderort.

In Gothenburg, the largest investment is the West Sweden Agreement, worth around SEK 35 billion. The largest infrastructure projects are the Marieholm Tunnel under the Göta Älv river, which will link up the E20, E6 and E45 motorways and the Lundbyleden highway. Hisingen Bridge will be a new bridge in central Gothenburg, connecting the two sides of the river. Following completion, the older Göta Älv Bridge will be demolished. The largest project is the construction of West Link, a new 8-kilometre rail link for commuter and regional trains with three underground stations. West Link is expected to become operational in 2026.

There are more than 5 million square metres of floor space in the Stockholm inner city, of which around 1.8 million square metres are within the CBD. The CBD in Stockholm is made up of the area around the Central Station, Norra Bantorget, Hötorget, Stureplan, Norrmalmstorg, Kungsträdgården and Sergels Torg. Hufvudstaden is the third-largest property owner in the Stockholm CBD, with total rentable floor space of 263,000 square metres and covering all types of premises.

In the Gothenburg area, there are approximately 3.4 million square metres of office space, of which around 0.9 million square metres are located in the Gothenburg CBD. Hufvudstaden is the fourth-largest commercial property owner in the Gothenburg CBD, with rent-

able floor space of 105,000 square metres and covering all types of premises.

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

Investor market

There is considerable interest in acquiring properties among both Swedish and international investors. This can be attributed to good financing potential on a highly efficient capital market, low interest rates, increasing market rents, mainly for offices and an attractive yield in relation to other investment options.

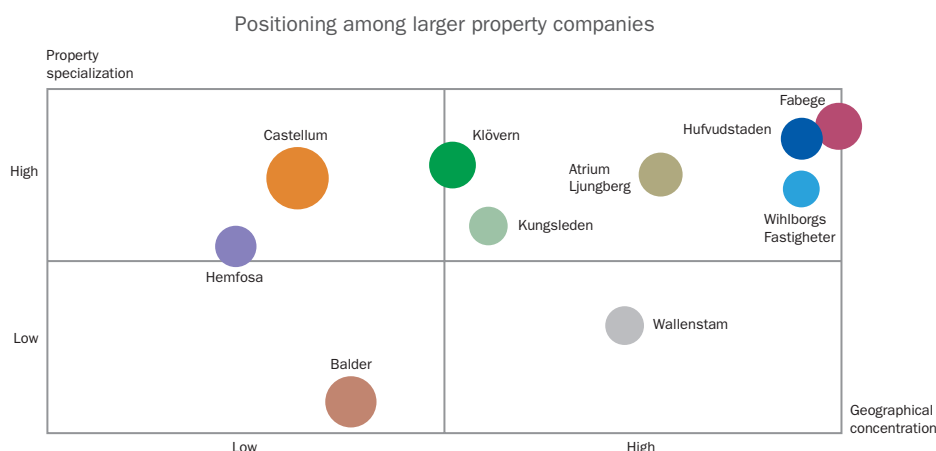
The transaction volume on the Swedish property market amounted to around SEK 160 billion, which over a longer time perspective is a very high turnover. However, it represents a fall of around SEK 40 billion compared with 2016. The proportion of office properties in relation to the total volume fell during the year, whilst the proportion of residential properties and logistics facilities increased. The low number of available properties in prime locations has induced investors to turn their attention to more secondary areas where transaction activity continued to be higher.

It was mainly Swedish investors, including private property investors, listed property companies and institutions, that were behind the majority of the property acquisitions. There was substantial interest among international operators, who accounted for around 20 per cent of the transaction volume in 2017.

The Stockholm and Gothenburg market continued to report a high turnover, totalling SEK 58 billion and SEK 17 billion respectively. The previous year, the turnover was in excess of SEK 58 billion and SEK 12 billion respectively. Interest in acquiring properties in the Stockholm CBD remains high, although the availability in 2017 was very limited. One of a couple of transactions to be completed was the acquisition by Folksam of the leasehold property Duvan 6, also known as the Copper Building, located between Sergels Torg and the Central Station. The property has around 9,700 square metres of rentable floor space, mainly offices. The vendor was Mengus and the parties have not revealed the purchase sum. Another transaction completed at the beginning

Market rents, December 2017
(excluding the property tax supplement)

Stockholm	Offices, SEK/ sq m per year	Stores, SEK/ sq m per year
Bibliotekstan/NK	6,500 – 8,400	14,000 – 25,000
Rest of CBD	5,900 – 8,400	4,000 – 14,000
Östermalm	3,500 – 6,300	3,000 – 11,000
Gamla Stan	2,900 – 4,200	2,500 – 5,000
Södermalm	2,700 – 4,200	2,500 – 6,000
Kungsholmen	3,200 – 5,400	2,000 – 8,000
Liljeholmen	2,200 – 3,100	2,000 – 6,000
Globen	2,200 – 3,200	3,500 – 6,000
Arenastaden	2,500 – 3,300	3,000 – 11,000
Kista	1,900 – 2,500	4,000 – 10,000
Gothenburg	Offices, SEK/ sq m per year	Stores, SEK/ sq m per year
Inom Vallgraven	2,500 – 3,400	6,000 – 15,000



The size of the circles reflects the standard calculated property value as at September 30, 2017 (Balder June 30, 2017).

Source: Brunswick Real Estate

of the year was the sale by Niam of the Blekholmen 1 property to the British company M&G Real Estate. The property has around 34,000 square metres of floor space, mainly offices and conference areas. The purchase sum was approximately SEK 2.2 billion, equivalent to around SEK 65,000 per square metre. This is also a leasehold property.

At Lindholmen in Gothenburg, Platzer acquired the Lindholmen 39:3 property, named Piren2, from Skanska. The rentable office space is around 9,000 square metres. The purchase sum was approximately SEK 410 million, equivalent to a square metre price of around SEK 46,000. At the end of the year, Folksam acquired four office properties, totalling around 36,000 square metres, from Stena. The property designations are Gårda 18:21, 18:25, 19:7 and Stampen 26:2. The property value of the transaction was around SEK 1.6 billion, or approximately SEK 45,000 per square metre.

The high demand for prime location office and retail properties in the Stockholm CBD and Gothenburg CBD continued during 2017. This has led to a stable or slight fall in yield requirements, which for modern office and retail properties in the Stockholm CBD were 3.40–4.00 per cent, and 3.90–4.50 per cent in the Gothenburg CBD at the end of 2017.

Rental market in Stockholm

Offices

Demand during 2017 for modern, space-efficient offices was very high,

mainly in attractive locations in the CBD. At the same time, the volume of vacant office space available to the market was limited, with record-low levels noted during the year. This led to a rise in market rents, with the annual increase in the CBD reaching 15–20 per cent. At the end of 2017, rents were noted in Bibliotekstan and the other most attractive parts of the CBD of SEK 6,500–8,400 per square metre per year, excluding the property tax supplement.

Major investments are currently being made to further modernize the office property holdings in the Stockholm CBD. There is a strong demand for premises of this type, which offer the latest technology, service functions, and in many cases good views. Companies have identified the business benefit of profiling, proximity to the best communication points, proximity to customers and colleagues in the industry, and the ability to attract the best employees. There is a clear willingness to pay for this type of office space with top rents of SEK 8,000–9,000 per square metre per year, excluding the property tax supplement. In certain project properties, the rental levels were already high whilst the new offices in other properties were first brought to the market during 2017. The strong office market in Stockholm has meant that parts of the project properties that were previously due to be converted into a hotel, will once again be used as offices.

There has been an expansion in office investment and development throughout the whole of the Stockholm

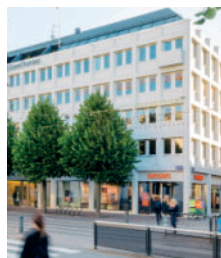
area. This is resulting in both Swedish and international companies being offered modern, space-efficient office space, which is mainly what is in demand at present. The majority of the larger property owners in the CBD are highly capitalized, long-term owners that are seeking to develop their properties. Modernization of older office space and the addition of new premises, together with limited availability and a greater willingness to pay, are leading to a rise in market rents. In the wake of this development, there is a certain knock-on effect with an increase in market rents for offices located in less modern properties.

The limited availability of large, unified office premises in the Stockholm CBD is having a positive impact on Hufvudstaden, as the Company's property holdings in the area are very concentrated. Hufvudstaden's long-term strategy is to own and develop a group of high-quality properties housing modern offices, preferably made up of complete blocks that allow tenants to expand within the existing holdings.

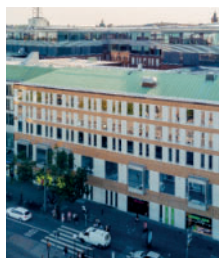
The level of vacant space during the year was 2–3 per cent (around 2) in the CBD. Even in adjacent submarkets, such as Gamla Stan and Östermalm, the level of vacant space has continued to be low.

Stores

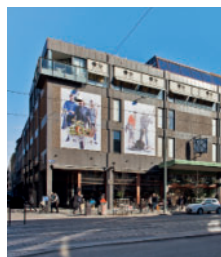
The retail trade has reported good growth for several years, although sales in physical stores are continuing to be affected by greater competition from



Nordstaden 8:24 (Fyran)
Construction year: 1972
Rentable space: 21,201 sq m



Nordstaden 8:24 (Femman)
Construction year: 1972/2011
Rentable space: 44,738 sq m



Inom Vallgraven 10:9 (NK)
Construction year: 1964
Rentable space: 16,647 sq m



Inom Vallgraven 12:11
Construction year:
1875/1929/30
Rentable space: 4,654 sq m
Inom Vallgraven 12:10
Construction year: 1975
Rentable space: 16,463 sq m

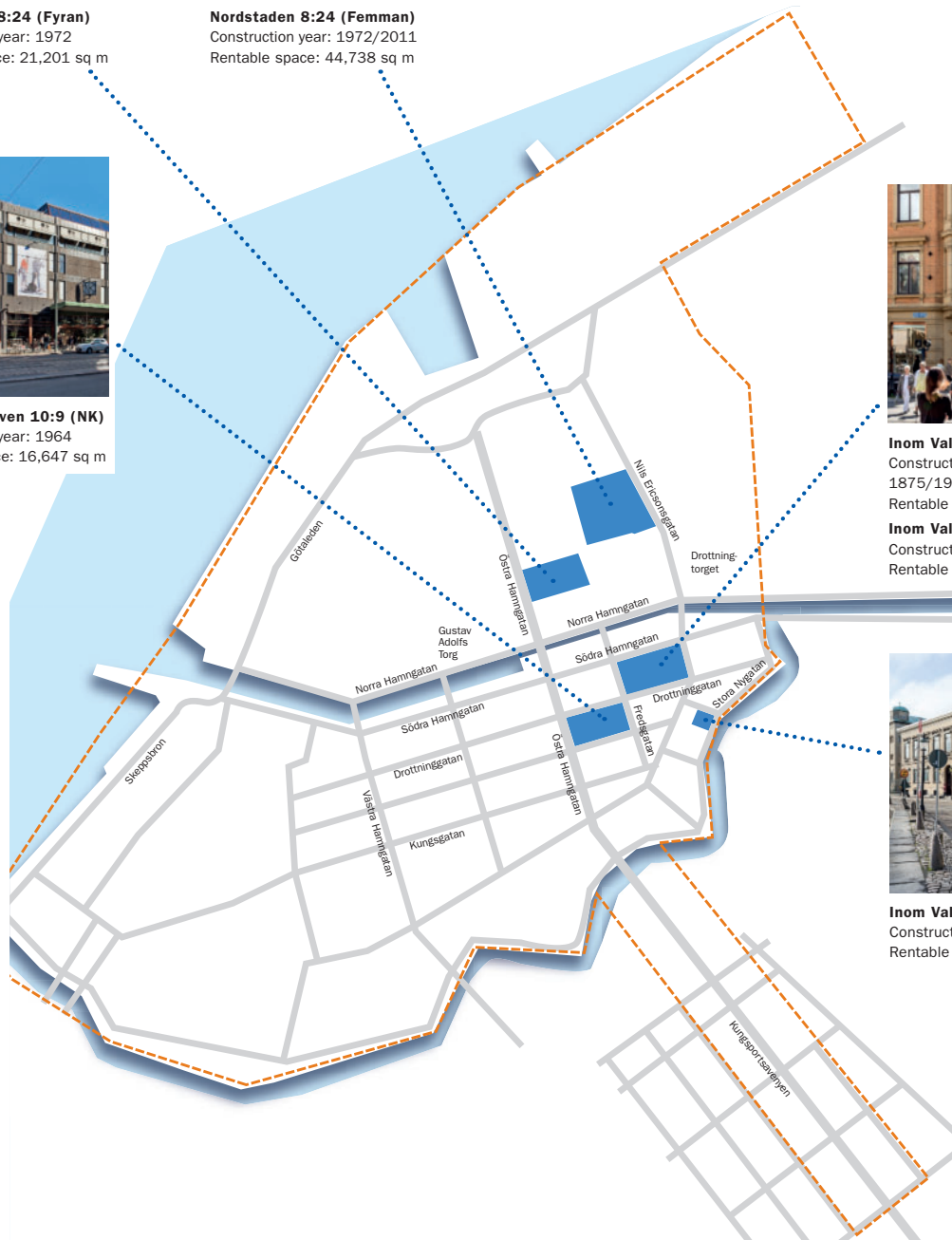


Inom Vallgraven 3:2
Construction year: 1856
Rentable space: 1,564 sq m

Gothenburg

The map shows Hufvudstaden's property holdings with the construction year and rentable space. For further information, see property list, pages 100–101.

----- Central Business District (CBD)



e-trade. During 2017, the retail trade index, DHI, increased by 2.4 per cent compared with 2016. The sale of durable goods rose by 2.4 per cent, and clothing sales fell by 1.2 per cent. Both as a retailer and as a property owner, it is important to meet new consumer patterns as they emerge. To strengthen their marketplaces, property owners must work even more intensively on property management, with a clear focus on store range, experiences, activities and choice of restaurants and cafeterias, combined with an effective digital presence.

Several property owners in central Stockholm are working actively to develop and reinforce city centre trade. This is taking place through major development projects and dynamic management, with the aim of offering a more attractive range. Hufvudstaden has embarked on a major project in the NK department store in Stockholm. The project will enhance the range and experience even further. Digital consumer relations will also be reinforced and clarified. In Bibliotekstan, several new stores opened during the year, including Moncler, Chanel Beauty Store and the pop-up store Axel Arigato, which will reinforce the area even further as the foremost fashion destination in Scandinavia. In Gallerian, located on Hamngatan, diagonally opposite the NK department store, changes are being made in conjunction with the redevelopment of large sections of the block.

The high demand for well-located retail premises in the most central submarkets in Stockholm continued during the year. Vacant space in prime locations was virtually non-existent, and in other areas space arose primarily as a result of temporary or permanent relocations. This vacant space was filled relatively quickly by new tenants. The overall outcome has been maintained or slightly higher rent levels.

The most sought-after retail areas in Stockholm are in Bibliotekstan and on Hamngatan, Kungsgatan and Drottninggatan. Bibliotekstan and the NK department store have the distinction of being the most exclusive store locations. Rents for prime retail space in these areas are SEK 14,000–25,000 per square metre per year, excluding the property tax supplement.

Rental market in Gothenburg

Offices

The office rental market in Gothenburg showed positive growth during 2017. Modern, space-efficient offices in prime locations are in greatest demand, although availability of this type of floor space is limited in Gothenburg. This has resulted in market rents rising by around 5 per cent in 2017, which for these types of premises equates to SEK 2,500–3,400 per square metre per year, excluding the property tax supplement.

Gothenburg has major plans for the future, including the construction of several new office buildings in the central areas of the city. When and to what extent these will be completed has not been decided in detail, although it will probably take another few years. Hufvudstaden, which is one of the larger property owners in the CBD, is working unrelentingly to develop the properties, and the biggest projects for the future include the Inom Vallgraven 12 block, located on Fredsgatan and occupying one of the best locations in the city. Wide-ranging plans are in place for the entire block, eventually resulting in ultra-modern, space-efficient office premises.

The best office locations in central Gothenburg are considered to be the Inom Vallgraven areas, particularly the areas around Östra Hamngatan, Västra Hamngatan, Norra Hamngatan and Södra Hamngatan, as well as Nordstan, Kungssportsavenyn, Svenska Mässan, Lilla Bommen, Gårda and Gullbergsvass. Vacant space in the Gothenburg CBD was around 3 per cent (3) at the

end of the year. Hufvudstaden's properties in Gothenburg are all centrally located in the very heart of the city.

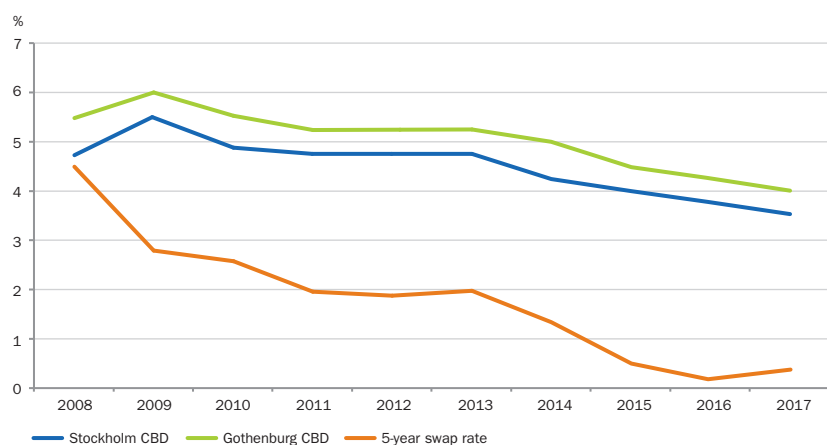
Stores

As is the case in Stockholm, property owners in Gothenburg need to work actively on the management of store premises. Although new consumer patterns are affecting the retail trade, turnover during 2017 has had a stable or slightly greater impact on the marketplaces in the central parts of Gothenburg.

During the year, Hufvudstaden completed the upgrade of the Femman Precinct in Nordstan, resulting in a completely new precinct environment, as well as an update of the store range and choice of restaurants. In Fredstan, Hufvudstaden is planning a major new project on the Inom Vallgraven 12 block. In the lead-up to the start of the project, the range has been renewed with pop-up establishments, including the opening of the da Matteo cafe at the end of the summer. In the NK department store, a store project commenced on the lower ground floor with the aim of improving customer flows and retail space and reinforcing the marketplace even further.

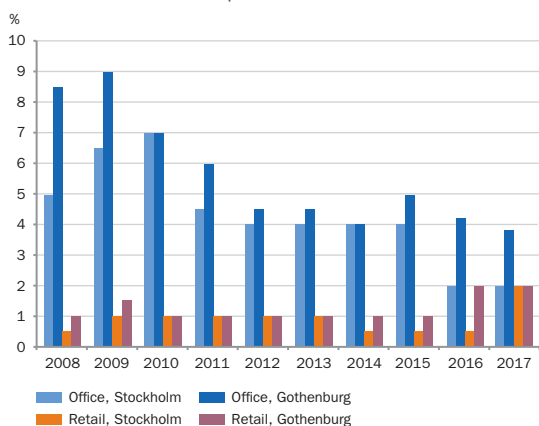
The best locations for stores in central Gothenburg are considered to be Östra Nordstan, Fredstan and Kungsgatan, between Östra Hamngatan and Västra Hamngatan. Rents for prime retail space in these locations were SEK 6,000–15,000 per square metre per year, excluding the property tax supplement.

Yield requirement, Stockholm CBD and Gothenburg CBD



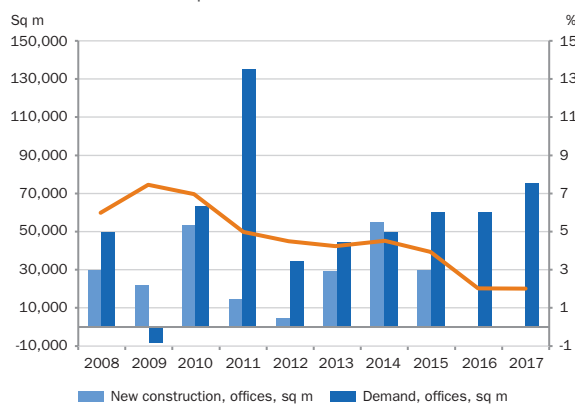
Source: Brunswick Real Estate

Vacant office and retail space
in prime locations



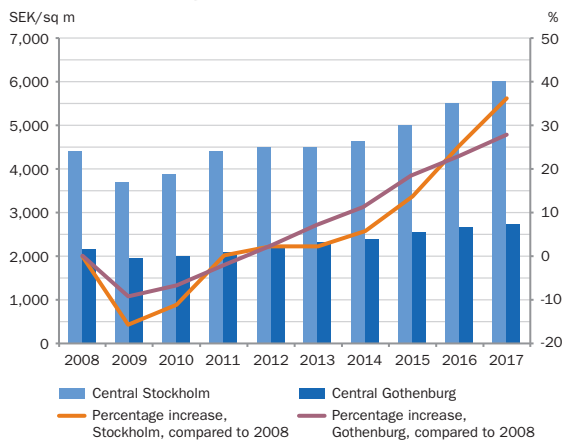
Source: Newsec

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



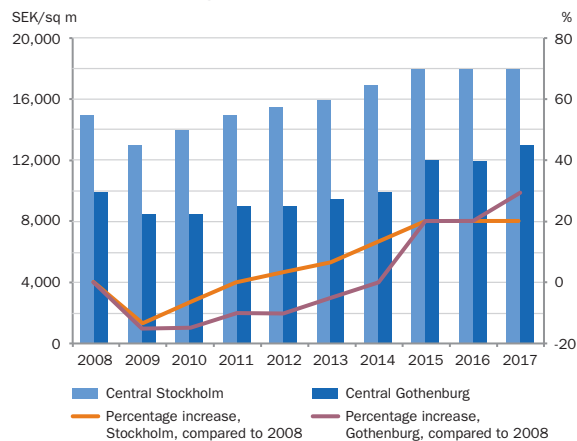
Source: Newsec

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



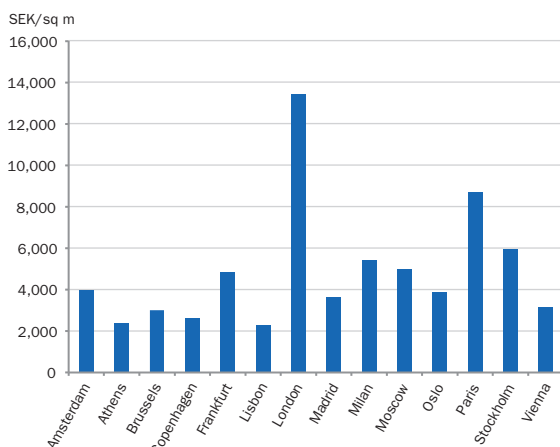
Source: Newsec

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



Source: Newsec

Office rents in European cities, December 2017
Premises in prime locations



Source: Newsec



KUNGSGATAN/SVEAVÄGEN

Stockholm

SHARES AND SHAREHOLDERS

Share capital

Hufvudstaden AB was founded in 1915 with share capital of SEK 0.6 million, i.e. 6,000 shares at a nominal value of SEK 100. At the end of 2017, the share capital amounted to SEK 1,056.4 million, with a par value of SEK 5 per share.

Share structure

Hufvudstaden has two share series, series A and series C. Both series are listed in the Nasdaq Stockholm Large Cap list. 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 first listed in 1938, on what was at the time the Stockholm Stock Exchange, whilst series C shares were first listed in 1998.

The Articles of Association include what is termed a conversion provision.

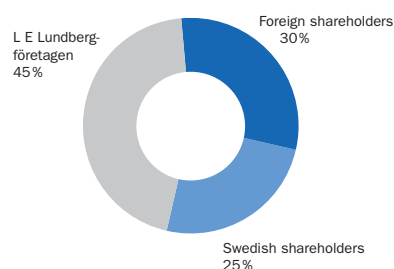
This means that the holders of series C shares are entitled, if they wish, to request conversion of their series C shares into series A shares. No such conversion took place during the year.

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

Shareholder structure

The number of shareholders at the year-end was 22,620. The largest shareholder was LE Lundbergföretagen AB with 45.3 per cent of the outstanding shares and 88.1 per cent of the votes. The second largest was State Street Bank and Trust with 6.7 per cent of the outstanding shares and 1.4 per cent of the votes.

Ownership structure



Source: Euroclear Sweden

As at December 31, 2017, institutions and companies with holdings of 100,000 shares or more held 179,066,822 shares, equivalent to 86.8 per cent of the total number of outstanding shares and 96.4 per cent of the votes. Of these, 56 were Swedish institutions and companies, which together held 122,745,273 shares, equivalent to 59.5 per cent of the outstanding shares and 90.9 per cent of the votes. There were 119 foreign institutions and companies with holdings of 100,000 shares or more. Their holdings amounted to 56,321,549 shares, equivalent to 27.3 per cent of the outstanding shares and 15.5 per cent of the votes.

Ownership structure as at December 31, 2017

	Number of shareholders	Proportion of shareholders, %	Number of issued shares	Proportion of shares, %
1 – 999	18,892	83.5	3,383,481	1.6
1,000 – 9,999	3,100	13.7	7,066,028	3.3
10,000 – 99,999	444	2.0	13,838,865	6.6
100,000 –	184	0.8	181,977,559	86.1
Outstanding shares	22,620	100.0	206,265,933	97.6
Hufvudstaden			5,006,000	2.4
Total number of issued shares			211,271,933	100.0

Source: Euroclear Sweden

Largest shareholder groups as at December 31, 2017

	Serie A shares	Serie C shares	Total number of shares	Outstanding shares, %		Issued shares, %	
				Capital	Votes	Capital	Votes
L E Lundbergföretagen	85,200,000	8,177,680	93,377,680	45.3	88.1	44.2	87.6
State Street Bank and Trust	13,907,879	0	13,907,879	6.7	1.4	6.6	1.4
SEB Funds	8,798,532	0	8,798,532	4.3	0.9	4.2	0.9
JP Morgan Funds	7,892,735	0	7,892,735	3.8	0.8	3.7	0.8
Citibank	7,126,391	0	7,126,391	3.5	0.7	3.4	0.7
AMF Funds	5,636,277	0	5,636,277	2.7	0.5	2.6	0.5
BNP Paribas	4,405,319	0	4,405,319	2.1	0.4	2.1	0.4
NTC Wealth	4,166,677	0	4,166,677	2.0	0.4	2.0	0.4
AFA Försäkring	3,288,220	0	3,288,220	1.6	0.3	1.5	0.3
Other shareholders	57,568,839	97,384	57,666,223	28.0	6.5	27.3	6.5
Outstanding shares	197,990,869	8,275,064	206,265,933	100.0	100.0	97.6	99.5
Hufvudstaden	5,006,000		5,006,000			2.4	0.5
Total number of issued shares	202,996,869	8,275,064	211,271,933			100.0	100.0

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

Source: Euroclear Sweden

lent to 27.3 per cent of the outstanding shares and 5.5 per cent of the votes. In addition, five Swedish private individuals each held more than 100,000 shares. The number of shareholders increased during the year by 281. The proportion of foreign ownership during the year decreased from 31.5 per cent to 30.3 per cent of outstanding shares.

Buy-back of shares

Since the Annual Meeting in 2003, the Board has had the mandate of the Meeting to buy back series A shares up to a maximum of 10 per cent of all shares in the Company. The mandate was renewed at the 2017 Annual Meeting. At the end of the year, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the issued shares. No shares were bought back during 2017.

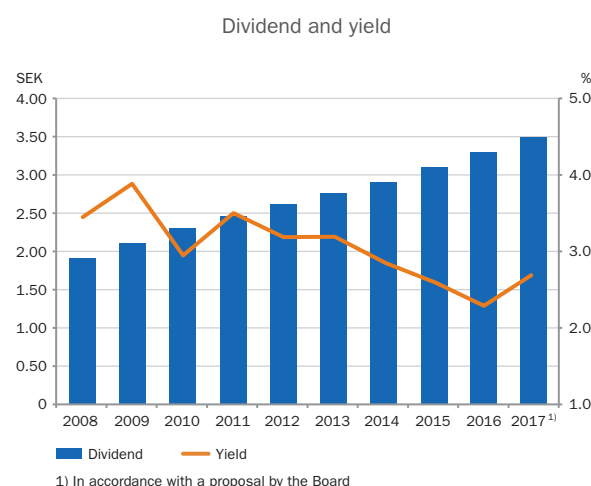
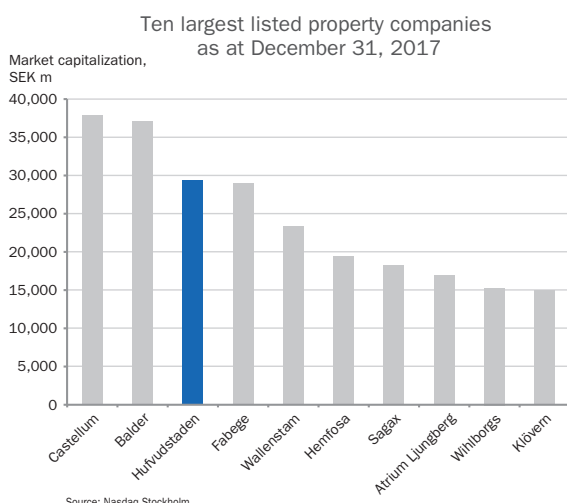
Market capitalization and trading

At the end of 2017, Hufvudstaden's total market capitalization was SEK 29,218 million. The yield was 2.7 per cent based on the stock market price as at December 31, 2017. During the year, 160 million shares were bought and sold, equivalent to 78 per cent (90) of the outstanding shares. The rate of turnover in relation to the shares available for trading, what is termed free float, was 142 per cent (164). On average, 645,000 Hufvudstaden shares were traded on each trading day (745,000). Since the introduction of the EU's MiFID, trading in Swedish shares is taking place to an increasing extent on marketplaces other than Nasdaq Stockholm. During 2017, 61 per cent (64) of Hufvudstaden's shares were traded outside the Stockholm Stock Exchange, e.g. Bats 42 per cent,

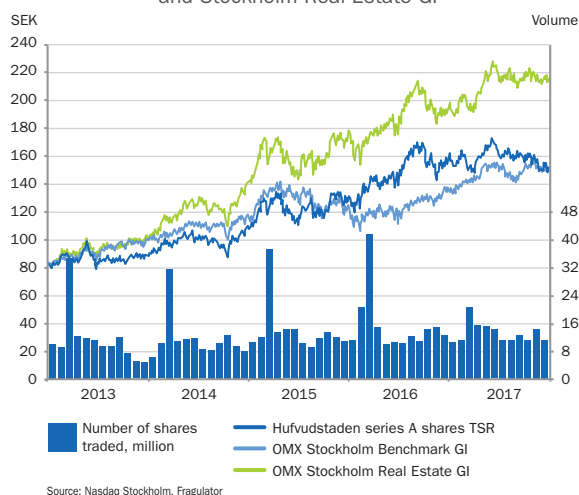
LSE 9 per cent, and Turquoise 3 per cent. The graphs below shows the price trend and trading in Hufvudstaden's series A shares during the year.

Dividend

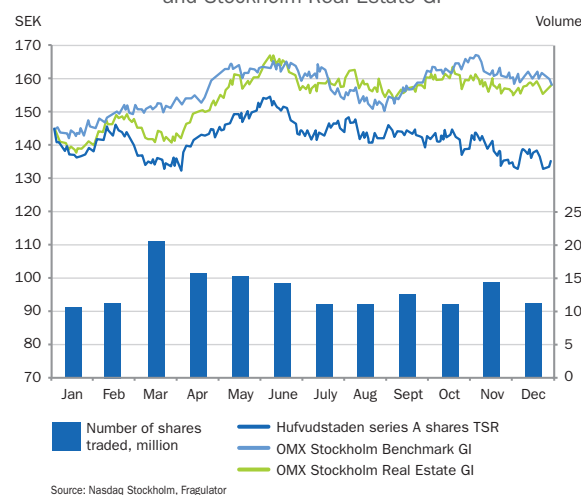
Hufvudstaden shares will have good dividend growth over time and the dividend will be more than half the net profit from current operations unless investments or the Company's financial position in general justify a deviation. A dividend of SEK 3.50 per share is proposed for 2017, equivalent to 82 per cent of the net profit from current operations. (See Definitions, page 103 Dividend).



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



Share price trend, including dividend, and trading during 2017 in relation to Stockholm Benchmark GI and Stockholm Real Estate GI



Value-driven corporate culture

Hufvudstaden's corporate culture is characterized by a strong level of employee involvement, with a clear and broadly accepted value base that permeates everything we do. Our values are one of our most important tools in the endeavour to lead and control operations in accordance with the Company's vision and goals. They are also a prerequisite if we are to be in a position to drive operations forward in pursuit of responsible enterprise. Our values are quality, honesty, attentiveness and commitment.

Quality

It is important for us that we have the right level of quality and adopt a long-term perspective. This involves meeting the exacting standards that our customers expect within the framework of our business concept. It applies equally to our property holdings, service offering, customer relations and in-house cooperation. We act rather than react, the aim being to develop operations effectively and to pre-empt problems.

Honesty

We always act professionally and reliably. Honest intent is the basis for successful business and long-term relationships. It means that we stand by our word and abide by our agreements. We observe the fundamental principle of honesty between colleagues, and we are careful to preserve an environment where everyone can present their views and stand by their thoughts and ideas.

Attentiveness

We are attentive and open to impressions from outside the Company, and we actively embrace and evaluate new ideas. We endeavour in every respect to satisfy our colleagues' need for support and consideration. We are there to support each other, we are attentive to the needs of our customers, and we strive continuously to remain one step ahead.

Commitment

We are proud of our history and our success, and we are very much involved in every aspect of our work. We regard ourselves as a key partner for our customers, and we show an active interest in their operations and their success. We are interested in our colleagues, we derive satisfaction from the progress they make, and we help each other to develop and succeed.

SUSTAINABLE ENTERPRISE

The Hufvudstaden sustainability programme is based on assuming long-term responsibility with regard to financial, environmental and social development. Through our strategies and values, a solid basis can be created for achieving our sustainability objectives, which include mitigating our climate impact. In collaboration with other property owners and the city authorities in Stockholm and Gothenburg, we are involved in projects aimed at developing the two cities.

Our sustainability programme is run in compliance with the principles laid down in the UN Global Compact, and is pursued in line with our Code of Conduct and established sustainability goals. Hufvudstaden participates in a series of sustainability surveys, including CDP, where this year we have emerged as one of the foremost listed property companies in the Nordic Region. Hufvudstaden shares have been approved for investment by the Swedbank Robur and Nordea sustainability funds.

Stakeholders

Hufvudstaden has identified five main

Materiality Analysis

Responsible enterprise	Sustainable properties	Sustainable workplace
<ul style="list-style-type: none"> • Business ethics • Customer relations • Suppliers 	<ul style="list-style-type: none"> • Energy use • Climate impact • Waste management 	<ul style="list-style-type: none"> • Working environment • Competence development • Leadership

stakeholder categories: tenants, employees, shareholders, suppliers and society. We maintain an ongoing dialogue with our main stakeholders, and we keep them up to date on key sustainability aspects that we need to focus on. During the year, we carried out an in-depth study involving several suppliers and tenants. We have noted a growing interest among tenants and suppliers in working with us on sustainability issues.

Core sustainability areas

Hufvudstaden has conducted a materiality analysis together with representatives from the Company's main stakeholders. The purpose of the analysis was to develop the Company's sustainability programme and the information presented in Hufvudstaden's CSR Report. The analysis

included identification of a number of core sustainability areas. These areas stemmed not only from the actual impact generated by Hufvudstaden, but also from the Company's strategic objectives and the stakeholders' expectations. Our focal areas can be found in the above materiality analysis.

Risk analysis

We have noted that the main sustainability risks are to be found in project operations within property development, and the purchasing process at the operating level. The risks exist mainly in the natural environment, working environment, terms and conditions of employment, and corruption. Hufvudstaden has not identified any major risks linked to human rights in our operations although there are risks in the supply chain. These risks are mitigated through the Code of Conduct and our procurement routines, and we carry out regular audits among our major suppliers. During the year, we carried out audits of two of our major projects. The audits produced good results although there was scope for improvement among our contractors in areas such as waste management, environmental stipulations relating to building materials, and making demands on and controlling sub-contractors.

Terms and conditions of employment and corruption are other areas in which we have noted an increased risk, as control procedures, mainly at sub-contractors, involve strict demands regarding structured processes and follow-up. This is a prioritized area for the whole of the industry, and we are working together with other property companies and public authorities to arrive at joint solutions.

Stakeholder dialogue

Stakeholder	Key issues	Form of dialogue
Tenants	<ul style="list-style-type: none"> • High level of service • Energy use • Climate impact • Waste management • Social and ethical responsibility within the supply chain 	<ul style="list-style-type: none"> • Customer Satisfaction Survey • Regular meetings with tenants • Newsletter • Green leases
Employees	<ul style="list-style-type: none"> • Competence development • Leadership • Working environment 	<ul style="list-style-type: none"> • Appraisal discussions • Employee satisfaction surveys • Staff meetings • Conferences
Shareholders	<ul style="list-style-type: none"> • Communication around sustainability issues • Social and ethical responsibility within the supply chain 	<ul style="list-style-type: none"> • Annual Meeting • Analyst meetings • Annual Report • Quarterly reports • Investor meetings
Suppliers	<ul style="list-style-type: none"> • Clear, consistent requirements regarding business ethics and the environment 	<ul style="list-style-type: none"> • Procurement • Agreements • Code of Conduct
Society	<ul style="list-style-type: none"> • Climate impact • Communication around sustainability issues • Social and ethical responsibility within the supply chain 	<ul style="list-style-type: none"> • Annual Report • Website • Media

UN Global Goals

In September 2015, the UN member states adopted 17 global goals that will be achieved by 2030. The overriding aim behind the goals is for the member states to work together to bring about economic, social and environmental development that is sustainable in the long term. Even if overall responsibility regarding the goals rests with the national governments, they cannot be achieved without the help of companies and other organizations. Hufvudstaden has commenced an examination to determine which of the global goals that it has the greatest potential to influence and which should therefore be prioritized. These goals are highlighted in colour in the illustration below. The task of implementing these goals on a more strategic level has also commenced.

Responsible business

Business ethics

Hufvudstaden's corporate culture is marked by a strong level of commitment among employees, with a clear and firmly accepted value base. The Company has a Code of Conduct that clarifies our responsibility and actions towards internal and external stakeholders. The Code of Conduct is based on our values and sets out how we take into account ethical, social and environmental considerations in our operations. The Code of Conduct stipulates the manner in which stakeholders can

expect Hufvudstaden employees to behave, but also what we expect of our suppliers and partners. Our Code of Conduct is in the public domain and is enclosed with all larger contracts and agreements.

All employees undergo continuous training related to the Code of Conduct. Our induction days, staff conferences, departmental meetings and similar arrangements include discussions focusing on common dilemmas and problems.

To minimize the risk of corruption, Hufvudstaden has a control system in place with a clear allocation of responsibility and duties, as well as structured processes that ensure that business is conducted in a manner that can be deemed correct and appropriate.

Suppliers

Sustainability requirements are laid down when signing general agreements, procuring development projects, and when purchasing goods and services. The basis of these requirements is our Code of Conduct, which is supplemented by stipulations relating to the working environment, conditions of employment and the natural environment, which in turn ensure that human rights stipulations are met.

To ensure that our demands are met in the Company's day-to-day operations, we have our own staff, and project operations are run by our own project managers. They procure and control the

contracts to ensure that our strict demands regarding quality, the adoption of a businesslike approach, long-term thinking and the environment are adhered to, alongside compliance with current legislation. In our projects, we demand that the building products chosen by consultants and contractors undergo an environmental review, and that waste from building projects is sorted at source.

Working environment issues are a particular priority as building and maintenance sites could be laden with risks. These issues permeate our construction projects and they are addressed at every stage, from initial planning through to completion of the building work. Everyone who works on behalf of Hufvudstaden, regardless of their employer, must have working conditions and a working environment that as a minimum comply with current legislation.

NK

Hufvudstaden owns AB Nordiska Kompaniet, which in turn owns the NK properties and the NK brand. The departments in the NK department stores in Stockholm and Gothenburg are run by many different proprietors. In order to develop sustainability work at the department stores, a common strategy has been produced in partnership with the Nordiska Kompaniet Proprietors Association. The strategy deals with operations at NK, including the range, packagings and other operational issues.



One of the most important issues is to assure the range and demand that NK suppliers have a sustainability programme in place where they work actively with environmental matters and social sustainability. NK has therefore produced joint minimum requirements that all departments must impose on their suppliers.

Customer relations

Our ambition

Hufvudstaden has for many years focused on providing a high level of service to its customers. This requires close collaboration with customers in an ongoing effort to improve their business potential, competitiveness and image. Quality and long-term customer relations are important to Hufvudstaden. We want customers to feel secure and satisfied with their premises and local environment, and that as a property owner we meet their implicit and explicit needs, both now and in the future. This ambition embodies Hufvudstaden's vision to be consistently perceived as, and prove to be, the most attractive property company in Sweden, with the aim of having the most satisfied customers in the industry. Product quality, service and the way we treat customers are the cornerstones in achieving this vision.

Customer requirements

The pace of digitalization is increasing, bringing people and companies closer together. New generations of people in business are developing, and the need for time- and cost-effective solutions is on the increase. Each day we face new influences that affect the way we act and the way we work.

Using this as a starting point, we have, amongst other things, continued to develop the turnkey office concept known as Redo, which offers customers flexible leases and the opportunity to move in quickly. Our assessment is that the demand for more flexible solutions, with a high standard of product quality and service for both offices and stores, will increase over time.

Customer relations

Hufvudstaden works on a daily basis to ensure that what we offer is in accordance with what has been agreed and expected. Based on an ongoing dialogue with our customers, we have developed

Hufvudstaden is actively involved in different sector networks and associations related to sustainable development, including:

- Building Products Assessment (BVB)
- Sweden Green Building Council Certification Committee
- Swedish Energy Agency Non-Residential Premises Orderer Group, BELOK
- City of Stockholm Forum for Sustainable Properties

working routines and processes during the course of the year. Contact with customers is facilitated by the fact that we are within walking distance of our properties, and that we have our own service organization with service engineers who look after and maintain the properties. These elements are vital to preserving long-term confidence and the long-term relationships that we are constantly striving to establish and uphold.

Green leases

Green leases reinforce collaboration with the tenants and create conditions that allow us to continue to develop our environmental work. The signing of the lease means that the tenant and Hufvudstaden work together to establish an action plan that incorporates measures that will contribute to a better environment. Several green leases were signed in 2017. A green lease is an annex to the normal lease and provides an opportunity for us to maintain an ongoing dialogue on environmental issues and create a strategy for reducing energy use and other key measures.

Customer Satisfaction Survey

As in previous years, Hufvudstaden emerged as one of the foremost companies in the industry according to *Fastighetsbarometern*, the property industry's Customer Satisfaction Survey for office tenants. This year we came third, which has meant that we have been in the top three ever since the Customer Satisfaction Survey began in 1997. Hufvudstaden won the new Large Companies category, which covers the larger property owners. The areas that our customers feel are Hufvudstaden's strengths are the

central location of our properties, our level of service, the capacity to deal with various matters rapidly, and the fact that we are reliable, secure and stable.

Ambassadors

Having satisfied customers is crucial to our work in the long term. Over time, around 80 per cent of our customers continue to rent their premises after their current lease comes to an end. This demonstrates the excellent level of concurrence between the customer's expectations and experiences and their willingness to pay for our products. Nine out of ten Hufvudstaden customers are very positively disposed to working with us. More than half of Hufvudstaden customers are also ambassadors, which we regard as proof that our long-term work is of benefit to everyone involved.

Sustainable properties

Energy use

The property and construction sector accounts for around 40 per cent of energy use in society. As a property company, it is important for us to lower our energy use and increase the proportion of renewable energy in our operations. Our energy use is being constantly reduced through operational optimization and investment in new technology. A large number of projects were run during the year, aimed at improving the energy efficiency of the property holdings, including the heating, ventilation, cooling and lighting systems. Since 2010, Hufvudstaden has cut its energy use by 24 per cent, equivalent to the energy used by 1,100 modern detached houses for one year. This reduction could be achieved despite longer opening hours in the stores and the fact that a growing number of tenants have office landscapes with more persons per square metre.

In 2017, energy use fell by around 5 per cent, which is in line with our long-term target of achieving a reduction of 30 per cent for the period 2010–2020. This can be explained in part by a relatively cold summer, but also the fact that our long-term energy efficiency work is beginning to produce results. Compared with the Statistics Sweden figures for non-residential premises, it can be noted that Hufvudstaden's energy use for heating is around 70 per cent lower than the average.



HUFVUDSTADEN

Regeringsgatan, Stockholm



HUFVUDSTADEN

Regeringsgatan, Stockholm

In the Parkaden multi-storey car park, we have already installed charging points for electric cars. During the year, we noted a substantial increase in the number of electric cars and our assessment is that this trend will continue. The demand for charging points will therefore increase and we are adapting our parking facilities to take account of this trend. In our Parkaden and Continental facilities we plan to install 45 new charging points at the beginning of 2018. Other facilities will be gradually fitted with charging points in line with demand from tenants.

Since the beginning the year, we have installed a small-scale solar panel facility on the roof of the NK building. These solar panels produce electricity for parts of the building and the aim is to acquire experience in order to be able to develop similar facilities in more of the Company's properties.

Climate impact

Reducing energy use and climate impact is a priority at Hufvudstaden. Our emission of greenhouse gases in 2017 fell by 13 per cent compared with the previous year, mainly due to a decrease in the use of district heating and the fact that district heating in Gothenburg was produced with a reduced proportion of fossil fuels. Emissions have fallen by around 85 per cent since 2010. This can be attributed largely to the transition to origin-labelled waterpower, what is termed green electricity, and the fact that the production of district heating and cooling now takes place with a lower proportion of fossil fuels. The reduction can also be explained by reduced energy use. Continued climate impact mitigation will take place primarily through further improvements in energy efficiency and as a result of purchased district heating generation gradually switching to a higher proportion of renewable energy sources.

Commuting by bicycle in the cities is on the increase, and we have noted a greater demand from tenants for bicycle-adapted solutions. In response to this trend, Hufvudstaden has in recent years increased the number of bicycle parking places at the properties and, where possible, changing rooms have been built for those who cycle to and from work.

Choice of materials

Work is taking place on an ongoing basis to develop and improve premises in line with the tenants' wishes and needs. At the same time, we are focused on creating sustainable premises and building solutions that are both flexible and sustainable over time. By choosing a design and level of functionality and quality where there is less risk of replacement in conjunction with a change of tenant, the long-term approach adopted in the management process can be maintained. Innovative thinking and energy-efficient technology are prioritized when choosing products as part of the ongoing undertaking to reduced energy use. When we make an environmental assessment of construction products we use the BVB system, which is the property industry's environmental assessment database for construction materials.

Waste management

Increased recycling of waste is a sustainability issue that has been prioritized both by us and our tenants. Communal sorting rooms open up potential to improve the efficiency of the sorting process and the introduction of more fractions, but also to coordinate in a way that the number of transport movements to and from the properties can be reduced. Hufvudstaden's aim is to cut the total volume of waste and ensure that as much waste as possible is recycled or reused. In those properties that have had a waste sorting system in place for both stores and offices, we have noted that the proportion of sorted waste is around 50 per cent.

Environmental certification

The aim in conjunction with all major projects and redevelopment work is to certify according to the *Miljöbyggnad* classification system, gold or silver category. *Miljöbyggnad* is based on Swedish construction rules and regulations and other official directives, as well as building practice in Sweden. Through certification, we conduct an independent examination to determine whether the building satisfies energy, indoor environment and material stipulations. At present, around 30 per cent of the Hufvudstaden holdings are certified according to either the *Miljöbyggnad* or Green Building systems.

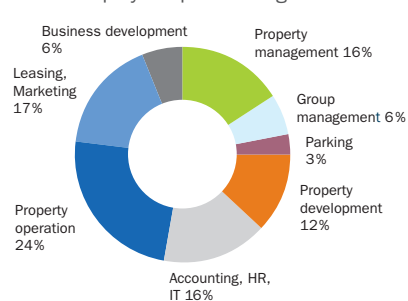
Sustainable workplace

Organization

During 2017, a reorganization took place at Hufvudstaden. The reorganization meant that since April the Company's operations have been organized within three new business areas: Stockholm, Gothenburg and NK (which includes the two NK department stores in Stockholm and Gothenburg). Our Accounting/Finance, Human Resources, Property Development and Business Development functions support work on the operating level. In conjunction with the reorganization, the Hufvudstaden Executive Management acquired an additional member and it now comprises the President, three business area heads, and the heads of Accounting/Finance, Human Resources, Property Development and Business Development, the head of which is also Vice President.

A large number of development projects are in progress in Stockholm and Gothenburg, and to meet requirements the organization was reinforced during the year with new staff employed within digital and commercial business development. One of our success factors is the capacity to handle the majority of our operations in-house.

Employees per working area



Attractive employer

Our ambition is for Hufvudstaden to be an attractive employer and that our employees should feel proud of the Company. To measure how we are perceived as an employer, we make use of the Attractive Employer Index produced by the Institute of Human Resource Indicators. In the index, a number of key human resource indicators are compared to those at other companies, both within and outside the industry. Each year, Hufvudstaden has emerged as one of the top companies. In the 2017 survey, it came second in the property sector and eighth overall out of more than 200

Key figures 2017	Total	Men	Women
Employees, number ¹⁾	120	74	46
Managers, number ¹⁾	30	21	9
Average age, years ¹⁾	43	42	44
Staff turnover, %	15	14	18
Absenteeism due to illness, %	2.6	2.9	2.2

1) As at December 31

organizations. Areas included in the survey are the number of people employed on a permanent basis, time devoted to education and training during the year, amount of overtime worked, the level of absenteeism due to illness, the number of staff who have left the Company, and staff responsibility, i.e. the number of employees under each manager.

As mobility on the labour market is on the increase, we are focusing on ensuring that we continue to be, and are perceived to be, an attractive employer. Hufvudstaden offers stimulating duties, good potential for development, and a variable remuneration system in the form of a bonus. Interviews with our employees bring to light things offered by Hufvudstaden that they appreciate. These included the opportunity to work in a value-driven corporate culture, and with attractive, centrally located properties.

Working environment

We are mindful at all times to provide and maintain a good working environment, both physically and psychosocially, and that all employees are covered by collective agreements. We work in compliance with a diversity policy, which states how we strive to promote diversity and equality and counteract discrimina-

tion within the organization. All employees are offered equal opportunities to develop, and unfounded salary differences are counteracted. In-house communication takes place via an active intranet and at regular staff meetings.

The working environment is being developed continuously by a specially appointed working environment group made up of representatives from various parts of the organization. The group is divided into three working areas: working environment, health, and job satisfaction. The purpose of pursuing working environment initiatives within the group is to review risks, propose suitable measures and promote development within each area. The group also includes three working environment representatives, who are charged with the task of acting as a link between the working environment group and the other employees. During the year, the group was involved in running health-enhancement and fitness activities, including a ski trip, a golf activity, running groups, a table tennis tournament, and competing in various running events.

During the year we commenced a redevelopment project at the office in Stockholm, the aim of which was to create a flexible workplace. One floor has been completed and is now an activity-based office. The other floor is currently being developed and is due for completion in 2018. Alongside the redevelopment, employees have received ongoing training in new working methods and digital tools to facilitate adaptation to the new office environment.

All employees in the Company meet at the annual staff conference,

where they have the opportunity to exchange experiences and increase the sense of community. This year, the conference took place in Stockholm, where we visited our properties and had an opportunity to look at current projects. The overall theme of the staff conference was our digital transformation.

Healthy employees

Hufvudstaden adopts a preventative approach to health through regular health checks and massage at the workplace.

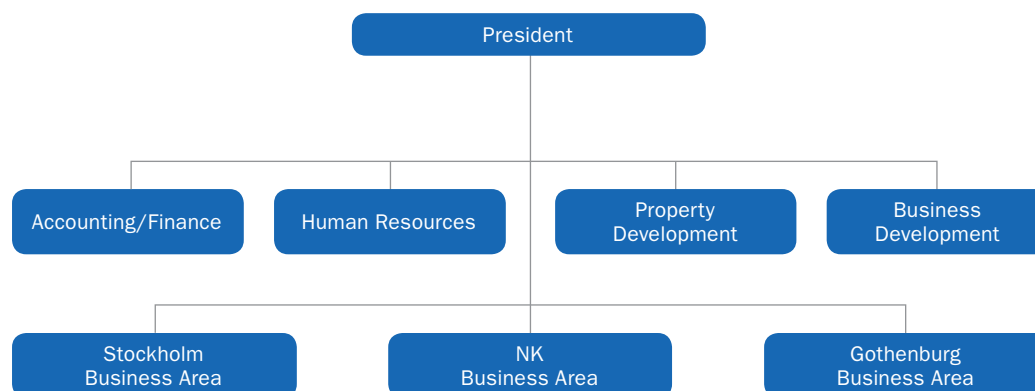
All employees are covered by health insurance, which ensures rapid, qualified care in the event of illness. We offer an annual health and fitness allowance, which many of our employees take advantage of. To ensure a low level of absenteeism due to illness, we encourage physical activity, both at work and outside work. Absenteeism due to illness in 2017 was just under 3 per cent.

Career and development

Our ambition is to retain and develop talented employees. New challenges give employees the opportunity to grow within the Company and at the same time acquire broader knowledge of the Company's different operating areas. Our aim is to as far as possible fill vacant positions on the management level and at other levels by recruiting from within the Company.

Employee development

Over the past 10 years the average tenure at Hufvudstaden has been 8 years. Our focus is firmly on attracting employees who intend to stay with the Company. All new employees are offered a com-





HUFVUDSTADEN

Kyrkogatan, Gothenburg



HUFVUDSTADEN
Kyrkogatan, Gothenburg

prehensive induction programme, including taking part in an introduction day, which is run by a number of our managers. We also have annual appraisal discussions that cover goals and achievement of goals as well as skills development and related matters, after which an individual activity plan is drawn up.

Leadership development

We are a company with a large number of small units and where the majority of managers are responsible for a relatively small number of employees. This is a model that we believe in and statistically it is strongly linked to a high degree of job satisfaction and a low level of absenteeism due to illness.

We have four leadership criteria at Hufvudstaden: courage, inspirational conduct, forward-thinking and acting as a role model. These criteria function as watchwords in the day-to-day life of the managers. They also act as a starting point when we review the development of our managers and the results they achieve.

Being able to continually identify and develop employees with leadership qualities is a priority within the Company. Hufvudstaden focuses consciously on giving younger employees the opportunity at an early stage to grow into the role of manager. We run management training programmes on an ongoing basis for new managers, focusing on

Hufvudstaden leadership. This year's programme covered a large group of new managers, including new employees and current employees who have been assigned managerial responsibility. Each year we arrange a management conference where the participants are given the opportunity to share experiences and discuss leadership. We also have an ongoing training programme for managers within specific areas.

Employees of the future

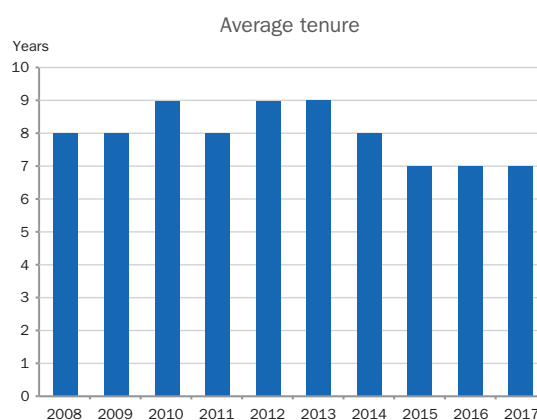
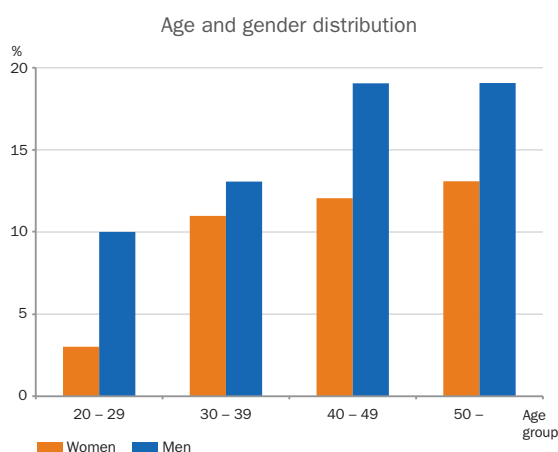
To facilitate future recruitment needs, Hufvudstaden builds up relations with students. Each year we offer them the opportunity to take up a placement, both during the time they are studying and after they graduate. We take part in *LAVA*, the labour market day run by the Royal Institute of Technology, and for many years we have also run a special day for students, mainly from the Royal Institute of Technology. The results from the student day mean that we can ensure a continuous influx of young employees into our organization. This is a model that we firmly believe in. It has worked well and resulted in several permanent recruitments and placements. In recent years we have also established the same approach in Gothenburg, where we have taken part in the VARM labour market days arranged by Chalmers University of Technology, which

was subsequently followed up by a fully subscribed student day. There is considerable interest in these activities, and the evaluation reveals that the majority of students could envisage working for Hufvudstaden in the future. This type of collaboration with students is just one of the strategies that we utilize to find the most professional employees in the industry whilst at the same time reinforcing our brand.

In the main, our recruitment takes place using our own experts and with a recruitment system as support. By doing so, we are able to maintain full control over the process and ensure that we carry out value-driven recruitment in combination with building up a register of potential employees who are interested in working for the Company. This is an important basis for our strategic work by ensuring access to skilled and knowledgeable staff in the future.

Sustainability control ¹⁾

Sustainability work is integrated into structured processes for the control and follow-up of business operations. Detailed process descriptions have been prepared, covering everything from how construction should take place to how leases should be signed.



1) Our CSR Report has been prepared in accordance with the Global Reporting Initiative (GRI G4), Core level, and is presented each year in February. We have also taken account of the property industry's sector-specific supplements when preparing the Report. A GRI index can be found on the Hufvudstaden website www.hufvudstaden.se/griindex2017.



NORDISKA KOMPANIET

Hamngatan, Stockholm

PROPERTY DEVELOPMENT

There has been a strong rate of growth in both Stockholm and Gothenburg, and there is a demand on the market for office premises that offer a high degree of efficiency and flexibility, as well as retail premises in attractive locations. Hufvudstaden is working actively to develop its properties and to create new development rights. We are also developing the environments outside our properties, in many instances together with other property owners and the city authorities, to raise the general attractiveness of the areas in which we operate. The goal is to create good growth in value for the Company over time.

Business development

The purpose of the Business Development unit is to initiate and run commercial projects. The unit has identified around 20 projects, varying in size, within office, retail and digital development. A number of the projects are at the enquiry stage, although implementation decisions have been taken regarding a number of projects in Gothenburg and Stockholm.

There is a growing demand among office customers for a higher level of service and greater flexibility. This has led to a rise in the number of serviced office facilities, mainly in the Stockholm area. In response, Hufvudstaden has broadened its offering in certain premises by creating 'turnkey offices' with flexible leases, marketed under the Redo banner. The need for flexibility has also increased in the retail sector, where there is growing interest in testing the marketplace for a limited period. With this in mind, Hufvudstaden is working to a greater degree with 'pop-up stores', allowing retail tenants to take on attractive premises on a short lease.

The rapid development of digitalization in society is continuing, and has led to a greater rate of change in customer needs, behaviour and expectations. Hufvudstaden is working at full pace to raise the Company's ability to adapt its working approach, operations and business processes to external digital development. In an effort to reinforce the level of digital maturity within the Company, all employees underwent

training during the year in digital community development and digital working methods.

Property development

The Property Development department has main responsibility for the refurbishment and development projects in our properties. The projects can be divided principally into maintenance projects and adaptation of existing properties, as well as large development projects involving existing or new development rights. Adaptation of a number of premises took place during the year in order to offer customers a better product, and for Hufvudstaden to secure a better net operating income and a higher yield.



Reinforcing the foundations at the NK department store in Gothenburg.

Development projects are run in close collaboration with the business development and property management organization. Sustainability is prioritized in all aspects of development, with a considerable emphasis on improved environmental performance, a higher technical standard, and effective and flexible planning solutions. Environmental impact will decrease over time, inbuilt materials will be examined, waste will be sorted at source, and technical solutions will be selected to ensure low energy use. There will also be a focus on creating a product that is easy to maintain from a long-term management point of view. Overall, this gives a feeling of a high standard of quality that leads to the properties being perceived

as attractive both today and well into the future. Hufvudstaden's own project managers procure and control the running of development projects. The project leaders are involved in all phases of the project, and deal on a daily basis with issues relating to the working environment, project management, and co-ordination with the tenant. This is crucial in order to meet Hufvudstaden's strict demands with regard to quality, flexibility and long-term thinking.

During the past five years, Hufvudstaden has on average invested more than SEK 400 million per year in its projects. Large-scale development projects and adaptation of premises account for around 40 per cent each, and the remainder comprises maintenance projects. In 2017, investment in existing properties amounted to just over SEK 580 million.

Current major projects

NK department stores

At the NK department store in Stockholm, we have commenced a development project to further reinforce the marketplace and create a clearer link with the neighbouring Parkaden property. A new entrance will be opened up from Regeringsgatan with escalators leading into *NK Saluhall*, the store's fresh food department, and on into the department store. The floor space will be expanded, and more exclusive brands will be offered to NK customers in combination with an improved level of service. Overall, the measures will improve customer experience and reinforce trade. The project is expected to continue until 2020.

In the NK department store in Gothenburg, a development project is in progress involving reinforcement of the foundations and work on the building structure. Alongside this, the commercial space on the lower ground floor of the department store will be altered. The floor layout will be changed, resulting in increased accessibility and improved customer areas on both the ground floor and lower ground floor.

Inom Vallgraven 12 block

Detailed planning work for the Inom

Vallgraven 12 block has continued in cooperation with the City of Gothenburg. Several firms of architects have produced proposals for ways in which the block can be developed. The process of producing a new local plan will continue over the next few years.

Femman

Major redevelopment of the Femman Precinct in Gothenburg has been in progress for several years. Both internal and external renovations have been carried out alongside upgrading of technical installations. The aim was to create an improved floor space layout for a long-term, sustainable future. New tenants and brands have gradually moved in as the various phases of the project reached completion. The project was completed in 2017.

Bibliotekstan

A local plan has been adopted for the Skären 9 property, which will result in an extension comprising around 2,500 square metres of rentable floor space. Preparatory work for the project continued throughout the year.

On the Kvasten block, Hufvudstaden has worked in partnership with the food concept Eataly to carry out redevelopment as part of their first establishment in Sweden. The concept will open in the heart of Bibliotekstan and is expected to further contribute to the attractiveness of the marketplace. The project is an example of how Hufvudstaden keeps pace with developments in society, and how it succeeds in retaining architectural quality through sustainable solutions and adapting these to modern-day needs.

A total renovation of the Vildman-nen 7 property took place during 2017 to recreate the original facades on the ground floor and to carry out a complete upgrade of the interior environment. In November, the property was hit by a major fire and much of the building was destroyed. The aim is to erect an attractive building on the site as quickly as possible.

Adaptation of premises

Adaptation of premises takes place within Hufvudstaden's holdings on be-



Redevelopment prior to the opening of the Eataly concept.

half of new or existing tenants. When premises become vacant, an evaluation is made of the technical standard in order to assess the need for possible renovation. Following the initial renovation of the premises, adaptation takes place in accordance with the needs of the new tenant. Tenants often demand open areas where more efficient use is made of floor space, thus increasing the need for ventilation and cooling in the premises. Older installations often need to be replaced with the latest technology to ensure an optimal indoor climate. Hufvudstaden owns many properties located adjacent to each other, which facilitates

integration of premises with adjoining floor space to create the greatest possible flexibility in terms of use. During all redevelopment work, there is considerable emphasis on preserving the character and architectural value of the building.

Renovation and adaptation of around 31,000 square metres of floor space took place during 2017. The adaptations were made on behalf of new and existing tenants in conjunction with renegotiation of a lease or expansion of the leased floor space.

STOCKHOLM BUSINESS AREA

Property holdings

During the year, a reorganization took place in order to focus our operations even further. One of the new business areas to emerge is the Stockholm Business Area, which has 22 properties, divided between three management areas: Norrmalmstorg, Kungsgatan and West. The Norrmalmstorg Management Area covers the properties in Bibliotekstan. The Kungsgatan Management Area covers the properties on the eastern part of Kungsgatan and at the junction of Kungsgatan/Sveavägen. The West Business Area covers the properties located on Drottninggatan, Klarabergsgatan and the surrounding streets. The properties are entirely commercial and include both office and retail premises.

Development of holdings

The task of developing Bibliotekstan into the foremost fashion area in Scandinavia has continued. This has led to an increase in turnover at the stores, which has in turn resulted in an increase in rent revenue for Hufvudstaden. There has been considerable interest shown by high-end international brands in establishing operations in the area.

Stores that opened in 2017 include the luxury brands Moncler and Chanel Beauty Store. Participation in the fashion week in August and the Christmas activities are just two examples of events

Largest tenants	
Office	Sq m
Danske Bank	10,800
Advokatfirman Vinge	7,900
Swedish Financial Supervisory Authority	6,800
KG10	3,900
Knowit	3,700
Retail	Sq m
Eataly	2,900
Zara	2,900
McDonald's	1,900
Alewards	1,300
Adidas	1,200

that took place during the year. As part of the endeavour to expand the range of restaurants in the area, construction work continued on behalf of Eataly, an Italian food market with several restaurants and a range of Italian delicacies. Bianchi Cafe has also opened directly adjacent to this food market.

The office rental market during

the year was strong and a large number of new and renegotiated leases were signed, resulting in a record-low level of vacant space of 3.1 per cent at the year-end. Major office tenants, such as the Employment Security Fund, the Swedish Financial Supervisory Authority and JKL, have had their office space altered or expanded. Hufvudstaden has also launched a new office concept, marketed under the name Redo. The concept offers turnkey premises with all the required office facilities. The terms and conditions are flexible, allowing tenants to move in quickly.

On November 7, a fire broke out in the project property Vildmannen 7. The fire was very extensive and much of the building was destroyed. Fortunately, no one was seriously injured, although many tenants in and outside the property were affected. Work was in progress at the end of the year to stabilize the facades and to reopen the street area around the property.

Rental market

The market rent trend for offices in the Business Area during the year was very positive. Considerable interest has been

Property holdings		
	2017	2016
Number of properties	22	22
Rentable floor space, sq m ¹⁾	203,721	207,914
– of which offices	129,939	131,599
– of which stores and restaurants	42,248	43,957
Annual rent, SEK m ¹⁾	978	977
Rental vacancy level, % ¹⁾	3.1	3.6
Floor space vacancy level, % ¹⁾	4.3	5.0

1) Vildmannen 7 is not included for 2017 due to a fire in which much of the building was destroyed.

New leases and renegotiations		
	2017	2016
New leases, sq m	12,100	12,100
New leases, annual rent SEK m	72	61
Renegotiations, sq m	27,800	26,700
Renegotiations, annual rent SEK m	149	129

Profit, property management ¹⁾		
SEK m	2017	2016
Net revenue	951.9	933.1
Maintenance	-21.3	-18.5
Operation and administration	-106.1	-105.1
Other costs	-109.7	-109.0
Total costs	-237.1	-232.6
Gross profit	714.8	700.5

1) Items affecting comparability, no adjustment in respect of Vildmannen 7.

shown in all the premises in the Business Area. Market rents for office space in the CBD at the end of the year were SEK 5,900–8,400 per square metre per year, excluding the property tax supplement.

Rents for retail premises have also shown good growth. Market rents for prime locations ranged from SEK 14,000–25,000 per square metre per year, excluding the property tax supplement.

Customers

The office tenant structure within the Business Area mainly comprises companies that value centrally located, high-quality premises. The predominant sectors are banks, finance institutions and law firms, as well as recruitment, IT, management and media companies. Office customers that have been tenants for a long time include Brummer & Partners, Danske Bank, Erik Penser Bank, the Swedish Export Credit Agency, JKL and the law firms Alrutz, Vinge and White & Case. There are 376 customers

in the Business Area. The ten largest customers lease 50,000 square metres (50,000), representing annual rent revenue of SEK 263 million (257).

Store tenants include both domestic and international companies that impose strict demands with regard to store design and marketplace. The tenants often represent very well-known brands that only establish operations in a selected number of locations. The tenants in Bibliotekstan are mostly younger Scandinavian brands, such as Byredo, Hope, Rodebjer and Our Legacy, alongside major international brands and retail chains that include Burberry, By Marlene Birger, Chanel, Céline, Filippa K, Gant, Michael Kors, Prada, Ralph Lauren and Zara. The larger store tenants along Kungsgatan are mostly chain stores such as Adidas, Alewalds, Cervera, Haglöfs, Naturkompaniet, Nespresso, Stadium, Ströms, Telenor and Telia. Illums Bolighus is now on Klarabergsgatan.

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

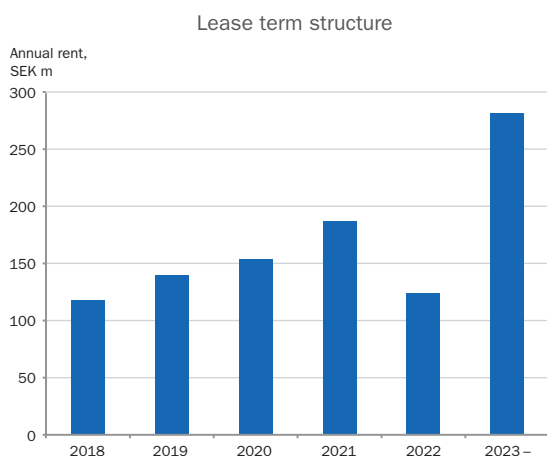
and cafes, including Prinsen, Vau De Ville and Wienercaféet. These units have a key role to play in maintaining the attractiveness of the area.

Brands within the Business Area

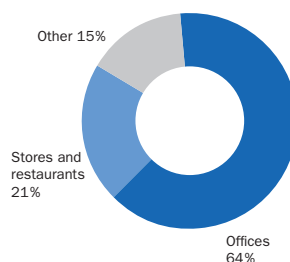
Bibliotekstan. The area between Norrmalmstorg, Birger Jarlsgatan, Stureplan and Norrlandsgatan, which contains stores specializing in high-class brands, as well as restaurants and cafes.

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

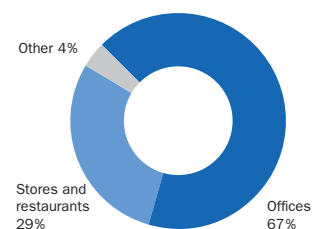
Norrmalmstorg 1. The building is a unique icon property and a commercial hub in central Stockholm.



Rentable floor space per type of premises



Annual rent per type of premises





BIBLIOTEKSTAN

Birger Jarlsgatan, Stockholm



BIBLIOTEKSTAN
Smålandsgatan, Stockholm

NK BUSINESS AREA

Property holdings

Following the reorganization that took place during the year, the NK Business Area was established, covering the NK properties in Stockholm and Gothenburg as well as the Hästskon 10 property in Stockholm. The aim behind the reorganization was to specialize and reinforce NK operations in order to be better placed to meet the changing consumer patterns, and increase the attractiveness of the department stores. Apart from the NK department stores, the NK Business Area also includes modern, space-efficient office premises, as well as parking operations within Parkaden AB.

Development of holdings

The final phase of the redevelopment that has been in progress for the past few years of the office premises in the NK building in Stockholm has now been completed. All 11,000 square metres of floor space have been converted into modern offices, and efficient use has been made of all the available floor space. The offices are fully let, and tenants include law firms, banks and game development companies.

In the NK department store in Stockholm, a project has commenced that will create a clearer link to the Parkaden multi-storey car park in the neighbouring Hästskon 10 property. A

new entrance will be opened up on Regeringsgatan, the floor space will be enlarged, and more exclusive brands will be on offer to NK customers together with an improved level of service. The

Largest tenants	
Office	Sq m
Starbreeze	3,400
AG Advokat	2,500
Forsman & Bodenfors	1,600
Bain & Co Nordic	1,400
STS Student Travel Schools	1,100
Retail	Sq m
Departments & Stores	11,300
Rizzo	1,700
Harjak & Månsson	1,600
Cervera	1,600
ICA Sverige	1,500

project is expected to continue through to 2020. In the NK department store in Gothenburg, a development project is in progress involving reinforcement of the foundations and work on the building structure. Alongside this, the commercial space on the lower ground floor of the department store will be altered. The floor layout will be changed, resulting in increased accessibility and improved customer areas on both the ground floor and lower ground floor.

Rental market

The positive market rent trend for retail premises continued during the year. In conjunction with new and renegotiated leases at NK Stockholm, market rents were SEK 14,000–25,000 per square metre per year, excluding the turnover-based rent supplement and the property tax supplement. The corresponding figures for NK Gothenburg were SEK 6,000–15,000 per square metre.

Market rents for office premises in the CBD showed good growth, and at the end of the year stood at SEK 5,900–8,400 per square metre per year, excluding the property tax supplement.

Customers

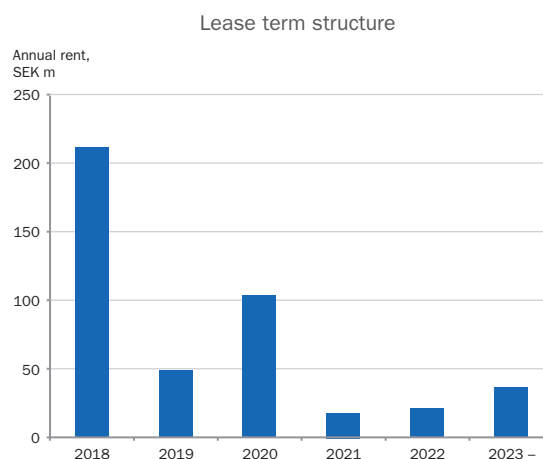
The ten largest customers lease 30,000 square metres (29,000), representing annual rent revenue of SEK 257 million (243). Of the Business Area's 116 customers, the majority operate within the NK department stores. These comprise both domestic and international companies with strict demands in terms of store design and marketplace.

AB Nordiska Kompaniet

The NK properties in Stockholm and Gothenburg, as well as the NK brand, are owned by the wholly-owned subsidiary AB Nordiska Kompaniet, which is part of the NK Business Area.

Property holdings		
	2017	2016
Number of properties	3	3
Rentable floor space, sq m	92,319	92,336
– of which offices	16,765	16,782
– of which stores and restaurants	37,526	37,550
Annual rent, SEK m	484	475
Rental vacancy level, %	3.0	2.3
Floor space vacancy level, %	4.2	2.7

New leases and renegotiations		
	2017	2016
New leases, sq m	1,500	1,100
New leases, annual rent SEK m	10	7
Renegotiations, sq m	18,400	10,300
Renegotiations, annual rent SEK m	131	61



Investment in business development increased during the year with the addition of further resources to promote project, retailing and digital expertise. The aim is to reinforce the brand and the department stores in order to meet changing consumer patterns and to increase and clarify the Company's digital presence.

One of the major activities during the year was the fashion show at China-teatern in Stockholm, which was also broadcasted live on Facebook with considerable impact. The theme for this year's Christmas display was inspired by Ingmar Bergman's film 'Fanny and Alexander'.

The NK brand

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

raising the value of the properties. This success is founded on close cooperation between the property owner and the proprietors through the Proprietors' Association. Cooperation is developed even further by having a suitable mix of proprietors, a lively and attractive marketplace, and continuous marketing directed at the right target groups.

Retail market

Turnover in the retail sector has reported consistent growth for several years. However, sales in physical stores have to an increasing extent been affected by growing competition from e-trade. According to the Retail Survey Index (DHI), sales within the durable goods sector increased in terms of price by 2.4 per cent in 2017. Clothing sales fell by 1.2 per cent. The turnover for the NK department stores was SEK 3,121 million (3,237).

Parking operations

The wholly-owned subsidiary Parkaden AB runs parking operations in two

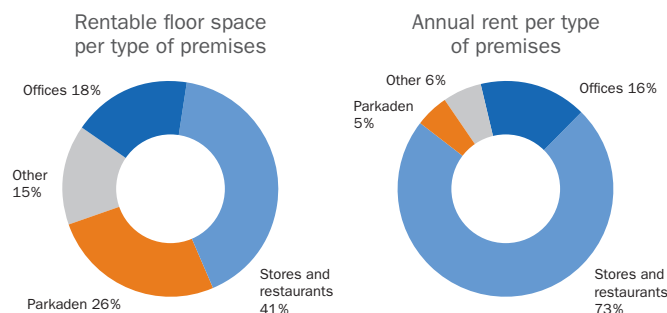
Hufvudstaden properties in Stockholm: Parkaden, the multi-storey car park on Regeringsgatan, opposite the NK department store, which has 800 parking spaces, and Continentalgaraget in the Orgelpipan 7 property near the Central Station, which has 435 parking spaces.

Several construction projects have taken place during the year that have affected the traffic situation around the parking facilities. Despite this, parking operations still managed to report high usage levels and growth in revenue.

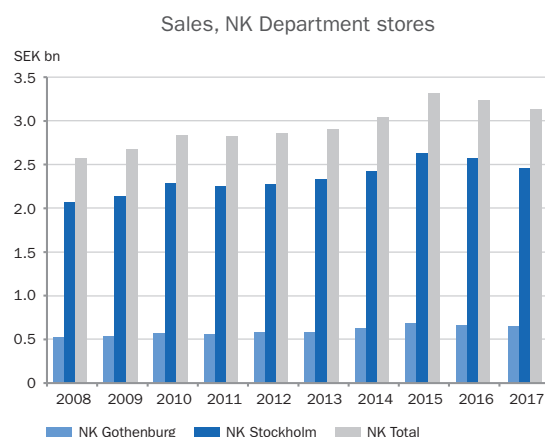
The continued rise in the number of electric cars has led to a growing demand for charging points for parked cars. To meet this demand, more charging points were installed in the Parkaden facility.

Profit, property management ¹⁾		
SEK m	2017	2016
Net revenue	487.5	484.8
Maintenance	-3.7	-7.0
Operation and administration	-106.5	-103.5
Other costs	-49.8	-49.0
Total costs	-160.0	-159.5
Gross profit	327.5	325.3

1) Comparable holdings



NK Department stores		
	2017	2016
NK Stockholm		
Rentable retail space, sq m	24,214	24,212
Rentable storage space, sq m	3,552	3,557
Number of departments	101	103
Number of restaurants	9	9
Sales, including VAT, SEK m	2,465	2,571
NK Gothenburg		
Rentable retail space, sq m	10,160	10,180
Rentable storage space, sq m	1,313	1,284
Number of departments	49	50
Number of restaurants	2	1
Sales, including VAT, SEK m	656	666





NORDISKA KOMPANIET

Hamngatan, Stockholm



NORDISKA KOMPANIET

Östra Hamngatan, Gothenburg

GOTHENBURG BUSINESS AREA

Property holdings

Property holdings within the Gothenburg Business Area are located in the Gothenburg CBD and are divided into two areas, Fredstan and Nordstan. The holdings in Fredstan comprise the Inom Vallgraven 12 block and the development property Inom Vallgraven 3:2. The property in Nordstan comprises two units: Fyran, opposite Östra Hamngatan, and Femman, opposite the Central Station.

Hufvudstaden is one of the larger individual partners in the Nordstan Cooperative Association, which owns and manages the Nordstan multi-storey car park as well as the adjoining stores, squares and pedestrianized streets. Nordstan is one of the largest and busiest shopping centres in Sweden, with attractive stores, parking facilities and modern offices in the best commercial location. Around 13 million people visited the Femman Precinct in 2017. Retail revenue in Nordstan was just over SEK 4 billion, of which Femman accounted for around SEK 830 million and Fyran for around SEK 360 million.

Development of the holdings

Hufvudstaden, together with the City of Gothenburg and other property owners, has established the name Fredstan for

the business district around the Fredsgatan shopping area. The ambition is for the area to offer a unique range of stores and restaurants, combined with modern offices, cultural establishments and attractive meeting places. During the

Largest tenants	
Office	Sq m
Swedish Customs	7,900
Swedish Social Insurance Agency	4,600
Alektum Group	3,900
Advokatfirman Vinge	3,600
Grant Thornton	2,800
Retail	Sq m
H&M	2,300
Lager 157	1,800
KappAhl	1,800
Nilson Group	1,400
Kicks	1,100

year, brand promotion work continued, resulting in a logotype and graphic profile for the new area. In autumn 2017, Chanel launched its new Chanel Beauty Store concept in Fredstan. Two Gothenburg-based café concepts, da Matteo and Condeco, also established new units in the area.

The Femman Precinct comprises approximately 16,000 square metres of

retail space on three floors. Redevelopment of the retail space has been in progress since 2015, and at the end of the year this extensive project was completed. Several new stores opened in Femman during the year. Kicks established its first flagship store with a new service offering combined with new and exclusive brands. H&M Home opened its first store in Gothenburg, and Feet First launched a new integrated footwear concept with a choice of brands. The range of restaurants and cafeterias has been expanded and now includes Sushi Yama and Joe & The Juice. The total renovation of the courtyard area for the office tenants was also completed in 2017. The result is what could be described as a green oasis, complete with water features, in the very heart of Gothenburg.

In Fyran, the final steps in the extensive renewal project that included facades, staircases and arcades was completed. Just before Christmas, Lager 157 opened its first city centre store on Postgatan, with around 1,800 square metres of floor space. The retail space in the property has now been fully let.

In Nordstan, the Cooperative Association, working in collaboration with the property owners, has continued to

Property holdings		
	2017	2016
Number of properties	4	4
Rentable floor space, sq m	88,620	88,707
– of which offices	50,683	50,787
– of which stores and restaurants	31,008	31,242
Annual rent, SEK m	320	300
Rental vacancy level, %	7.7	7.6
Floor space vacancy level, %	9.5	8.6

New leases and renegotiations		
	2017	2016
New leases, sq m	6,700	4,100
New leases, annual rent SEK m	21	22
Renegotiations, sq m	14,300	7,200
Renegotiations, annual rent SEK m	42	25

Profit, property management ¹⁾		
SEK m	2017	2016
Net revenue	311.2	285.4
Maintenance	-4.8	-3.5
Operation and administration	-56.8	-53.7
Other costs	-30.4	-28.4
Total costs	-92.0	-85.6
Gross profit	219.2	199.8

1) Comparable holdings

plan for how the shopping centre and the parking facility can be developed to incorporate the planned West Link entrance at the Central Station. The work also includes a long-term plan to renew the existing marketplace. If Nordstan is to be further strengthened as a retail centre, conditions need to be created for ensuring a vibrant city with enhanced safety and security. In response, the Cooperative Association, the property owners, the city authority, the police and several other bodies have decided to grant accreditation to an area of the city, including Nordstan, in compliance with the Purple Flag standard. Purple Flag has been in existence since 2006, and some 50 cities in the United Kingdom, Ireland and Sweden have successfully taken part in the programme.

During 2017, adaptation of premises has taken place for a number of office tenants in conjunction with the signing of new and renegotiated leases. The premises have been adapted in line with the customers' needs and wishes. Tenants who have moved into new or redeveloped premises include Byggnadstekniska Byrån, Engström & Hellman Advokatbyrå, Previa and Trittech.

The level of vacant space in the Business Area fell during the year and the figure, excluding current projects, stood at 3.2 per cent at the year-end.

Rental market

The rental market for office premises developed positively during the year with a low level of vacant space and a rise in rent levels. Market rents for office space in prime locations were SEK 2,500–3,400 per square metre per year, excluding the property tax supplement. In the case of stores, the rent trend continued to be good. Prime location premises attracted rents of SEK 6,000–15,000 per square metre per year, excluding the property tax supplement.

Customers

Gothenburg is a market with customers who work locally, outside the region and internationally. The Business Area's office customers are principally companies that appreciate centrally located, high-quality premises. The predominant sectors are law firms, accountancy firms and finance companies, as well as public authorities and organizations. The store customers value attractive, centrally located market and commercial locations,

and during the year several new Swedish and international companies showed an interest in Gothenburg. There are 162 customers in the Business Area. The ten largest customers lease 32,000 square metres (34,000), representing annual rent revenue of SEK 110 million (102).

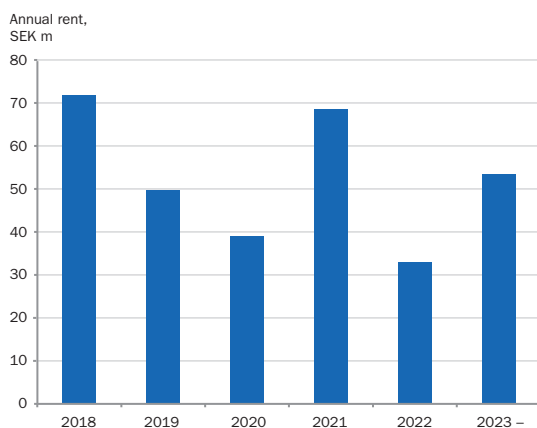
Brands within the Business Area

Femman. Femman is one of the strongest brands in the retail trade in western Sweden and offers a wide range of products in the clothing and durable goods sectors.

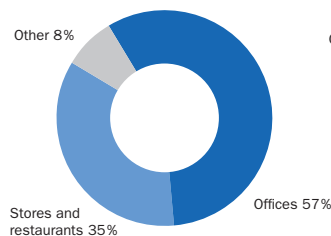
Fredstan. Fredstan comprises the block around Fredsgatan between Brunnsparken and Trädgårdsföreningen. Hufvudstaden, Vasakronan and the City of Gothenburg have formulated a planning programme aimed at developing the area.

Nordstan. Nordstan is one of Sweden's largest indoor shopping centres in terms of visitor numbers. Hufvudstaden is one of the two largest individual partners in the Nordstan Cooperative Association with a share of approximately 40 per cent.

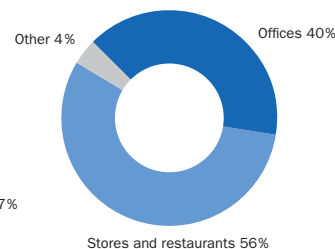
Lease term structure



Rentable floor space per type of premises



Annual rent per type of premises



ginatricot

scot

FEMMAN

Nordstan, Gothenburg



NORDSTAN

Gothenburg

ADMINISTRATION REPORT

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

Hufvudstaden is listed on Nasdaq Stockholm Large Cap. L E Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group.

It is proposed that the Income Statements and Balance Sheets included in the Annual Report be adopted at the Annual Meeting to be held on March 22, 2018.

Corporate Governance Report

Rules and regulations and Articles of Association

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

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

Shares and shareholders

Hufvudstaden's share capital at the year-end amounted to SEK 1,056,359,665, divided into 211,271,933 shares, giving a par value of SEK 5 per share. Of the shares, 202,996,869 are series A shares, carrying one vote per share, and 8,275,064 are series C shares, carrying 100 votes per share. All shares carry an equal

right to a share in the Company's assets and profit. The largest shareholder is L E Lundbergföretagen AB, with a total of 45.3 per cent of outstanding shares and 88.1 per cent of the votes. Apart from L E Lundbergföretagen AB, there is no shareholder in the Company that holds, directly or indirectly, shares where the number of voting rights represents one-tenth or more of the total number of votes for all shares in the Company.

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

Buy-back of Company shares

Since the Annual Meeting in 2003, the Board of Directors has had the mandate of the General Meeting to buy back series A shares up to a maximum of 10 per cent of all shares in the Company. The mandate was renewed at the 2017 Annual Meeting. The aim is to give the Board the opportunity to adjust the capital structure in order to create increased value for the shareholders and/or to allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of a company or property. As at December 31, 2017, Hufvudstaden held 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of shares. The whole block was acquired in 2003 at an average price of SEK 27.30 per share. No shares were bought back during the year or after the end of the reporting period (up to and including February 15, 2018).

Annual Meeting

A shareholder's right to decide in matters related to Hufvudstaden is exercised at a general meeting. Shareholders who are registered in the shareholders' register on the record date and who have notified their intention to attend the meeting within the specified time, are

entitled to attend and vote at the Annual Meeting, either in person or by proxy. In order to exercise their right to vote at the Annual Meeting, shareholders who have their shares registered with nominees must have their shares re-registered temporarily in their own name as stipulated in the summons to the meeting. Decisions at the meeting are normally reached through a simple majority. In certain matters, however, the Swedish Companies Act stipulates that a proposal must be approved by a higher proportion of the votes represented and cast at the meeting.

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

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

The 2017 Annual Meeting was held on March 23, 2017. A total of 521 shareholders, representing 128,565,154 series A shares and 8,262,245 series C shares, were present, and they represented 954,789,654 votes, equivalent to 93 per cent of the total number of outstanding votes. Present at the meeting were the Board of Directors, the members of the Executive Management and the auditor. Fredrik Lundberg was elected to chair the meeting. It was decided at the Annual Meeting to adopt the Income Statement and Balance Sheet presented, as well as the Consolidated Income

Statement and Consolidated Balance Sheet, and to issue a dividend of SEK 3.30 per share to the shareholders. At the meeting, the members of the Board of Directors and the President were granted discharge from liability, and a decision was reached on remuneration to the members of the Board of Directors and the auditors. In addition, all the members of the Board of Directors and the auditors were re-elected for the period up to the next Annual Meeting. Finally, a decision was reached at the meeting regarding guidelines for remuneration to senior executives and authorization of the Board of Directors to decide on the acquisition and transfer of the Company's own series A shares.

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

Nomination and election of the Board of Directors and auditors

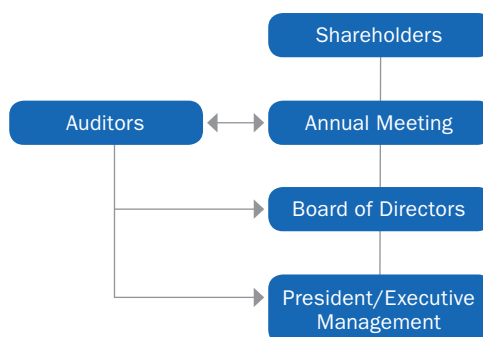
According to the Articles of Association, the Board of Directors shall comprise a minimum of five and a maximum of ten members. Members are elected at a general meeting of the shareholders for the period up to the end of the first Annual Meeting to be held after the year in which the members of the Board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

The main shareholder has applied point 4.1 in the Code as a diversity policy,

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

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

Hufvudstaden's control structure



Composition of the Board of Directors

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

further information about individual Board members, see pages 92–93. An external lawyer is engaged to act as secretary to the Board of Directors.

Responsibility of the Board of Directors

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

- Continuous follow-up and assessment of the Company's financial position and business development.
- Continuous evaluation of the Company's operative management and the work of the President.
- Ensuring that there is satisfactory control of the Company's compliance with laws and other regulations, and the continuous evaluation of the Company's internal control and risk management systems.
- Adoption of guidelines governing the way the Company should act in the community from a sustainability point of view.

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

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

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

Work of the Board of Directors

During the 2017 financial year, the Board of Directors held seven meetings, of which one was a statutory meeting. Economic and financial reports and operational reports from the Business Areas are presented at each Board meeting. In addition, key matters of a principle nature or of major financial significance are taken up at each ordinary meeting. The work of the Board of Directors during the year was aimed specifically at strategy discussions, issues pertaining to the economic climate and financing, property valuation and acquisitions and investments. Other matters dealt with during the year include more extensive current projects, including the Company's digital transformation, upgrading of the Femman Precinct in Nordstan, the complete renovation of the Vildmannen 7 property and the fire that occurred at the end of the year, and the Company's internal reorganization, which resulted in a change in the Company's business area arrangement and an additional member of the Executive Management. Company officials attend the Board meetings as presenters.

The Company's auditor attended the Board meeting in February when the Annual Report for 2016 was approved,

and the Board meeting in August in conjunction with the examination by the Board of the Company's six-monthly report.

Board committees

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

Executive Management

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

President and three business area heads, as well as the CFO, Head of Business Development/Vice President, Head of Property Development and Head of Human Resources. The Executive Management meets approximately once a month to discuss current issues. For information

about individual members, see pages 94–95.

Audit

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

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

Remuneration

Board of Directors

Remuneration to the Board of Directors is decided at the Annual Meeting. At the Annual Meeting in 2017 it was decided that remuneration for the period up to the next Annual Meeting, totalling SEK 2,025,000, be divided among the members with the exception of the President, Ivo Stopner, who does not receive any remuneration for his work on the Board. Remuneration is divided between the Chairman, who receives SEK 450,000, and the other seven non-employed members, who each receive SEK 225,000.

Executive Management

Guidelines on salaries, bonuses and other remuneration to the Company's senior executives are decided at the Annual Meeting. It was confirmed at the 2017 Annual Meeting that remuneration from the Company shall comprise salaries that are in line with the market, as well as a limited, profit-related bonus scheme as described below. The Company has no incentive schemes related to the share

Name	Function	Attendance ¹⁾	Independent in relation to the Company	Independent in relation to the owners
Fredrik Lundberg	Chairman	7	Yes	No
Claes Boustedt		7	Yes	No
Peter Egardt		6	Yes	Yes
Liv Forhaug		7	Yes	Yes
Louise Lindh		7	Yes	No
Fredrik Persson		7	Yes	Yes
Sten Peterson		7	Yes	No
Anna-Greta Sjöberg		7	Yes	Yes
Ivo Stopner		7	No (employee)	Yes

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

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

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

For further information regarding salaries and remuneration, as well as guidelines for remuneration to senior executives, as adopted at the 2017 Annual Meeting, see Note 8.

Bonus

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

In the case of both bonus schemes, a decision is made one year at a time and the bonus is subject to a ceiling. A bonus

is only payable if the Company reports a positive result with no consideration given to unrealized changes in value. In 2017, the bonus cost for all employees was SEK 5.1 million (5.9), or an average of SEK 168,000 per person for the Executive Management, including the President, and an average of SEK 37,000 per person for other employees.

Internal control and risk management

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

Control environment

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

Risk assessment

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

risks are linked to property valuation, financial transactions, property projects and handling of tax matters.

Control measures

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

Information and communication

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

Follow-up

The Hufvudstaden Executive Management evaluates on an ongoing basis internal control of financial reporting, and whether reporting to the Board is functioning efficiently. This takes place primarily through its own analyses, questioning and familiarization with the work of the controller function. To follow up identified risks and ensure that the internal control work takes place optimally, the controller function works continuously on this follow-up process. Apart from quarterly reports with financial outcomes, including the Executive Management's comments on operations, the Board

receives the Executive Management's comments on how internal control is working and whether identified risks ought to be changed. The Company's auditor attends Board meetings on two occasions each year, and reports his observations regarding the Company's internal routines and control systems. The members of the Board then have the opportunity to ask questions. Each year, an examination is made of material risk areas, whereupon the Board adopts a position on risks in the financial reporting system and evaluates the internal control system.

Internal audit statement

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

Operations

Business concept

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

Key events during the financial year

The economy throughout large areas of Europe strengthened during 2017, and the US economy continued to grow.

The Swedish economy has continued to develop, with a rate of growth of around 2.5 per cent. The increase can be attributed mainly to fixed gross investment in areas such as homes, machinery and equipment, coupled with growth in exports. The labour market has improved even further, and inflation rose to around two per cent. The Swedish Central Bank continued with its expansive monetary policy, and the key rate remained unchanged at -0.5 per cent. Overall, this had a positive impact on revenue growth in the retail sector, even if the increase during the year could be ascribed mainly to e-trade. House prices fell during the autumn, although at the end of 2017 the impact was limited in other sectors of the economy.

Infrastructural investments, a dynamic commercial and industrial sector, growth in population, and an increase in tourism are just some of the factors that contributed to the high level of economic activity in both Stockholm and Gothenburg. Demand for offices has accordingly remained strong throughout the year. The level of vacant space in the Stockholm CBD at the end of the year was 2–3 per cent. This resulted in rising market rents, which towards the end of the year stood at SEK 5,900–8,400 per square metre per year, excluding the property tax supplement. In the Gothenburg CBD, the level of vacant space for offices remained generally unchanged at a low level of 3 per cent, and market rents rose to SEK 2,500–3,400 per square metre per year, excluding the property tax supplement.

There was also considerable interest in establishing operations in Bibliotekstan, with several companies in the retail sector opening up new stores during the year. This will reinforce the marketplace even further, and turnover for the year in the area remained stable. Turnover at the NK department stores was SEK 3,121 million, down slightly on the SEK 3,237 million reported in 2016.

Our intensified investment in business and property development is continuing, and the organization has acquired additional project, retailing and digital expertise. In the NK department store in Stockholm, a project commenced that will create a clearer link with the neighbouring Parkaden property. NK will acquire a further entrance, and more exclusive brands. In Gothenburg, the upgrading of the Femman Precinct was concluded after several years of redevelopment, and at the NK department store, foundation work began in order to enhance the ground floor and lower ground floor with the addition of further high-end retailers. In addition to major development projects, 31,000 square metres of floor space were adapted to meet specific customer requirements. In the Vildmannen 7 property in Stockholm, an extensive project was due to be completed during 2018. At the end of the year, the property was struck by fire, and much of the building was destroyed. The property was insured for its full value although adjustment of the insurance compensation has yet to be completed. The impact on profit for the year is SEK -138.6

million, and is reported as an item affecting comparability.

Rent renegotiations within the Group resulted in a rent increase of 12 per cent, of which offices increased by 20 per cent and stores by 7 per cent. The rental vacancy level was 2.4 per cent, excluding current development projects.

Operating profitability has strengthened, and Hufvudstaden's financial position continues to be good. The net loan-to-value ratio was 15 per cent, the equity ratio was 63 per cent, and the interest coverage multiple was 9.3. The Company's property holdings increased in value to SEK 39.7 billion, due mainly to higher rents and slightly lower yield requirements.

Property holdings

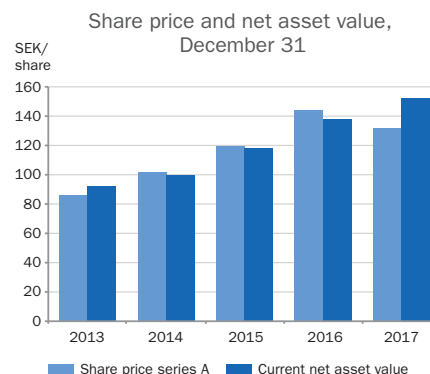
At the end of the year, Hufvudstaden owned 29 properties (29). Rentable floor space was 279,400 square metres in Stockholm and 105,300 square metres in Gothenburg, making a total of 384,700 square metres (389,000).

The total rental vacancy level in the Group as at December 31, 2017 was 3.9 per cent (3.9) and the floor space vacancy level was 5.5 per cent (5.3). In Stockholm, the rental vacancy level was 3.0 per cent and in Gothenburg 7.1 per cent. Excluding current projects, the figures were 2.3 per cent and 2.8 per cent.

During the year, 60,500 square metres (44,200) were renegotiated at a total value of SEK 322 million per year, and new leases were signed for 20,300 square metres (17,300).

Property value and net asset value

Hufvudstaden has made an internal valuation of all the Company's properties. The aim of the valuation is to assess the fair value of the property holdings as at December 31, 2017. To assure the valuation, external valuations were commissioned from three valuation companies.





NORDSTAN
Gothenburg

The external valuations made at the turn of the year were equivalent to 39 per cent of the fair value, and the corresponding proportion at the mid-year point was 35 per cent.

The fair value of the property holdings as at December 31, 2017 was set at SEK 39.7 billion (36.5). The unrealized change in value was SEK 2,848.2 million (4,160.1).

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, where the market yield requirement is set against the net operating income of the properties.

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

Net asset value, December 31, 2017		
	SEK million	SEK/share
Equity according to the Balance Sheet	25,401.7	123
Reversal		
Derivatives according to the Balance Sheet	30.3	0
Deferred tax according to the Balance Sheet	7,823.3	38
Non-current net asset value (EPRA NAV)	33,255.3	161
Deduction		
Derivatives according to the above	-30.3	0
Assessed actual liability, deferred tax, 5%	-1,778.0	-9
Current net asset value (EPRA NNNAV)	31,447.0	152

Net asset value

Based on the valuation of the property holdings, the long-term net asset value (EPRA NAV) according to the Balance Sheet was SEK 33.3 billion or SEK 161 per share. The actual net asset value (EPRA NNNAV) was SEK 31.4 billion or SEK 152 per share following a deduction for assessed deferred tax. This assessment is made in the light of current tax legislation, which means that properties can be sold via a limited company without tax implications. The assessed deferred tax has been set at 5 per cent.

Sensitivity analysis, property valuation ¹⁾			
	Change +/-	Impact on profit before tax, SEK million	
Rental revenue	SEK 100/sq m	+/-	1,020
Property costs	SEK 50/sq m	-/+	510
Rental vacancy level	1.0 percentage points	-/+	510
Yield requirement	0.25 percentage points	-/+	2,620

1) Valuation date 31-12-2017.

Opportunities and risks

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

Hufvudstaden's financing potential has been guaranteed, among other things, through loan assurances. The framework is SEK 4.0 billion, of which SEK 3.0 billion was unutilized. SEK 1.3 billion of this sum is reserved to cover outstanding commercial paper. The Company has satisfactory margins regarding the lenders' covenants relating to the loan agreements. Loans falling due in 2018 amount to SEK 1,200 million. The interest risk has been handled by

hedging the interest level with interest derivatives for SEK 1,750 million of the total borrowing of SEK 6,200 million. SEK 3,200 million carry a fixed rate of interest. The fixed interest period was 1.8 years and the average annual equivalent rate was 1.9 per cent. The Company has financing options through an MTN programme with a limit of SEK 4 billion, and a commercial paper programme for short-term borrowing totalling SEK 2 billion. To minimize bad debts, new customers are subject to credit checks and there is continuous monitoring of accounts receivable and rent receivables.

Hufvudstaden's potential to influence profits in current operations in the short term is limited. Revenue is governed by relatively long leases – normally three to five years – and operating costs are difficult to change in the short term without sacrificing service and quality. Hufvudstaden's profitability and operations are affected mainly by macroeconomic factors, such as the business climate, interest rates, regional development in Stockholm and Gothenburg, and political decisions. Good 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 of the property holdings

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

Rent trend

The rent trend involves both risks and opportunities. The risk, however, is limited by Hufvudstaden's concentration on properties in the most attractive commercial locations. The rent levels for vacant office premises are affected quickly in the event of a strengthening or weakening of the economy. Rents for central retail locations are more stable. The rent level for leased premises with lease terms of three years or more are linked to the consumer price index, and many agreements also have a minimum indexation level. The majority of leases are not affected by a fall in the index. Rent changes take place when the leases are renegotiated.

Property tax

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

Rent losses on vacant space

In the event of a slowdown in the economy, the risk of an increase in vacant space is greater for Hufvudstaden's office premises than for retail premises. There should always be some vacant space in order to offer the customers 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 adaptation costs. 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 but also in other retail properties. Hufvudstaden is striving to increase the proportion of lease agreements with turnover-based rent as they offer revenue potential while at the same time the guaranteed minimum rent in turnover-based leases limits the risk of a fall in rents.

Operation and maintenance

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

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

Concentration on central Stockholm and central Gothenburg

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

Financial risks

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

Sensitivity analysis

The effects on pre-tax profit on a full-year basis – excluding changes in value – in the event of changes in a number of factors are reported in the table below.

The reported impact on profit in conjunction with changes in the rent level, vacancy level, operating and maintenance costs, property tax and interest expense, refers to the effects that would have occurred, calculated using current information at the end of the financial year.

The reported effects on profit should only be seen as an indication and do not include any effect resulting from compensatory measures that could be taken by the Executive Management.

CSR Report

Corporate social responsibility, both internally and externally, is a prerequisite for success. Hufvudstaden contributes to the development of society by assuming responsibility for its properties and the surrounding environment. The Company ensures that it complies with current laws and agreements by making demands on contractors and sub-suppliers. Hufvudstaden's values characterize the actions of its employees and are a valuable tool in the day-to-day work. The Company's CSR Report is included in the Annual Report on pages 8–10 and 28–38.

Stock market information

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

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

The future

The period of intense business activity in Sweden, coupled with growth in economic prosperity in other countries and regions, is having a positive impact on the property market. Yield requirements have fallen slightly during the year, and there is a high level of demand for modern properties in prime locations. The forecast is that the low interest environment

will continue, even if an initial raising of the key rate is expected during the second half of 2018. The good rate of growth has contributed to a strong increase in employment, which in turn benefits the rental market for offices. The level of vacant space for well-located office premises is low and market rents have risen, primarily in Stockholm. We anticipate that the high level of demand for office space will continue over the next few years, resulting in rent increases in conjunction with new and renegotiated leases.

Turnover in the retail trade has grown for several years although sales in physical stores have gradually been affected by increased competition from e-trade. Work has commenced to adapt our business processes to changes in purchasing patterns among our customers and this will be intensified, with a particular focus on the NK department stores. The physical store projects at the NK department stores will be complemented with a clearer and expanded digital presence.

Our focus on quality and long-term thinking in property management will continue. To further increase earning capacity from our properties, the organization has been reinforced within business and property development. Major development projects are continuing, and acquisitions that complement existing property holdings should not be excluded. Investment will take place within the framework of the Company's sound financial position and the established financial goals will continue to be achieved in the future.

Dividend and allocation of unappropriated earnings

The Board of Directors has proposed a dividend of SEK 3.50 per share, or a total of SEK 721.9 million. The Board of Directors proposed allocation of unappropriated earnings is presented in full in Note 24 and on page 88.

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

Change in pre-tax profit, excluding changes in value			
	Change +/-	Impact on profit, excluding changes in value before tax, SEK million	
Rent level	SEK 100/sq m	+/-	38
Vacancy level ¹⁾	1 percentage point	-/+	18
Operation and maintenance	10 per cent	-/+	14
Property tax ²⁾	1 percentage point	-/+	17
Interest rate	1 percentage point	-7	+1

1) Vacant floor space is estimated at SEK 4,700 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.

INCOME STATEMENTS – GROUP

SEK m	Note	2017	2016
<i>Net revenue</i>			
Property management	3–5	1,750.6	1,703.1
Parking operations		89.9	86.8
		1,840.5	1,789.9
<i>Property management costs</i>			
– Maintenance		-29.8	-29.0
– Operations and administration		-269.4	-262.2
– Ground rents		-22.6	-21.8
– Property tax		-167.3	-164.5
Property management expenses		-489.1	-477.5
Parking operations, costs		-50.7	-50.0
Cost of operations	6–11	-539.8	-527.5
Gross profit		1,300.7	1,262.4
– of which Property management		1,261.5	1,225.6
– of which Parking operations		39.2	36.8
Central administration	7–11	-41.3	-42.9
Operating profit before changes in value and items affecting comparability		1,259.4	1,219.5
Items affecting comparability	12	-138.6	–
Changes in value, Investment properties		2,848.2	4,160.1
Changes in value, Interest derivatives		61.6	45.4
Operating profit		4,030.6	5,425.0
<i>Financial income and expense</i>			
Financial income	13	0.1	0.3
Financial expense	14	-135.8	-141.4
		-135.7	-141.1
Profit before tax		3,894.9	5,283.9
Tax	16	-859.9	-1,163.7
PROFIT FOR THE YEAR AFTER TAX		3,035.0	4,120.2
Other comprehensive income		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,035.0	4,120.2
Profit for the year per share before and after dilution, SEK	24	14.71	19.98
Dividend per share, SEK (proposed)		3.50	3.30

COMMENTS

Property management

Net rent revenue from property management during the year totalled SEK 1,750.6 million (1,703.1), equivalent to an increase of 3 per cent. The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases and indexation, which are counteracted by costs for vacant space, which has arisen mainly as a result of development projects. During the year, Hufvudstaden renegotiated leases equivalent to SEK 322 million in annual rent revenue. Renegotiations for both office and retail premises resulted in an average increase in rent levels of 12 per cent (10), of which offices rose by 20 per cent and stores by 7 per cent. The rental vacancy level remained unchanged at 3.9 per cent (3.9). The rental vacancy level excluding current development projects was 2.4 per cent (2.6).

The turnover-based rent supplement was SEK 15.7 million (16.0), of which the NK properties accounted for SEK 12.9 million (13.8). Turnover at the NK department stores was SEK 3,121 million (3,237). Apart from the turnover-based rent supplement, there are no material seasonal variations with regard to rents.

Maintenance costs amounted to SEK 29.8 million (29.0). Operating costs remained unchanged at SEK 183.0 million (183.0). Administration costs totalled SEK 86.4 million (79.2). The increase can be attributed mainly to staff costs within

business development and the property management organization.

Property tax amounted to SEK 167.3 million (164.5). The cost of property tax has mainly been passed on to the tenants. The total cost for property management amounted to SEK 489.1 million (477.5).

The gross profit for the year was SEK 1,261.5 million (1,225.6).

Parking operations

Parking operations comprise operations at Parkaden AB.

Net revenue was SEK 89.9 million (86.8). The increase can be attributed mainly to a rise in contract parking revenue. Costs totalled SEK 50.7 million (50.0) and gross profit amounted to SEK 39.2 million (36.8).

Items affecting comparability

Items affecting comparability totalled SEK -138.6 million (0.0). This refers to the disposal, change in value, and insurance compensation relating to the building on the Vildmannen 7 property, much of which was destroyed by fire at the end of the year.

Changes in value

Unrealized changes in the value of investment properties totalled SEK 2,848.2 million (4,160.1). The unrealized increase in value can be attributed mainly to the effect of higher market rents and a slightly lower yield require-

ment. The average yield requirement in conjunction with the above valuation was 3.8 per cent (3.9).

Changes in the value of interest derivatives totalled SEK 61.6 million (45.4). Hufvudstaden uses interest derivatives to reduce the impact on profit of changes in interest rates by achieving fixed interest periods that take into account the lease renewal structure. See also Interest risk section in Note 2.

Financial items

Financial income was SEK 0.1 million (0.3). Financial expense amounted to SEK -135.8 million (-141.4). Interest expense fell as a result of a lower rate of interest on borrowings.

Tax

The Group's tax expense was SEK -859.9 million (-1,163.7), of which SEK -160.2 million (-152.7) was current tax and SEK -699.7 million (-1,011.0) was deferred tax. The decrease in deferred tax can be ascribed to lower unrealized changes in the value of the property holdings.

Profit for the year

The profit for the year was SEK 3,035.0 million (4,120.2). The fall in profit can be attributed to lower unrealized changes in the value of the property holdings.

BALANCE SHEETS – GROUP

SEK m	Note	31-12-2017	31-12-2016
ASSETS			
Fixed assets			
Investment properties	17	39,730.0	36,517.3
Tangible fixed assets	18	7.3	6.6
Non-current receivables	20	13.0	11.9
Total fixed assets		39,750.3	36,535.8
Current assets			
Accounts receivable	21	18.0	15.2
Other receivables		2.0	2.5
Prepaid expense and accrued income	22	129.7	41.5
Cash and bank holdings	23	394.9	1,113.8
Total current assets		544.6	1,173.0
TOTAL ASSETS		40,294.9	37,708.8
EQUITY AND LIABILITIES			
Equity			
Share capital		1,056.4	1,056.4
Other contributed capital		628.1	628.1
Profit brought forward, including profit for the year		23,717.2	21,362.9
Total equity	24	25,401.7	23,047.4
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	3,700.0	4,000.0
Deferred tax liabilities	26	7,939.9	7,240.2
Other non-current liabilities		56.9	106.4
Other provisions	27	16.3	14.9
Total non-current liabilities		11,713.1	11,361.5
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	2,500.0	2,650.0
Accounts payable		130.6	87.4
Income tax liability		24.8	15.2
Other liabilities	28	132.0	157.7
Accrued expenses and prepaid income	30	392.7	389.6
Total current liabilities		3,180.1	3,299.9
Total liabilities		14,893.2	14,661.4
TOTAL EQUITY AND LIABILITIES		40,294.9	37,708.8

COMMENTS

Investment properties

The carrying amount for properties in the Group was SEK 39,730.0 million (36,517.3). The increase in the properties' fair value can be attributed to unrealized changes in value totalling SEK 2,848.2 million (4,160.1) and investments in current development projects in the property holdings during the year totalling SEK 583.7 million (616.7). The property Inom Vallgraven 3:2 was acquired the previous year for SEK 78.4 million. The Vildmannen 7 property was struck by fire in November, and the building suffered considerable damage as a result. The property value has been affected to the amount of SEK -219.2 million (0.0). Investment properties in the Group are reported at fair value according to IAS 40, which means there is no depreciation. The valuation method is presented in Note 17. The properties' fiscal residual value was SEK 3.3 billion (3.4).

Cash and cash equivalents

Cash and cash equivalents amounted to SEK 394.9 million (1,113.8). Rent payments take place mainly at the turn of the quarter, whereupon a temporary surplus could arise. This surplus liquidity is normally used for amortization of loans or is invested in short-term instruments with high liquidity and low risk. There are no limits on the right of use of cash and cash equivalents.

Interest-bearing liabilities

The Group's liabilities to credit institutions amounted to SEK 1,200 million (2,950). At the year-end, Hufvudstaden's commercial paper totalled SEK 1,300 million (900) and bond loans totalled SEK 3,700 million (2,800). Borrowing totalled SEK 6,200 million (6,650). The average fixed interest period was 1.8 years (1.9), the capital tie-up period was 3.4 years (2.7), and the aver-

age annual equivalent interest cost at the year-end was 1.9 per cent (2.1). Net debt totalled SEK 5,805.1 million (5,536.2).

Deferred tax liabilities

Deferred tax liabilities amounted to SEK 7,939.9 million (7,240.2). The change can be attributed mainly to deferred tax on unrealized changes in value.

CHANGES IN EQUITY – GROUP

SEK m	Share capital	Other contributed capital	Retained earnings, including profit for the year	Total
Opening equity 01-01-2016	1,056.4	628.1	17,882.2	19,566.7
Profit for the year			4,120.2	4,120.2
Other comprehensive income for the year			–	–
Comprehensive income for the year			4,120.2	4,120.2
Dividend			-639.4	-639.4
Closing equity 31-12-2016	1,056.4	628.1	21,363.0	23,047.4
Opening equity 01-01-2017	1,056.4	628.1	21,363.0	23,047.4
Profit for the year			3,035.0	3,035.0
Other comprehensive income for the year			–	–
Comprehensive income for the year			3,035.0	3,035.0
Dividend			-680.7	-680.7
Closing equity 31-12-2017	1,056.4	628.1	23,717.2	25,401.7

The number of shares bought back was 5,006,000, equivalent to 2.4 per cent of all issued shares. At the Annual Meeting on March 22, 2017, the Board of Directors was given a renewed mandate to buy back a maximum of 10 per cent of all issued shares with the aim of giving the Board of Directors the opportunity

to adjust the capital structure in order to create increased value for the Company's shareholders and/or to allow the Company's own shares to be used as liquidity in conjunction with or to finance the acquisition of companies or properties. No buy-backs took place during 2017.

During 2017, a dividend of SEK 3.30 per share was paid to the Company's shareholders, totalling SEK 680,677,579.

The proposed dividend according to the allocation of unappropriated earnings is SEK 721.9 million. (See Definitions, page 103, Dividend).



BIBLIOTEKSTAN

Birger Jarlsgatan, Stockholm

CASH FLOW STATEMENTS – GROUP

SEK m	Note	2017	2016
Current operations			
Profit after financial items		3,894.9	5,283.9
Depreciation and impairment of assets		3.7	3.0
Items affecting comparability		138.6	–
Unrealized change in value, investment properties		-2,848.2	-4,160.1
Unrealized change in value, interest derivatives		-61.6	-45.4
Other changes		1.3	1.9
Income tax paid		-150.6	-105.7
Cash flow from current operations before changes in working capital		978.1	977.6
Cash flow from changes in working capital			
Decrease (+) / Increase (–) in operating receivables		-11.5	28.6
Increase (+) / Decrease (–) in operating liabilities		32.5	22.5
Cash flow from current operations		999.1	1,028.7
Investments			
Investment in properties		-583.7	-616.7
Investment in equipment		-3.6	-2.2
Sale of equipment		–	0.2
Cash flow from investments		-587.3	-618.7
Financing			
Loans raised	25	4,000.0	3,300.0
Amortization of loans	25	-4,450.0	-2,400.0
Dividend paid		-680.7	-639.4
Cash flow from financing		-1,130.7	260.6
Cash flow for the year		-718.9	670.6
Cash and cash equivalents at the beginning of the year		1,113.8	443.2
Cash and cash equivalents at the year-end	23	394.9	1,113.8
Supplementary disclosures, cash flow statements			
Interest received		2.0	0.7
Interest paid		130.2	134.3

COMMENTS

Cash flow from current operations

Cash flow from current operations before changes in operating capital increased by SEK 0.5 million to SEK 978.1 million (977.6). Changes in working capital increased cash flow by SEK 21.0 million (51.1). Cash flow from current operations thus totalled SEK 999.1 million (1,028.7).

Cash flow from investments

Cash flow from investments amounted to SEK -587.3 million (-618.7) and refers to investment in existing property holdings and equipment. The acquisition of the property Inom Vallgraven 3:2 was also included the previous year.

Cash flow from financing

Cash flow from financing amounted to SEK -1,130.7 million (260.6). Net borrowing decreased by SEK 450 million

compared to an increase of SEK 900 million the previous year. No buy-back of Company shares took place during the year.

The cash flow for the year was SEK -718,9 million (670.6).

Cash and cash equivalents

The Group's cash and cash equivalents totalled SEK 394.9 million (1,113.8) and comprised cash and bank holdings. In addition to cash and cash equivalents, there were unutilized overdraft facilities of SEK 40 million (40). As at December 31, 2017, Hufvudstaden had non-current loan assurances of SEK 4.0 billion. At the year-end, SEK 3.0 billion was unutilized, of which SEK 1.3 billion was reserved to cover outstanding commercial paper. The commercial paper programme totalled SEK 2.0 billion, of which SEK 1.3 billion was outstanding

at the year-end. The unutilized amount is SEK 700 million. The Company's MTN programme has a limit of SEK 4.0 billion, of which SEK 3.7 billion has been issued. The unutilized amount is SEK 300 million.

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

HUFVUDSTADEN AB – PARENT COMPANY

Income Statements			
SEK m	Note	2017	2016
Net revenue	5	1,145.9	1,104.0
Operating costs	6–11	-644.8	-729.8
Gross profit		501.1	374.2
Central administration	7–11	-41.3	-42.9
Items affecting comparability	12	0	0
Changes in value, derivatives		61.6	45.4
Operating profit		521.4	376.7
Profit from financial items			
Group contributions received		263.0	357.3
Financial income	13	0.1	0.3
Financial expense	14	-135.8	-141.3
		127.3	216.3
Profit after financial items		648.7	593.0
Appropriations	15	144.3	156.5
Profit before tax		793.0	749.5
Tax	16	-177.7	-165.9
PROFIT FOR THE YEAR		615.3	583.6

Statement of Comprehensive Income			
SEK m	Note	2017	2016
Profit for the year		615.3	583.6
Other comprehensive income		–	–
COMPREHENSIVE INCOME FOR THE YEAR		615.3	583.6

Balance Sheets			
SEK m	Note	31-12-2017	31-12-2016
ASSETS			
Fixed assets			
Investment properties	17	8,017.9	8,086.3
Tangible fixed assets	18	5.1	3.9
		8,023.0	8,090.2
<i>Financial fixed assets</i>			
Participations in Group companies	19	2,886.9	2,886.9
Non-current receivables	20	12.9	11.8
<i>Total financial fixed assets</i>		2,899.8	2,898.7
Total fixed assets		10,922.8	10,988.9
Current assets			
<i>Current receivables</i>			
Accounts receivable	21	4.1	2.5
Other receivables		1.9	1.8
Receivables from Group companies		411.5	436.0
Prepaid expenses and accrued income	22	108.5	26.4
<i>Total current receivables</i>		526.0	466.7
Cash and bank holdings	23	364.6	1,083.4
Total current assets		890.6	1,550.1
TOTAL ASSETS		11,813.4	12,539.0

Balance sheets, cont'd			
SEK m	Note	31-12-2017	31-12-2016
EQUITY AND LIABILITIES			
Equity			
<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
Total restricted equity		1,978.7	1,978.7
<i>Non-restricted equity</i>			
Retained earnings		1,084.0	1,181.1
Profit for the year		615.3	583.6
Total non-restricted equity		1,699.3	1,764.7
Total equity	24	3,678.0	3,743.4
<i>Untaxed reserves</i>	29	516.2	665.0
<i>Provisions</i>			
Pension provisions	27	16.1	14.7
Provisions for taxes	26	918.9	901.4
Total provisions		935.0	916.1
<i>Non-current liabilities</i>			
Non-current interest-bearing liabilities	25	3,700.0	4,000.0
Liabilities to Group companies		0.7	0.7
Other liabilities		51.3	102.3
Total non-current liabilities		3,752.0	4,103.0
<i>Current liabilities</i>			
Current interest-bearing liabilities	25	2,500.0	2,650.0
Accounts payable		83.8	63.8
Liabilities to Group companies		4.9	26.7
Income tax liability		26.2	16.9
Other liabilities	28	60.1	93.7
Accrued expenses and prepaid income	30	257.2	260.4
Total current liabilities		2,932.2	3,111.5
Total liabilities		8,135.4	8,795.6
TOTAL EQUITY AND LIABILITIES		11,813.4	12,539.0

Changes in equity

SEK m	Share capital	Revaluation reserve	Statutory reserve	Retained earnings, including profit for the year	Total
Opening equity 01-01-2016	1,056.4	124.2	798.1	1,820.5	3,799.2
Profit for the year				583.6	583.6
Other comprehensive income for the year				–	–
Comprehensive income for the year				583.6	583.6
Dividend, Parent Company				-639.4	-639.4
Closing equity 31-12-2016	1,056.4	124.2	798.1	1,764.7	3,743.4
Opening equity 01-01-2017	1,056.4	124.2	798.1	1,764.7	3,743.4
Profit for the year				615.3	615.3
Other comprehensive income for the year				–	–
Comprehensive income for the year				615.3	615.3
Dividend, Parent Company				-680.7	-680.7
Closing equity 31-12-2017	1,056.4	124.2	798.1	1,699.3	3,678.0

Comments

Net revenue was SEK 1,145.9 million (1,104.0). The increase can be attributed to higher gross rents in conjunction with new and renegotiated leases as well as indexation, which was counteracted by costs for vacant space, mainly arising as result of development projects. The gross profit amounted to SEK 501.1 million (374.2). The increase can be attributed mainly to lower maintenance costs.

Net financial income and expense was SEK 127.3 million (216.3). Financial items include group contributions from subsidiaries totalling SEK 263.0 million (357.3).

Cash and cash equivalents at the year-end totalled SEK 364.6 million (1,083.4). Investment in existing property holdings and equipment totalled SEK 170.8 million (158.4).

Cash Flow Statements

SEK m	Note	2017	2016
Current operations			
Profit after financial items		648.7	593.0
Depreciation and impairment of assets		156.9	146.7
Unrealized changes in value, interest derivatives		-61.6	-45.4
Group contribution		-258.4	-357.3
Other changes		1.3	2.1
Income tax paid		-150.9	-97.9
Cash flow from current operations before changes in working capital		336.0	241.2
Cash flow from changes in working capital			
Decrease (+) / Increase (-) in operating receivables		283.8	308.6
Increase (+) / Decrease (-) in operating liabilities		-37.3	50.7
Cash flow from current operations		582.5	600.5
Investments			
Acquisition of subsidiaries		–	-62.1
Investment in properties		-167.1	-156.8
Investment in equipment		-3.7	-1.6
Sale of equipment		0.2	0.2
Cash flow from investments		-170.6	-220.3
Financing			
Loans raised	25	4,000.0	3,300.0
Amortization of loans	25	-4,450.0	-2,400.0
Dividend paid		-680.7	-639.4
Cash flow from financing		-1,130.7	260.6
Cash flow for the year		-718.8	640.8
Cash and cash equivalents at the beginning of the year		1,083.4	442.6
Cash and cash equivalents at the year-end	23	364.6	1,083.4
Supplementary disclosures, cash flow statements			
Interest received		1.7	0.5
Interest paid		130.1	134.2

NOTES

Note 1. Accounting principles**General information**

Hufvudstaden AB (publ) is a limited liability company with its registered office in Stockholm. Hufvudstaden is quoted in the Large Cap list on Nasdaq Stockholm. The Group's principal area of business is the ownership, development and management of commercial properties. The Company's address is Hufvudstaden AB (publ), NK 100, SE-111 77 Stockholm. L E Lundbergföretagen AB, company registration number 556056-8817, Stockholm, has a controlling influence at Hufvudstaden, which is why the Company is consolidated into the Lundberg Group. The Annual Report and Consolidated Financial Statements for Hufvudstaden AB (publ) for 2017 have been approved for publication according to a decision reached by the Board on February 15, 2018. It is proposed that the Annual Report and Consolidated Financial Statements be adopted at the Annual Meeting on March 22, 2018.

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

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

Prerequisites in conjunction with preparation of the financial statements

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

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

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

Assessments and estimates

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

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

Investment properties

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

New accounting principles*New standards that came into effect in 2017*

New and amended standards that came into effect in 2017 have not had any material effect on the Consolidated Financial Statements.

New standards that will come into effect in 2018 and later

A number of new and amended IFRS will come into effect during the coming financial years and have not been applied in the preparation of these financial statements. The amendments are not expected to have any material impact on the Consolidated Financial Statements with the exception of the following:

IFRS 9 Financial Instruments will come into effect on January 1, 2018. For Hufvudstaden, the standard will mean a new model for making provisions for credit losses. This is not expected to have any material impact on the Consolidated Financial Statements.

IFRS 15 Revenue Recognition will come into effect on January 1, 2018. Hufvudstaden's main source of revenue is rental revenue, which is reported according to IAS 17. The transition to IFRS 15 means that the reporting of income must be divided up into two parts: rental income and service income. In the case of service income, an assessment is made of whether Hufvudstaden acts as principal or agent for the services that are provided. As Hufvudstaden's primary revenue source is rental income and, in most cases, Hufvudstaden acts as principal, the coming into effect of IFRS 15 is not expected to have any material impact on the Consolidated Financial Statements apart from expanded disclosure requirements.

IFRS 16 Leasing will be applied from January 1, 2019. IAS 17 will be replaced by IFRS 16. Hufvudstaden has begun the task of analysing the consequences of the new standard. At present, the introduction of IFRS 16 is not expected to have any material impact on the Consolidated Financial Statements.

Changes in Swedish regulations

Changes during 2017 have not had any material impact on Hufvudstaden's financial statements apart from a slight expansion in disclosure requirements.

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 Financial Statements

The Consolidated Financial Statements 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 business operations that are normal in conjunction with the acquisition of properties, the acquisition costs are divided among the individually identifiable assets and liabilities according to their fair value at the time of acquisition without any reporting of goodwill or a deferred tax receivable/liability in conjunction with the acquisition. Untaxed reserves have been divided into a deferred tax liability and equity. Intra-Group receivables, liabilities and profits or losses that arise from intra-Group transactions have been eliminated in conjunction with the preparation of the consolidated accounts. Consolidation in conjunction with acquisitions takes place from the date on which a controlling influence is acquired, and in conjunction with disposals up to the date on which the controlling influence ceases.

Reporting of income and costs

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

Income from property sales

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

Intra-Group rents and costs

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

Continuation, Note 1.

Administration costs

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

Financial income and expense

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

Leases

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

Remuneration to employees

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

As regards the Group's pension undertakings, the majority of white-collar workers are covered by what is known as the ITP plan, which is secured through insurance with Alecta, and blue-collar workers are covered by the SAF-LO contractual pension plan. During the 2017 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 when the underlying transaction is reported under Other Comprehensive Income or under Equity, whereupon the associated tax effect is reported under Other Comprehensive Income or Equity. Current tax is the tax to be paid or received for the year in question. This also includes an adjustment of current tax attributable to previous periods. Deferred tax is calculated according to the Balance Sheet method, using temporary differences between carrying amounts and tax values of assets and liabilities as a starting point. The amounts are calculated based on how the temporary differences are expected to be realized, and on application of the tax rates and tax rules that had been decided or notified as at the year-end. In the Parent Company, untaxed reserves are reported inclusive of the deferred tax liability.

Deferred tax assets in respect of deductible temporary differences and a carry-forward of unused tax losses 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 through profit or loss, Loan receivables or Accounts receivable. The financial liabilities are classified as follows: Financial liabilities valued at fair value through profit or loss or Other financial liabilities. Classification depends on the purpose for which the financial asset or liability was acquired.

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

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

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

This category comprises two sub-groups: financial assets and liabilities, when held 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 amortised cost. The amortised cost is determined based on the effective interest rate calculated at the time of acquisition. The expected term of the account receivable is short and consequently the value is reported at the nominal amount without discounting. Accounts receivable and loan receivables are reported at the amounts at which they are expected to be paid, i.e. following a deduction for doubtful receivables.

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

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

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

Other financial liabilities

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

Impairment of financial instruments

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

Tangible fixed assets

Tangible fixed assets are reported as an asset in the Balance Sheet if it is probable that there will be future economic 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 added to the asset value 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.

Continuation, Note 1.

Investment properties

Investment properties are properties that are held for the purposes of securing rental revenue and/or an increase in value. Initially, investment properties are recognized at the acquisition cost, which includes expenses directly attributable to the acquisition. After the initial recognition, 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 take place each quarter. To assure the valuation, independent external valuations are commissioned from valuation companies at least once a year. The external valuations normally cover 30–40 per cent of the internally assessed fair value of the property holdings and the selection of properties represents different property categories, towns, locations, technical standards and construction standards. There is a continuous update during the year of the internal valuation of the properties to take account of purchases, sales and investments. Hufvudstaden also investigates on an ongoing basis if there are other indications of changes in the fair value of the properties. These indications could take the form, for example, of major leases, terminations and material changes in the yield requirements.

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

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

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

Impairments

The carrying amounts for the Group's assets – with the exception of investment properties, fixed assets held for sale, financial assets and deferred tax assets – 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 sale and discontinued operations

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

Provisions

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

Contingent liabilities

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

Cash Flow Statements

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

Segment reporting

From an accounting point of view, a segment is an identifiable part of the Group

that provides services that are exposed to risks and opportunities that are different from other segments. The Group's operations are divided into two segments, Property Management and Parking Operations. This division is in compliance with the manner in which operations are followed up internally.

PARENT COMPANY ACCOUNTING PRINCIPLES

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

Group contributions received are reported under Financial items and group contributions granted are reported under appropriations.

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

Subsidiaries

Shareholdings in subsidiaries are reported in the Parent Company according to the cost method. This means that transaction costs are included in the reported value of holdings in subsidiaries. In the consolidated accounts, transaction costs attributable to subsidiaries are reported directly in profit or loss as the costs arise.

Investment properties

The Parent Company investment properties are reported according to the Group principles for tangible fixed assets although without the opportunity to apply the fair value method. Instead, the cost method is applied with depreciation over the assessed useful life of the buildings. The acquisition value comprises the acquisition price, cost of title deeds and value-enhancing improvements. Only charges that generate a permanent increase in the value of the properties are capitalized. Development costs of a maintenance nature are charged to profit. Loan charges are not capitalized in the Parent Company. In accordance with the special provisions in RFR2 for investment properties, buildings are reported as a single impairment unit without a division into components.

Valuation of investment properties and tangible fixed assets

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

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

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

Depreciation – investment properties

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

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

Note 2. Financial risks

Hufvudstaden is mainly exposed to financing risks and interest risks. The Group endeavours to have a loan portfolio with a diverse credit renewal structure that facilitates possible amortizations. No loans are raised in foreign currency, and consequently the Group is not exposed to a currency exchange risk. Borrowing

normally takes place both with short fixed interest periods, normally 3–6 months, and long fixed interest periods, normally 5–7 years. In the case of short fixed interest periods, use is made of interest derivatives to achieve the desired fixed interest structure. Derivatives are only used for the purpose of minimizing the risk and should be linked to an underlying exposure. At present, the Group has derivatives reported in the category financial assets and liabilities.

Continuation, Note 2.

ties valued at fair value through profit or loss. It has been decided that hedge accounting may be applied to future interest derivatives.

Hufvudstaden's finance function is a Group function 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 allocations of duties to achieve good internal control and follow-up of operations. Major financing solutions and derivative transactions should be approved by the Chairman of the Board and the Board is informed at each Board meeting about financial issues.

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

Financing risk

A financing risk arises in the fact that difficulties could exist in securing financing for operations at a given point in time. The aim is to have financing from at least three of the major banks and a loan portfolio with a spread of due dates and long terms. To minimize the cost of Group borrowing and to ensure that financing can be secured, the Company must have loan assurances that cover the rescheduling of loans and investments. In addition, the Company has a commercial paper programme and an MTN programme. The Board establishes the level of capital tie-up in the loan portfolio on an ongoing basis. The Executive Management prepares rolling forecasts for the Group's liquidity on the basis of expected cash flows. Hufvudstaden's borrowings amounted to SEK 6,200 million at the year-end. The average fixed interest period was 1.8 years (1.9), the average capital tie-up period was 3.4 years (2.7) and the average annualized equivalent interest cost was 1.9 per cent (2.1). Net debt totalled SEK 5,805.1 million compared to SEK 5,536.2 million at the end of 2016. As at December 31, 2017, the Group had non-current loan assurances of SEK 3.5 billion and current loan assurances of SEK 0.5 billion. Of these amounts, SEK 3.0 billion was unutilized, of which SEK 1,300 million was reserved to cover outstanding commercial paper. There is also a commercial paper programme of SEK 2 billion, of which SEK 0.7 billion was unutilized, as well as an MTN programme of SEK 4 billion, of which SEK 0.3 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, 2017

Year due	Interest payments, SEK m	Of which swaps, SEK m	Nominal amount, SEK m ¹⁾	Proportion, %
2018, Q 1	46.8	10.0	1,000	16
2018, Q 2	12.3	8.5	200	3
2018, Q 3	15.1	5.2	–	–
2018, Q 4	19.5	3.8	–	–
2019	52.8	4.6	500	8
2020	46.5	–	500	8
2021	33.4	–	1,800	29
2022	17.4	–	1,200	20
2023	1.3	–	–	–
2024	1.1	–	1,000	16
Total	246.2	32.1	6,200	100

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

In addition to the above, there are other liabilities, which also include accounts payable, which normally fall due within 30 days, as well as derivatives with a negative value of SEK 30.3 million.

Interest risk

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

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 period for net debt should normally be 1–4 years. In the case of loans raised at a variable rate of interest, derivatives are used to achieve the desired fixed interest structure. As at December 31, 2017, the Group's fixed interest period was 1.8 years. A change in the market interest rate (STIBOR 3 months) by +1 percentage point, assuming an unchanged loan volume and fixed interest period according to current derivative agreements, would increase Hufvudstaden's interest expense in 2018 to the amount of SEK 5 million (27) and in an event of a change in the

market interest rate of -1 percentage point would decrease Hufvudstaden's interest expense with SEK 1 million (20). The difference between the interest cost can be explained by the fact that certain agreements stipulate a minimum rate of interest. At the same time, the change in the interest rate would entail a change in value in interest derivatives to the amount of SEK +/-14 million (+/-45) in the result.

**Fixed interest structure, December 31, 2017
(Including effect of interest derivatives)**

Year due	Credit, SEK m	Interest derivatives, SEK m	Net, SEK m	AER, % ¹⁾
2018	3,500	-450	3,050	1.9
2019	500	450	950	2.7
2020	–	–	–	–
2021	1,000	–	1,000	1.5
2022	1,200	–	1,200	1.5
Total	6,200	0	6,200	1.9

1) The credit margins in the table are allocated to the period in which the credit is reported.

Credit risk

A credit risk is the risk of a loss if the Group's counterparties do not fulfil their contractual obligations and any collateral does not cover the Group's claims. The aim is to minimize the credit risk through advance rent payments and to only enter into credit transactions with large financing institutions. A credit risk can be attributed mainly to outstanding accounts receivable/rent receivables, cash and cash equivalents as well as financial derivative agreements with positive values, which as at the year-end had a collective carrying value of SEK 412.9 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 7 per cent, which means that Hufvudstaden's exposure to the credit risk represented by individual customers is relatively limited. Exposure regarding financial derivative agreements is limited by the Group policy of only entering into such agreements with major financial institutions with a high rating and with whom the Company has a long-term relationship. In addition, there are general agreements with these institutions regarding the set-off of different derivative agreements, which further reduces the credit risk exposure.

Concentration of credit risk, December 31, 2017¹⁾²⁾

Annual rent, SEK k	Number of customers	Total annual rent, SEK k	Proportion, %
0 – 99	87	3,524	0.2
100 – 499	80	21,925	1.3
500 – 999	112	84,844	5.1
1,000 – 2,499	170	267,379	16.1
2,500 – 4,999	94	332,121	20.1
5,000 – 9,999	40	284,755	17.2
10,000 –	29	663,855	40.0
Total	612	1,658,403	100.0

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

2) Annual rent as at December 31, 2017.

Fair value

The fair value of financial instruments traded on an active market (such as financial assets held for sale) is based on the 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 amortized cost with a deduction for possible impairment, the fair value was considered to be in line with the carrying value as these instruments have a very short term. Of the interest-bearing liabilities, around half are subject to a fixed interest period of 3 or 6 months, and the remainder carry a fixed rate of interest. The assessment is that the fair value is essentially in line with the carrying value.

Continuation, Note 2.

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								
	2017	2016	2017	2016	2017	2016	2017	2016	2017 2016
GROUP									
<i>Financial instruments included in the financial net liability</i>									
Non-current receivables			12.9	11.9					12.9 11.9
Current receivables			47.6	41.6			102.1	17.6	149.7 59.2
Cash and cash equivalents			394.9	1,113.8					394.9 1,113.8
Non-current liabilities	13.8	67.1			3,759.4	4,052.2			3,773.2 4,119.3
Current liabilities	16.5	24.8			2,849.6	2,973.6	289.2	286.3	3,155.3 3,284.7
PARENT COMPANY									
<i>Financial instruments included in the financial net liability</i>									
Non-current receivables			12.9	11.8					12.9 11.8
Current receivables			28.9	28.0			85.6	2.7	114.5 30.7
Cash and cash equivalents			364.6	1,083.4					364.6 1,083.4
Non-current liabilities	13.8	67.1			3,753.6	4,049.9			3,767.4 4,117.0
Current liabilities	16.5	24.8			2,698.9	2,874.0	185.7	169.1	2,901.1 3,067.9

The fair value concurs essentially with the carrying value. For bond loans with a fixed rate of interest the undervalue is SEK -18.0 million. The fair value of all instruments valued at fair value in the Balance Sheet is attributable to level 2 in IFRS 7, i.e. the value has been calculated based on official market listings.

Note 3. Segment information

The Group's operations are divided into two segments, Property Management and Parking Operations. The Property Management segment is divided into business areas that follow the operative control of the Company's business. This generally falls into line with the Company's geographical sub-markets together with NK operations. In the Parent Company, there is only one operating segment – Property Management. The following presentation shows income and costs as well as assets and investments for the different business areas in accordance with the reorganization that took place during the year.

SEK m	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
GROUP								
Property Management								
<i>Income and costs ¹⁾</i>								
Net revenue	951.9	933.1	487.5	484.8	311.2	285.2	1,750.6	1,703.1
(of which turnover-based rent)	(1.2)	(0.8)	(12.9)	(13.8)	(1.6)	(1.4)	(15.7)	(16.0)
Maintenance	-21.3	-18.5	-3.7	-7.0	-4.8	-3.5	-29.8	-29.0
Operation and administration	-106.1	-105.1	-106.5	-103.5	-56.8	-53.6	-269.4	-262.2
Ground rent	-13.0	-13.0	-9.6	-8.8	–	–	-22.6	-21.8
Property tax	-96.7	-96.0	-40.2	-40.2	-30.4	-28.3	-167.3	-164.5
Gross profit, property management	714.8	700.5	327.5	325.3	219.2	199.8	1,261.5	1,225.6
Parking operations			39.2	36.8			39.2	36.8
Central administration							-41.3	-42.9
Items affecting comparability							-138.6	–
Changes in value, Investment properties							2,848.2	4,160.1
Changes in value, Interest derivatives							61.6	45.4
Operating profit							4,030.6	5,425.0
Financial income and expense							-135.7	-141.1
Profit before tax							3,894.9	5,283.9
Assets								
Investment properties	23,970.4	21,556.5	9,589.5	9,246.9	6,170.1	5,713.9	39,730.0	36,517.3
Rent receivables	0.5	-0.1	0.4	4.7	0.6	0.9	1.5	5.5
Investments								
Investment properties and equipment	224.4	157.3	224.9	77.5	138.0	383.9	587.3	618.7

1) For comparable holdings, see Business Areas in figures, page 98.

Note 3 continued on page 77.

Continuation, Note 3.

Parking Operations		
The Parking Operations segment includes parking operations at Parkaden AB.		
SEK m	2017	2016
GROUP		
Net revenue	89.9	86.8
Rental costs	-41.4	-40.9
Operation and administration	-8.8	-8.6
Depreciation	-0.5	-0.5
Gross profit	39.2	36.8
Total assets amounted to SEK 18.2 million (14.7).		

Note 4. Profit trend – summary										
SEK m	Jan – Mar		Apr – Jun		Jul – Sept		Oct – Dec		Jan – Dec	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
GROUP										
<i>Property management</i>										
Net revenue	429.3	410.2	429.8	416.8	435.5	431.7	456.0	444.4	1,750.6	1,703.1
Maintenance	-4.6	-5.3	-7.4	-9.9	-7.0	-6.1	-10.8	-7.7	-29.8	-29.0
Operation and administration	-66.8	-65.6	-62.0	-61.1	-60.3	-58.8	-80.3	-76.7	-269.4	-262.2
Other costs	-47.2	-43.2	-47.8	-43.9	-47.6	-53.6	-47.3	-45.6	-189.9	-186.3
Property management costs	-118.6	-114.1	-117.2	-114.9	-114.9	-118.5	-138.4	-130.0	-489.1	-477.5
Other operations, net	10.2	8.6	9.7	9.6	7.9	7.2	11.4	11.4	39.2	36.8
Gross profit	320.9	304.7	322.3	311.5	328.5	320.4	329.0	325.8	1,300.7	1,262.4
Central administration	-9.5	-9.2	-9.5	-9.2	-9.4	-9.3	-12.9	-15.2	-41.3	-42.9
Items affecting comparability	–	–	–	–	–	–	-138.6	–	-138.6	–
Changes in value, Investment properties	321.7	689.3	1 195.9	893.1	360.3	868.2	970.3	1,709.5	2,848.2	4,160.1
Changes in value, Interest derivatives	17.9	-5.2	14.7	11.3	15.8	18.4	13.2	20.9	61.6	45.4
Financial income and expense	-34.4	-32.9	-34.8	-39.3	-35.0	-35.0	-31.5	-33.9	-135.7	-141.1
Tax	-144.5	-208.4	-335.8	-257.2	-153.4	-256.1	-226.2	-442.0	-859.9	-1 163.7
Profit for the period after tax	472.1	738.3	1,152.8	910.2	506.8	906.6	903.3	1,565.1	3,035.0	4,120.2

Note 5. Operational lease agreements – Group as lessor							
The Group has commercial lease agreements for the property holdings, which comprise offices, stores, storage premises and other non-residential premises. The remaining term is between 1 and 14 years.							
<i>Renewal structure¹⁾²⁾³⁾</i>							
	2018	2019	2020	2021	2022	2023–	Total
<i>Number of agreements</i>							
Offices	88	69	52	54	36	41	340
Stores	127	71	75	41	12	22	348
Other	431	232	172	94	30	56	1,015
Total, Group	646	372	299	189	78	119	1,703
Proportion, %	37.9	21.8	17.6	11.1	4.6	7.0	100.0
Total, Parent Company	447	300	219	168	69	101	1,304
<i>Annual rent, SEK m</i>							
Offices	134.8	106.7	120.4	156.4	127.7	239.4	885.4
Stores	234.4	108.3	156.5	89.3	38.4	106.5	733.4
Other	30.3	23.4	19.0	27.0	11.8	25.9	137.4
Total, Group	399.5	238.4	295.9	272.7	177.9	371.8	1,756.2
Proportion, %	22.7	13.6	16.9	15.5	10.1	21.2	100.0
Total, Parent Company	183.6	187.0	188.7	253.5	155.6	235.8	1,204.2

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

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

3) Excluding residential leases.

Note 6. Depreciation, tangible fixed assets and investment properties

SEK m	Group		Parent Company	
	2017	2016	2017	2016
<i>Depreciation per type of asset</i>				
Investment properties	– ¹⁾	– ¹⁾	154.8	144.1
Tangible fixed assets	2.9	2.7	2.3	2.1
Total	2.9	2.7	157.1	146.2
<i>Depreciation per function</i>				
Property management	2.4	2.2	157.1	146.2
Parking operations	0.5	0.5	–	–
Total	2.9	2.7	157.1	146.2

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

Note 7. Average number of employees

Average number of employees	2017	2017	2016	2016
		Of which men, %		Of which men, %
Parent Company	115	61	110	60
(of which executives)	(7)	(71)	(7)	(71)
Wholly owned subsidiaries				
Parkaden AB	3	67	3	67
Total, Group	118	61	113	60
(of which executives)	(7)	(71)	(7)	(71)

Of the Group's 30 managers (28) 9 are women (7) or 30 per cent (25). The Board of the Parent Company comprised 6 men (6) and 3 women (3). In the Group, there is one other male member of the Board (1 man). The Group only has employees in Sweden.

Note 8. Salaries and remuneration

SEK k	Group		Parent Company	
	2017	Of which bonus	2017	Of which bonus
<i>Salaries and other remuneration</i>				
Fee to the Chairman of the Board	450	438	450	438
Fee to other Board members	1,600	1,556	1,575	1,531
Remuneration and benefits, President	5,169	418	5,169	418
Remuneration and benefits, other executives	10,993	930	10,993	930
Remuneration and benefits, other employees	63,290	3,785	62,010	3,742
Total	81,502	5,133	80,197 ¹⁾	5,090
<i>National insurance expenses, including special employer's contribution</i>				
Chairman of the Board	57	137	57	137
Other Board members	465	446	461	442
President	2,292	2,168	2,292	2,168
Other executives	4,283	3,755	4,283	3,755
Other employees	23,077	22,100 ²⁾	22,656	21,698 ²⁾
Total	30,174	28,606	29,749	28,200
<i>Pension expenses</i>				
President	2,762	2,571	2,762	2,571
Other executives	3,486	2,666	3,486	2,666
Other employees	13,079	10,395 ²⁾	12,986	10,309 ²⁾
Total	19,327	15,632	19,234	15,546

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

2) The amounts include remuneration according to a contract of employment to a former CFO from May 2016 and for the whole of the period of notice.

Note 8 continued on page 79.

Continuation, Note 8.

An expensed director's fee of SEK 450,000 was paid to the Chairman of the Board Fredrik Lundberg for 2017, and Board members Claes Boustedt, Peter Egardt, Liv Forhaug, Louise Lindh, Fredrik Persson, Sten Peterson and Anna-Greta Sjöberg were each paid SEK 225,000. The President, Ivo Stopner, does not receive any remuneration for his work on the Board. The Group management also includes Arne Lundin, who is a member of the board of Parkaden AB. Arne Lundin received a director's fee of SEK 25,000.

Guidelines for salary, bonus and other remuneration to executives are decided at the Annual Meeting. For 2017, the meeting decided that the following guidelines should be applied.

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

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

The bonus for the President can amount to a maximum of three months' salary per year and for other executives a maximum of the higher of three months' salary or SEK 250,000 per person per year. The bonus payable to the current executives, at the present salary level, can amount to a maximum of SEK 3.8 million.

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

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

These guidelines will cover those persons who during the time the guidelines apply are members of the Executive Management. The guidelines apply to agree-

ments entered into following a decision at the Annual Meeting, and in those cases where changes are made in existing agreements after this point in time. The Board of Directors is entitled to deviate from the guidelines if in an individual case there are particular reasons.

The current guidelines were followed during 2017. However, the Board of Directors, in accordance with the stipulations in the guidelines, has deviated from the guidelines and entered into an agreement with the Vice President, stipulating that if notice of termination of employment is issued by the Company, the fixed salary during the period of notice and severance pay shall not exceed an amount equivalent to the fixed salary for two years. The agreement is the same as for the President. Apart from the supplement regarding the period of notice for the Vice President in conjunction with termination of employment by the Company, the guidelines that will be presented at the 2018 Annual Meeting remain unchanged.

Pensions for Group employees are covered by the respective collective agreements. These are the ITP plan for white-collar workers and the SAF-LO occupational pension agreement for blue-collar workers. The ITP plan includes both a defined benefit pension and a defined contribution pension. The Executive Management and some 70 employees are covered by a defined benefit pension. Alecta's surplus in the form of the collective consolidation level as of December had not been confirmed at the time of the signing of this Annual Report. Alecta's preliminary consolidation level, as at December 31, 2017, amounted to 154 per cent (148). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance undertakings, calculated according to Alecta's insurance calculation assumptions, which do not concur with IAS 19.

For the President and members of the Executive Management a bonus scheme was in place during the year based on result, customer satisfaction and personal objectives as described above. Other permanent employees in the Group were also covered by a bonus scheme during the year. The bonus criteria were 'operating result' and 'customer satisfaction'. For managers there was also a personal assessment and individual objectives, and a bonus was payable up to a maximum of two months' salary. In the case of other employees, the bonus was subject to a maximum of one month's salary.

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

In the final accounts, a provision has been made for a bonus for profit targets and customer satisfaction. For personal objectives, a provision is made equivalent to 75 per cent of the maximum outcome. The bonus outcome for 2017 was charged with a cost for 2016 of SEK 41,602.

Note 9. Fees and cost reimbursements to auditors

SEK m	Group		Parent Company	
	2017	2016	2017	2016
KPMG AB				
Audit work	1.1	1.0	1.1	1.0
Other assignments	0.1	0.1	0.1	0.1
Total	1.2	1.1	1.2	1.1

Note 10. Operational lease agreements – Group as the lessee

Lease payments, SEK m	Group		Parent Company	
	2017	2016	2017	2016
< 1 year	27.4	26.0	13.3	13.3
1 year – 5 years	93.4	89.0	51.2	51.4
5 years >	56.9	49.1	23.5	36.3

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

Note 11. Operating costs per cost category

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Maintenance	29.5	28.6	196.0	299.1
Operation and administration	223.8	224.6	70.2	74.5
Ground rent	22.6	21.8	13.0	13.0
Property tax	167.3	164.5	116.1	113.5
Depreciation and impairment	2.9	2.7	157.1	146.2
Personnel costs	135.0	128.2	133.7	126.4
Total	581.1	570.4	686.1	772.7

Note 12. Items affecting comparability

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Change in value/Disposal as a result of fire	-219.2	–	-80.6	–
Assessed insurance payment	80.6	–	80.6	–
Total	-138.6	–	0	–

The Vildmannen 7 property was struck by fire at the end of the year and much of the building was destroyed. The property is insured for its full value. Settlement of the insurance amount has yet to be completed and consequently, for cautionary reasons, only part of the possible insurance compensation has been reported.

Note 13. Financial income

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Interest income, other	0.1	0.3	0.1	0.3
Total	0.1	0.3	0.1	0.3

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

Note 14. Financial expense

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Interest expense to credit institutions	64.4	52.3	64.4	52.3
Interest expense, swaps	64.4	78.5	64.4	78.5
Interest expense, other	7.0	10.6	7.0	10.5
Total	135.8	141.4	135.8	141.3

Of the financial expense, SEK 71.4 million (62.9) refers to financial instruments not valued at fair value.

Note 15. Appropriations

SEK m	Parent Company	
	2017	2016
Change in accumulated additional depreciation	-1.2	6.5
Change in tax allocation reserve	150.0	150.0
Group contribution granted	-4.5	-
Total	144.3	156.5

Note 16. Income taxes

SEK m	Group		Parent Company	
	2017	2016	2017	2016
<i>Current tax expense</i>				
Tax expense for the year	-160.1	-152.5	-160.1	-152.5
Tax attributable to previous years	-0.1	-0.2	-	-0.1
<i>Deferred tax expense/tax income</i>				
Difference between fiscal and accounting depreciation of properties	-99.9	-121.6	-4.3	-3.7
Unrealized change in value, properties	-620.9	-915.2		
Unrealized change in value, interest derivatives	-13.6	-10.0	-13.6	-10.0
Effect, pension provision	0.3	0.4	0.3	0.4
Effect, allocation to untaxed reserves	34.4	35.4		
Total tax	-859.9	-1,163.7	-177.7	-165.9
<i>Profit before tax</i>	3,894.9	5,283.9	793.0	749.5
Tax according to the current tax rate of 22 %	-856.9	-1,162.5	-174.5	-164.9
Tax attributable to previous years	-0.1	-0.2	-	-0.1
Non-taxable income	0.1	0.2	0.1	0.1
Non-deductible expenses	-0.3	-0.6	-0.3	-0.6
Utilisation of previous deficit deduction	0.2	-	-	-
Standard income, tax allocation reserve	-0.5	-0.7	-0.5	-0.7
Other	-2.4	0.1	-2.5	0.3
Total tax	-859.9	-1,163.7	-177.7	-165.9

As at the year-end, there were no deficit deductions (1.1 million).

Note 17. Investment properties**GROUP**

Investment properties were reported according to the fair value method.

SEK m	2017	2016
Investment properties, Group	39,730.0	36,517.3

Information about changes in the carrying amounts of investment properties.

Investment properties	
SEK m	Owned for the full year
2017	
Opening fair value	36,517.3
Investment in properties	583.7
Unrealized change in value	2,848.2
Change in value/Disposal, fire	-219.2
Closing fair value	39,730.0

Investment properties		
	Purchased	Owned for the full year
	during the year	
2016		
Opening fair value		31,740.5
Acquisition value	78.4	
Investment in properties	2.0	536.3
Unrealized change in value	1.6	4,158.5
Closing fair value	82.0	36,435.3

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

All properties are owned by the Group and are classified as investment properties. They cover the Balance Sheet items Buildings, Building Equipment, Land and Development in Progress. Investment properties are valued according to level 3 in the fair value hierarchy in IFRS 13. The property holdings only include commercial properties comprising office and retail space, and are treated as one single asset category. Fair value is based on an internal valuation.

Valuation method

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

In the case of other project properties and undeveloped land, an assessment has been made of the value according to a total appraisal of the location price method and a development calculation where the net capitalization method is used for a completed property with a deduction for construction costs, profit for the developer in line with market conditions, as well as financial expenses and the loss of rental income on vacant space that arose during the construction period.

The assessment of the yield requirements is based on information gathered on the market yield requirements for purchases and sales of comparable properties in similar locations. If few or no deals are concluded in the property's sub-area, transactions in the adjoining area are analyzed. Transactions not yet concluded also provide guidance on the market yield requirements. Account is also 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 December 31, 2012 has varied between 3.8 per cent and 4.8 per cent, and as at December 31, 2017 the figure was 3.8 per cent. For leasehold properties, the calculation is based on a yield requirement that is 0.20 percentage points higher.

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

Revenue has been reduced to take into account an assessed long-term rental vacancy level. The vacancy level is based on the true outcome of the property holdings over a business cycle, and the expected rental situation for the individual property. In the valuation, an average vacancy level of 4 per cent has been estimated. The actual average vacancy level during the period 2008–2017 varied between 4 and 6 per cent, and as at December 31, 2017, the figure was 3.9 per cent.

Note 17 continued on page 81.

Continuation, Note 17.

A deduction is made for standard costs for operation and maintenance, excluding costs that can be passed on, and part of the property administration. These are based on the actual outcome and are adjusted for non-permanent deviations. The average cost per square metre over the most recent five-year period has been in the range SEK 400 – 500 and the estimated cost in the valuation as at December 31, 2017 was on the same level.

The building cost is based on standard information as well as information reported in current leasehold cases with an upward adjustment in line with an assumed cost trend. In addition, a deduction is made for profit requirements for the developer in line with market conditions, financing costs and the loss of rental income on vacant space that arose during the construction period.

The following information has been used in the valuation made on 31-12-2017:

Office and retail	Range (weighted average)	
	2017	2016
Net operating income (SEK/sq m)	1,400 – 6,320 (4,090)	1,470 – 6,390 (3,830)
Vacancy level (%)	2 – 5 (4)	2 – 5 (4)
Yield requirement, Stockholm (%)	3.4 – 3.9 (3.6)	3.5 – 4.0 (3.7)
Yield requirement, Gothenburg (%)	4.1 – 4.8 (4.4)	4.1 – 4.8 (4.4)
Yield requirement, total (%)	3.8	3.9

External valuation

To assure the valuation, external valuations were obtained from three independent valuation companies: Forum Fastighetsekonomi AB, Cushman and Wakefield, and Newsec Advice AB. The external valuations cover 10 properties and are equivalent to 39 per cent of the internally assessed fair value, and the corresponding figure at the mid-year point was 35 per cent. The basis for the selection of the properties was that they should represent variations in property category, town, location, technical standard and construction standard. The properties that underwent an external valuation were Gröndalstet Södra 11, Håsten 19 and 20 (NK Stockholm), Järnplåten 28, Orgelpipan 7, Pumpstocken 10 (part of), Rännilen 18, Rännilen 19 (part of) and Vildmannen 7 in Stockholm, and Inom Vallgraven 10:9 (NK Gothenburg) and Inom Vallgraven 12:10 in Gothenburg.

The external valuation companies set a fair value of SEK 16.0 billion. Hufvudstaden's internal valuation of the same properties was SEK 15.5 billion. The internal valuations thus concur well with the external valuations.

Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of valuation. The price, however, can only be set when a transaction has been completed. In conjunction with a property valuation, a range is often given to indicate the degree of uncertainty surrounding the fair value estimates. The value range is usually +/- 5 per cent but can vary depending, among other things, on the market situation, the technical standard of the property, and investment requirements. Hufvudstaden's property holdings are valued at SEK 39.7 billion with a degree of uncertainty of +/- 5 per cent, which means that the assessed fair value varies by +/- 2.0 billion. Below are the key factors that influence the valuation and the consequent impact on profit.

Sensitivity analysis, property valuation¹⁾

	Change, +/-	Impact on value, +/-
Rent revenue	SEK 100 per sq m	SEK 1,020 m
Property costs	SEK 50 per sq m	SEK 510 m
Rental vacancy level	1.0 percentage points	SEK 510 m
Yield requirement	0.25 percentage points	SEK 2,620 m

1) Valuation date 31-12-2017.

Tax values, investment properties, Group

SEK m	2017	2016
Tax values, buildings	9,252.2	9,252.2
Tax values, land	7,541.1	7,541.1
	16,793.3	16,793.3

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	2017	2016
Investment properties, Parent Company	8,017.9	8,086.3

Investment properties, excluding land

SEK m	2017	2016
Opening acquisition values	4,044.3	3,887.5
Investments for the year	167.1	156.8
Disposals for the year	-88.0	-
Closing acquisition values	4,123.4	4,044.3
Opening depreciation	-1,256.5	-1,126.2
Depreciation for the year	-141.0	-130.3
Disposals for the year	17.3	-
Closing depreciation	-1,380.2	-1,256.5
Opening revaluation according to the adopted Balance Sheet for the previous year	1,049.7	1,063.5
Depreciation for the year	-13.8	-13.8
Disposals for the year	-10.0	-
Closing revaluation	1,025.9	1,049.7
Closing residual value according to plan	3,769.1	3,837.5

Land

SEK m	2017	2016
Opening acquisition value	1,207.4	1,207.4
Closing acquisition value	1,207.4	1,207.4
Opening value, revaluation	3,041.4	3,041.4
Closing value, revaluation	3,041.4	3,041.4
Closing residual value according to plan	4,248.8	4,248.8

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

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

Information about the fair value of investment properties

SEK m	2017	2016
Investment properties, Parent Company	27,187.4	24,502.1

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

Tax values, investment properties, Parent Company

SEK m	2017	2016
Tax values, buildings	6,195.8	6,195.8
Tax values, land	5,472.7	5,472.7
	11,668.5	11,668.5

Note 18. Tangible fixed assets

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	34.9	34.3	16.9	16.9
Investments for the year	3.8	2.2	3.7	1.6
Sales and disposals	-1.9	-1.6	-1.9	-1.6
Closing acquisition value	36.8	34.9	18.7	16.9
Opening depreciation	-28.2	-26.9	-13.0	-12.1
Depreciation for the year	-2.9	-2.7	-2.3	-2.1
Sales and disposals	1.6	1.4	1.7	1.4
Closing accumulated depreciation	-29.5	-28.2	-13.6	-13.0
Closing residual value according to plan	7.3	6.6	5.1	3.9

Note 19. Participation in Group Companies

	Company reg. no.	Reg. office	Capital (votes) %	Number	Nominal value, SEK 1,000	Carrying amount 2017, SEK m
PARENT COMPANY						
<i>Shares in subsidiaries</i>						
AB Citypalatset	556034-7246	Stockholm	100	1,200	120	1,111.1
Fastighetsaktiebolaget Medusa	556018-7238	Stockholm	100	300	300	32.3
Aktiebolaget Hamngatsgaraget	556068-6601	Stockholm	100	3,000	300	231.2
AB Nordiska Kompaniet	556008-6281	Stockholm	100	19,460,666	97,303	1,449.3
Parkaden AB	556085-3599	Stockholm	100	5,000	500	0.6
Gbg Inom Vallgraven 3-2 AB	556724-2531	Stockholm	100	1,000	100	62.1
						2,886.6
<i>Shares in dormant companies</i>						
Aktiebolaget Cityparkering	556020-7440	Stockholm	100	200	100	–
Fastighets AB Hufvudstaden	556014-4411	Stockholm	100	500	250	0.2
Förvaltnings AB Birger Jarl	556209-4614	Stockholm	100	200	100	–
Förvaltnings AB Normalmstorg nr. 1	556019-5405	Stockholm	100	150	150	–
Hufvudstaden Fastighetsförvaltning AB	556556-7038	Stockholm	100	200	100	0.1
						0.3
Parent Company, total						2,886.9
OTHER GROUP COMPANIES						
<i>Owned by AB Citypalatset</i>						
Fastighetsaktiebolaget Stockholms City	556019-4358	Stockholm	100	7,776	7 776	239.5
<i>Owned by Fastighetsaktiebolaget Stockholms City</i>						
Hotel Stockholm Aktiebolag	556031-4303	Stockholm	100	10,000	1,000	3.4
<i>Owned by AB Nordiska Kompaniet</i>						
NK Cityfastigheter AB	556023-1267	Stockholm	100	1,680	168	0.4
NK Concession Aktiebolag	556313-8733	Stockholm	100	1,000	100	0.1
						0.5
Other Group companies, total						243.4

There are no foreign subsidiaries in the Group.

Intra-group revenue refers to rents, which amounted to SEK 57.8 (56.9) million during the year.

Change in the Parent Company's holdings in Group companies

SEK m	Parent Company	
	2017	2016
Opening carrying amount	2,886.9	2,824.8
Acquired subsidiaries	–	62.1
Closing carrying amount	2,886.9	2,886.9

Note 20. Other non-current receivables

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Opening carrying amount	11.9	10.3	11.8	10.2
Change for the year	1.1	1.6	1.1	1.6
Closing carrying amount	13.0	11.9	12.9	11.8

Note 21. Accounts receivable

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Accounts receivable	16.5	9.7	2.9	1.6
Rent receivables	1.5	5.5	1.2	0.9
Total	18.0	15.2	4.1	2.5

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

Rent receivables are charged in advance, the majority on a quarterly basis. Accounts receivable are invoiced subject to terms of payment of 30 days. Bad debt losses for the year amounted to SEK 0.7 million (0.3). Accounts receivable and rent receivables that have fallen due, but which have not been impaired, amounted to SEK 4.5 million (7.1).

Note 22. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Accrued rent revenue	25.9	23.9	21.2	23.7
Accrued income	81.3	–	81.3	–
Prepaid expenses	20.8	17.6	4.3	2.7
Prepaid interest expense	1.7	–	1.7	–
Total	129.7	41.5	108.5	26.4

Note 23. Cash and bank holdings

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Cash and cash equivalents	394.9	1,113.8	364.6	1,083.4
Total	394.9	1,113.8	364.6	1,083.4

Interest according to a variable rate of interest is calculated for cash and cash equivalents. The variable rate of interest is based on the current daily investment rate.

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

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

Retained earnings, including profit for the year

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

Dividend

In 2017, a dividend was paid of SEK 3.30 per share, or a total of SEK 680,677,579. For 2017, the Board of Directors proposes a dividend of SEK 3.50 per share, or a total of SEK 721,930,766. The remaining part of non-restricted equity, SEK 977,374,008, will be carried forward.

Asset management

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

Share capital

SEK m	2017	2016
<i>Breakdown of share series</i>		
A 202,996,869 shares, par value SEK 5	1,015.0	1,015.0
C 8,275,064 shares, par value SEK 5	41.4	41.4
Total	1,056.4	1,056.4

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

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

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

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

Profit per share

When calculating the profit per share, the total profit for the year and the average number of shares are used. The whole of the profit is attributable to the Parent Company's shareholders and there are no dilution effects.

	2017	2016
Total profit for the year, SEK m	3,035.0	4,120.2
Outstanding shares	206,265,933	206,265,933
Profit per share, SEK	14.71	19.98

PARENT COMPANY**Restricted funds**

Restricted funds may not be reduced through a dividend.

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

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

Non-restricted equity

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

Note 25. Interest-bearing liabilities

SEK m	Group		Parent Company	
	2017	2016	2017	2016
<i>Non-current liabilities</i>				
Bank loans	1,000	1,200	1,000	1,200
Bond loans	2,700	2,800	2,700	2,800
Total	3,700	4,000	3,700	4,000
<i>Current liabilities</i>				
Bank loans	200	1,750	200	1,750
Bond loans	1,000	–	1,000	–
Commercial paper loans	1,300	900	1,300	900
Total	2,500	2,650	2,500	2,650
Credit facility granted	40	40	40	40
Loan assurances	4,000	4,000	4,000	4,000

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

Reconciliation of liabilities attributable to financing
Group and Parent Company

SEK m	Closing balance 2016	Cash flow	Closing balance 2017
Bank loans	2,950	-1,750	1,200
Bond loans	2,800	900	3,700
Commercial paper	900	400	1,300
Total	6,650	-450	6,200

Maturity, loan terms and annual equivalent rate of interest 31-12-2017
Group and Parent Company

Year due	AER, % ¹⁾	Nominal amount, SEK m		
		Bank loans ²⁾	Bonds ³⁾	Commercial paper ⁴⁾
2018	1.7	200	1,000	–
2019	3.4	–	500	–
2020	0.7	500	–	–
2021	0.9	500	1,000	300
2022	1.5	–	1,200	–
2023	–	–	–	–
2024	0.1	–	–	1,000
Total		1,200	3,700	1,300

1) All loans are denominated in SEK.

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

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

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

Interest swaps 31-12-2017
Group and Parent Company

Year due	AER		Nominal amount, SEK m	Fair value, SEK m
	Fixed interest, %	Variable interest % ¹⁾		
2018	1.7	-0.6	1,300	16.5
2019	1.9	-0.6	450	13.8
Total			1,750	30.3

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

Presentation of the Finance Policy, risks and interest exposure, see Note 2.

Note 26. Deferred tax liability

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Investment properties	7,823.3	7,102.4	929.1	924.8
Interest derivatives	-6.7	-20.2	-6.7	-20.2
Untaxed reserves	126.8	161.2	–	–
Pension provision	-3.5	-3.2	-3.5	-3.2
Total	7,939.9	7,240.2	918.9	901.4

As at the year-end, there were no deficit deductions (1.1 million).

Change in deferred tax

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
GROUP			
2017			
Investment properties	7,102.4	720.9	7,823.3
Interest derivatives	-20.2	13.5	-6.7
Untaxed reserves	161.2	-34.4	126.8
Pension provision	-3.2	-0.3	-3.5
	7,240.2	699.7	7,939.9
2016			
Investment properties	6,065.6	1,036.8	7,102.4
Interest derivatives	-30.2	10.0	-20.2
Untaxed reserves	196.6	-35.4	161.2
Pension provision	-2.8	-0.4	-3.2
	6,229.2	1,011.0	7,240.2

Note 26 continued on page 85.

Continuation, Note 26.

SEK m	Balance as at January 1	Reported within profit or loss	Balance as at December 31
PARENT COMPANY			
2017			
Investment properties	924.8	4.3	929.1
Interest derivatives	-20.2	13.5	-6.7
Pension provision	-3.2	-0.3	-3.5
	901.4	17.5	918.9
2016			
Investment properties	921.1	3.7	924.8
Interest derivatives	-30.2	10.0	-20.2
Pension provision	-2.8	-0.4	-3.2
	888.1	13.3	901.4

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, Vice President and former executives of the Company.

Note 28. Other liabilities

SEK m	Group		Parent Company	
	2017	2016	2017	2016
VAT settlement	25.2	42.7	35.6	63.4
Current derivatives	16.6	24.8	16.6	24.8
Other	90.2	90.2	7.9	5.5
Total	132.0	157.7	60.1	93.7

Note 29. Untaxed reserves

SEK m	Parent Company	
	2017	2016
Accumulated depreciation in excess of plan		
Opening balance	99.0	105.6
Depreciation for the year	1.2	-6.6
Closing balance	100.2	99.0
Tax allocation reserves	416.0	566.0
Total	416.0	566.0
Total untaxed reserves	516.2	665.0

Note 30. Accrued expenses and prepaid income

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Accrued interest expense	47.6	42.0	47.6	42.0
Advance rent payments	289.2	286.3	185.7	169.1
Other accrued expenses	55.9	61.3	23.9	49.3
Total	392.7	389.6	257.2	260.4

Note 31. Pledged assets and contingent liabilities

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Property mortgages for liabilities at credit institutions	605.4	1,500.4	605.4	1,500.4
(of which mortgages on subsidiaries' properties)			(156.0)	(704.5)
Other non-current receivables	12.9	11.8	12.9	11.8
Total	618.3	1,512.2	618.3	1,512.2

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

Note 32. Affiliations

Hufvudstaden AB is under the controlling influence of L E Lundbergföretagen AB and Fredrik Lundberg. No material transactions have taken place with L E Lundbergföretagen AB. Fredrik Lundberg's director's fee for 2017 was SEK 450,000. Details of payments to Board members and executives can be found in Note 8.

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

Note 33. Events after the year-end

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

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SVEAVÄGEN/KUNGSGATAN

Stockholm

PROPOSED ALLOCATION OF UNAPPROPRIATED EARNINGS

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

A statement explaining the proposed distribution of earnings is available on the Company's website, www.hufvudstaden.se, or can be obtained free of charge from the Company on request.

Retained earnings	SEK	1,084,013,346
Profit for the year	SEK	615,291,428
	SEK	1,699,304,774
Dividend to the shareholders,		
SEK 3.50 per share	SEK	721,930,766 ¹⁾
To be carried forward	SEK	977,374,008
	SEK	1,699,304,774

1) See Definitions, page 103, Dividend.

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

Stockholm, February 15, 2018



Fredrik Lundberg
Chairman



Claes Boustedt
Board Member



Peter Egardt
Board Member



Liv Forhaug
Board Member



Louise Lindh
Board Member



Fredrik Persson
Board Member



Sten Peterson
Board Member



Anna-Greta Sjöberg
Board Member



Ivo/Stopner
*President
Board Member*

Our audit report was submitted on February 16, 2018

KPMG AB



Joakim Thilstedt
Authorized Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Hufvudstaden AB (publ.), corp. id 556012-8240

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hufvudstaden AB (publ.) for the year 2017, except for the sustainability report on pages 8–10 and 28–38. The annual accounts and consolidated accounts of the company are included on pages 8–10, 28–38 and 54–88 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly,

in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the sustainability report on pages 8–10 and 28–38.

A corporate governance statement has

been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of directors in accordance with the Audit Regulation (537/2014) Article 11.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of investment properties

See administration report on pages 58–61, note 12, note 17 and accounting principles on pages 72–74 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

Investment properties are accounted for at fair value in the consolidated accounts. The carrying value amounts to SEK 39.730 million as of 31 December 2017, which represents 99 % of the Group's total assets and is based on internal valuations of each of the Group's properties. These valuations are based on assumptions such as investment yield, future occupancy rates and expected rentals. To assure the valuations management has additionally obtained property valuations carried out by independent external experts for a subset of the properties.

With regards to the valuation of investments in existing properties, it is also necessary to consider the group's processes for project management, in particular the monitoring of construction costs and any economic obligations in relation to these projects.

There is a risk that the underlying assumptions used to determine the carrying value of investment properties are proven

to have been inappropriate and may need to be adjusted, which would directly affect the reported results for the period.

Response in the audit

We have assessed the internal valuation process and have selected samples for recalculating the completed property valuations.

Assumptions about investment yield, rentals and vacancies have been evaluated against external data in terms of transactions involving similar properties, rent levels in newly subscribed rental agreements regarding the Group's properties and long term vacancies according to external valuation reports.

We have assessed whether the applied internal valuation methods seem reasonable by comparing them to methods that are, from our experience, used by other property companies and valuation experts. Additionally, we have made comparisons to the property valuations carried out by independent external experts, which the Group has obtained for a subset of its properties.

With regards to investments in existing properties, we have for a sample of projects had review meetings with the relevant project managers within the Group. We have evaluated the Group's internal controls for property development projects through procedures such as selecting samples for testing authorizations of investment calculations, contracting property development and maintenance work and current expenses. Moreover, we have taken part of prepared forecasts and analysis of potential deviations from original investment calculation in order to evaluate the accuracy of the forecasts in relation to our previous experience of projects that have already been completed.

Furthermore, we have considered the completeness of the underlying data and circumstances that are disclosed in the notes to the Annual Report and evaluated whether the information provided is sufficient to understand management's judgement and the used key assumptions.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–7, 11–27, 39–53 and 92–106. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annu-

al Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hufvudstaden AB (publ.) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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 Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations,

size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the ac-

counts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors and the Managing Director is responsible for the sustainability report on pages 8–10 and 28–38, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Hufvudstaden AB (publ.) by the general meeting of the shareholders on the 23 March 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1999.

Stockholm February 16, 2018

KPMG AB


Joakim Thilstedt
Authorized Public Accountant

BOARD OF DIRECTORS AND AUDITORS

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

The President is also a member of the Board of Directors. Other senior executives in the Company take part in Board meetings to present specific points. During 2017, the Board of Directors held seven meetings, of which one was a stat-

utory meeting. The work of the Board of Directors complies with the rules of procedure adopted by the Board governing the undertakings of the Board and the President and the allocation of duties between the Board and the President.



Fredrik Lundberg

Born 1951. MSc, MBA, Honorary PhD in Economics, Honorary PhD in Engineering. Chairman, Board member since 1998. President and CEO of LE Lundbergföretagen AB. Chairman of Holmen AB, AB Industrivärden and Industrade AB. Deputy Chairman of Svenska Handelsbanken AB. Member of the board of LE Lundbergföretagen AB and Skanska AB. Holding in Hufvudstaden: 1,880,412 shares. (directly and through related parties).¹⁾



Claes Boustedt

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



Peter Egardt

Born 1949. BA. Board member since 2003. 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 positions include Governor of the County of Uppsala, and President of the Stockholm Chamber of Commerce and the Association of Swedish Chambers of Commerce. Holding in Hufvudstaden: 18,000 shares.

¹⁾ LE Lundbergföretagen AB also holds 93,377,680 shares in Hufvudstaden. Fredrik Lundberg and related parties control approximately 71 per cent of the votes in LE Lundbergföretagen AB, and Louise Lindh and related parties control approximately 11 per cent of the votes.



Liv Forhaug

Born 1970. MBA.

Board member since 2016.

*Chief Strategy Officer of ICA Gruppen AB.
Member of the board of HUI Research AB,
Skutvik Invest AB, Thule Group AB, and the
ICA Group subsidiaries Apotek Hjärtat AB,
Hemtex AB and ICA Sverige AB.*

*Previous positions include partner in
McKinsey & Company.*

Holding in Hufvudstaden: 1,800 shares.



Louise Lindh

Born 1979. MBA.

Board member since 2007.

*President of Fastighets AB LE Lundberg.
Chair of J2L Holding AB.*

*Member of the board of
Fastighets AB LE Lundberg, Holmen AB
and LE Lundbergföretagen AB.*

Holding in Hufvudstaden: 29,166 shares.¹⁾



Fredrik Persson

Born 1968. MBA.

Board member since 2016.

*Chairman of ICC Sverige, JM AB, and the
Confederation of Swedish Enterprise.
Member of the board of AB Electrolux, Ahlström
Capital Oy, and Beijerinvest AB.*

*Member of the Nasdaq Stockholm AB
Company Committee.*

*Previous positions include President and
CEO of Axel Johnson AB.*

Holding in Hufvudstaden: 2,500 shares.



Sten Peterson

Born 1956. MSc.

Board member since 2006.

President of Byggnads AB Karlsson & Wingsjö.

*Member of the board of
Byggnads AB Karlsson & Wingsjö,
Fastighets AB LE Lundberg, J2L Holding AB
and LE Lundbergföretagen AB.*

Holding in Hufvudstaden: 2,000 shares.



Anna-Greta Sjöberg

Born 1967. MA, MBA.

Board member since 2006.

President of Crispa AB.

*Member of the Board of Marginalen Bank
Bankaktiebolag and Tryggstiftelsen.*

*Previous positions include Managing Director
of the Royal Bank of Scotland, Nordic Branch.*

Holding in Hufvudstaden: 3,000 shares.



Ivo Stopner

Born 1962. MSc.

President and Board member since 1999.

No other material assignments outside the Group.

*Holding in Hufvudstaden: 3,000 shares
(own and through related parties),
100,000 call options and 35,290 shares within
the framework of endowment insurance taken
out in respect of an assured direct pension.*

Auditors

KPMG AB with Joakim Thilstedt born 1967, Authorized Public Accountant, as lead auditor.

Secretary

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

SENIOR EXECUTIVES¹⁾**Ivo Stopner***Born 1962. MSc.**President. Employed 1990.**Holding in Hufvudstaden: 3,000 shares (own and through related parties), 100,000 call options and 35,290 shares within the framework of endowment insurance taken out in respect of an assured direct pension.**Ivo Stopner, including his family, has no material shareholding or partnership in companies with which the Company has significant business relations.***John Lethenström***Born 1972. MSc. Head of Property Development. Employed 2017.**Holdings in Hufvudstaden: –.***Christine Lindgren***Born 1969. BA. Head of Human Resources. Employed 2017.**Holding in Hufvudstaden: –.***Anders Nygren***Born 1970. MSc. Head of the Stockholm Business Area. Employed 2006.**Holding in Hufvudstaden: 10,000 call options.***Fredrik Ottosson***Born 1972. MSc. Head of the Gothenburg Business Area.**Employed 2016.**Holding in Hufvudstaden: –.***Åsa Roslund***Born 1966. MBA. CFO. Employed 2005.**Holding in Hufvudstaden: –.***Bo Wikare***Born 1963. MSc. Vice President. Head of Business Development and acting Head of the NK Business Area. Employed 1994.**Holding in Hufvudstaden: 62 shares and 40,000 call options.*

1) Mattias Nygårds was head of the NK Business Area and a member of the Executive Management up until October 2017.





NORRLANDSGATAN
Stockholm

MULTI-YEAR REVIEW – GROUP

	2017	2016	2015	2014	2013
Income Statements, SEK m					
Net revenue					
Property management	1,751	1,703	1,611	1,596	1,573
Parking operations	90	87	78	69	68
	1,841	1,790	1,689	1,665	1,640
Operating expenses					
Maintenance, operation and administration	-299	-291	-291	-280	-270
Ground rents	-23	-22	-22	-17	-16
Property tax	-167	-165	-154	-154	-152
Property management	-489	-478	-467	-451	-438
Parking operations	-51	-50	-50	-50	-50
	-540	-528	-517	-502	-488
Gross profit	1,301	1,262	1,172	1,164	1,153
– of which Property management	1,262	1,226	1,144	1,145	1,135
– of which Parking operations	39	37	28	19	18
Central administration	-41	-43	-39	-36	-36
Operating profit before changes in value and items affecting comparability	1,260	1,220	1,133	1,128	1,117
Items affecting comparability	-139	–	–	–	–
Changes in value, Investment properties	2,848	4,160	3,427	1,709	1,358
Changes in value, Interest derivatives	62	45	12	-186	60
Operating profit	4,031	5,425	4,572	2,650	2,534
Financial income and expense	-136	-141	-123	-130	-128
Profit before tax	3,895	5,284	4,449	2,520	2,407
Tax	-860	-1,164	-979	-519	-531
Profit for the year	3,035	4,120	3,470	2,001	1,876
Balance Sheets, SEK m					
Assets					
Properties	39,730	36,517	31,741	27,817	25,869
Other non-current assets	20	19	18	15	49
Current assets	545	1,173	564	583	558
Total assets	40,295	37,709	32,323	28,415	26,476
Equity and liabilities					
Equity	25,402	23,047	19,567	16,695	15,261
Interest-bearing liabilities	6,200	6,650	5,750	5,650	5,750
Other liabilities and allocations	8,693	8,011	7,006	6,070	5,465
Total equity and liabilities	40,295	37,709	32,323	28,415	26,476
Property holdings					
Fair value, SEK bn	39.7	36.5	31.7	27.8	25.9
Tax assessment value, SEK bn	16.8	16.8	15.5	15.5	15.8
Rentable floor space, 1,000 sq m	385	389	387	387	387
Rental vacancy level (EPRA Vacancy Rate), %	3.9	3.9	4.5	5.6	4.0
Floor space vacancy level, %	5.5	5.3	6.1	7.2	5.7
Investments in properties, SEK m	584	617	497	240	1,454
Net operating income, SEK per sq m ¹⁾	3,279	3,151	2,955	2,958	2,956
Financial key ratios³⁾					
Gross margin, %	71	71	69	70	70
Return on equity, %	12.5	19.3	19.1	12.5	12.9
Return on capital employed, %	13.2	19.7	19.2	12.2	12.8
Equity ratio, %	63	61	61	59	58
Interest coverage ratio, multiple	9.3	8.6	9.1	8.5	8.3
Debt/equity ratio, multiple	0.2	0.2	0.3	0.3	0.3
Net loan-to-value ratio, properties, %	14.6	15.2	16.7	18.6	20.3
Cash flow from current operations, SEK m	999	1,029	968	881	951
Cash flow for the year, SEK m	-719	671	-31	-30	7
Average number of employees in the Group	118	113	105	100	96
Share data (no dilution effect)³⁾					
Profit for the year, SEK	14.71	19.98	16.82	9.70	9.10
Dividend, SEK	3.50 ²⁾	3.30	3.10	2.90	2.75
Dividend proportion, %	82 ²⁾	81	81	77	74
Equity, SEK	123.15	111.74	94.86	80.94	73.99
Fair value of properties, SEK	192.62	177.04	153.92	134.86	125.42
Cash flow from current operations, SEK	4.84	4.99	4.69	4.27	4.61
Cash flow for the year, SEK	-3.49	3.25	-0.15	-0.15	0.03
Non-current net asset value (EPRA NAV), SEK	161	146.00	125.00	107.00	97.00
Net asset value (EPRA NNAV), SEK	152	138.00	118.00	100.00	92.00
Share price, series A, at the year-end, SEK	131.40	143.90	119.90	101.60	86.15
P/E ratio, multiple	8.9	7.2	7.1	10.5	9.5
Share price series A/equity, %	106.7	128.8	126.4	125.5	116.4
Yield, %	2.7 ²⁾	2.3	2.6	2.9	3.2
Number of outstanding shares at the year-end	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Average number of outstanding shares during the year	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Total number of issued shares at the year-end	211,271,933	211,271,933	211,271,933	211,271,933	211,271,933

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

2) In accordance with a proposal by the Board.

3) Hufvudstaden presents certain financial metrics not defined according to IFRS, what are termed alternative performance measures. The purpose of these measures is to describe the Company's development and improve comparability between periods. The key figures that are classified as alternative performance measures are defined on page 103 and the derivations can be found on our website.

For Definitions, see page 103.

BUSINESS AREAS IN FIGURES

Property holdings (comparable holdings)	Stockholm Business Area ¹⁾				NK Business Area				Gothenburg Business Area				Property management, total			
	2017		2016		2017		2016		2017		2016		2017		2016	
	SEK/		SEK/		SEK/		SEK/		SEK/		SEK/		SEK/		SEK/	
	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m	sq m
Gross rent, including charge for consumables	989.7	4,858	966.0	4,646	504.5	5,465	495.1	5,362	338.7	3,822	315.4	3,555	1,832.9	4,765	1,776.5	4,567
(of which property tax supplement)	(91.5)	(449)	(92.8)	(446)	(33.4)	(362)	(34.2)	(370)	(25.3)	(285)	(25.3)	(285)	(150.2)	(390)	(152.3)	(392)
Rent losses on vacant space	-37.6	-184	-33.3	-160	-16.4	-178	-10.4	-113	-27.9	-315	-29.2	-329	-81.9	-213	-72.9	-187
Bad debt losses	-0.2	-1	0.4	2	-0.6	-6	0.1	1	0.4	5	-0.8	-9	-0.4	-1	-0.3	-1
Net sales	951.9	4,673	933.1	4,488	487.5	5,281	484.8	5,250	311.2	3,512	285.4	3,217	1,750.6	4,551	1,703.3	4,379
Maintenance	-21.3	-105	-18.5	-89	-3.7	-40	-7.0	-76	-4.8	-54	-3.5	-40	-29.8	-77	-29.0	-75
Operations	-63.3	-311	-62.5	-301	-82.2	-890	-83.5	-904	-37.5	-423	-37.1	-418	-183.0	-476	-183.1	-470
Administration	-42.8	-210	-42.6	-205	-24.3	-263	-20.0	-217	-19.3	-218	-16.6	-187	-86.4	-225	-79.2	-204
Ground rent	-13.0	-64	-13.0	-63	-9.6	-104	-8.8	-95	-	-	-	-	-22.6	-59	-21.8	-56
Property tax	-96.7	-475	-96.0	-462	-40.2	-435	-40.2	-435	-30.4	-343	-28.4	-320	-167.3	-435	-164.6	-423
Total property expenses	-237.1	-1,165	-232.6	-1,120	-160.0	-1,732	-159.5	-1,727	-92.0	-1,038	-85.6	-965	-489.1	-1,272	-477.7	-1,228
Gross operating profit	714.8	3,508	700.5	3,368	327.5	3,549	325.3	3,523	219.2	2,474	199.8	2,252	1,261.5	3,279	1,225.6	3,151

Property data	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Property management, total	
	2017	2016	2017	2016	2017	2016	2017	2016
December 31								
Number of properties	22	22	3	3	4	4	29	29
Floor space, sq m	203,721 ²⁾	207,914	92,319	92,336	88,620	88,707	384,660	388,957
Rental vacancy level, %	3.1 ²⁾	3.6	3.0	2.3	7.7	7.6	3.9	3.9
Floor space vacancy level, %	4.3 ²⁾	5.0	4.2	2.7	9.5	8.6	5.5	5.3
Total rentable parking spaces	631 ²⁾	661	800	800	51	51	1,482	1,512

Rentable space and annual rent	Stockholm Business Area ²⁾		NK 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, 2017								
Offices	129,939	650.1	16,765	77.5	50,683	129.4	197,387	857.0
Stores and restaurants	42,248	285.3	37,526	352.6	31,008	177.6	110,782	815.5
Storage and miscellaneous	12,203	20.4	13,546	27.5	4,875	10.3	30,624	58.2
Parking	18,836	21.7	24,482	26.7	1,275	1.8	44,593	50.2
Residential	495	0.5	-	-	779	0.8	1,274	1.3
Total	203,721	978.0	92,319	484.3	88,620	319.9	384,660	1,782.2

Floor space vacancy level and rental vacancy level	Stockholm Business Area ²⁾		NK 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, 2017								
Offices	3,525	18.6	507	1.2	2,568	5.6	6,600	25.4
Stores and restaurants	995	7.2	2,476	11.2	4,662	16.8	8,133	35.2
Storage and miscellaneous	3,372	3.9	939	1.9	1,115	1.9	5,426	7.7
Parking	872	1.0	-	-	75	0.4	947	1.4
Residential	-	-	-	-	-	-	-	-
Total	8,764	30.7	3,922	14.3	8,420	24.7	21,106	69.7

1) No adjustment in respect of Vildmannen 7.

2) Vildmannen 7 is not included due to a fire in which much of the building was destroyed.

Lease term structure ^{1) 2) 3)} December 31, 2017							
Number of leases	2018	2019	2020	2021	2022	2023–	Total
Stockholm Business Area							
Offices	38	51	45	46	33	31	244
Stores	15	26	25	15	6	17	104
Other	322	165	102	68	20	43	720
Total	375	242	172	129	59	91	1,068
Proportion, %	35.1	22.7	16.1	12.1	5.5	8.5	100.0
NK Business Area							
Offices	21	3	1	–	1	3	29
Stores	92	25	37	5	–	1	160
Other	75	35	34	9	6	4	163
Total	188	63	72	14	7	8	352
Proportion, %	53.4	17.9	20.4	4.0	2.0	2.3	100.0
Gothenburg Business Area							
Offices	29	15	6	8	2	7	67
Stores	20	20	13	21	6	4	84
Other	34	32	36	17	4	9	132
Total	83	67	55	46	12	20	283
Proportion, %	29.3	23.7	19.4	16.3	4.2	7.1	100.0
Hufvudstaden, total							
Offices	88	69	52	54	36	41	340
Stores	127	71	75	41	12	22	348
Other	431	232	172	94	30	56	1,015
Total	646	372	299	189	78	119	1,703
Proportion, %	37.9	21.8	17.6	11.1	4.6	7.0	100.0
Annual rent, SEK M							
Stockholm Business Area	2018	2019	2020	2021	2022	2023–	Total
Offices	75.3	87.1	105.2	136.0	100.7	179.0	683.3
Stores	25.8	37.3	40.5	38.8	18.6	87.0	248.0
Other	16.3	15.3	8.6	11.9	5.7	16.5	74.3
Total	117.4	139.7	154.3	186.7	125.0	282.5	1,005.6
Proportion, %	11.7	13.9	15.3	18.6	12.4	28.1	100.0
NK Business Area							
Offices	11.9	6.0	7.8	–	15.0	27.4	68.1
Stores	189.4	36.5	90.5	8.6	–	3.9	328.9
Other	9.1	6.4	4.7	8.8	5.1	4.6	38.7
Total	210.4	48.9	103.0	17.4	20.1	35.9	435.7
Proportion, %	48.3	11.2	23.6	4.0	4.6	8.3	100.0
Gothenburg Business Area							
Offices	47.6	13.6	7.4	20.4	12.0	33.0	134.0
Stores	19.2	34.5	25.5	41.9	19.8	15.6	156.5
Other	4.9	1.7	5.7	6.3	1.0	4.8	24.4
Total	71.7	49.8	38.6	68.6	32.8	53.4	314.9
Proportion, %	22.8	15.8	12.3	21.8	10.4	16.9	100.0
Hufvudstaden, total							
Offices	134.8	106.7	120.4	156.4	127.7	239.4	885.4
Stores	234.4	108.3	156.5	89.3	38.4	106.5	733.4
Other	30.3	23.4	19.0	27.0	11.8	25.9	137.4
Total	399.5	238.4	295.9	272.7	177.9	371.8	1,756.2
Proportion, %	22.7	13.6	16.9	15.5	10.1	21.2	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 assesment 2017, SEK m
Stockholm Business Area					
<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	348.0
Järnplåten 28	Sveavägen 24–26, Oxtorgsgatan 18–20, Kungsgatan 39	1,085	1928/54	1958/95	400.0
Kåkenhusen 40	Brunnsgatan 1–9, Norrlandsgatan 29–33, Kungsgatan 4–10	4,934	1921/2011	1926/28/30/32/ 84/85/89/91	1,074.0
Oxhuvudet 18 ¹⁾	Kungsgatan 32–38, Sveavägen 28–30, Apelbergsgatan 27–33, Malmskillnadsgatan 39	4,509	1926	1931/85/89/91	1,286.0
<i>Total</i>		11,830			3,108.0
<i>Norrmalmstorg Management Area</i>					
Kvasten 2	Norrlandsgatan 16, Jakobsbergsgatan 11	934	1966	1987	212.0
Kvasten 6 ¹⁾	Biblioteksgatan 5, Mäster Samuelsgatan 6–8	2,075	1915	1917/90	387.0
Kvasten 9	Biblioteksgatan 7, Jakobsbergsgatan 5–9	822	1955	1978/95	213.0
Norrmalm 2:63 ²⁾	Norrmalmstorg		1992	1993	14.0
Packarhuset 4 ^{1) 3)}	Norrmalmstorg 1, Hamngatan 8, Norrlandsgatan 2, Smålandsgatan 11	2,195	2000	1932/2003	1,008.0
Pumpstocken 10 ¹⁾	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	786.3
Rännilen 8	Birger Jarlsgatan 11, Mäster Samuelsgatan 1	645	1917	1900/90	174.0
Rännilen 11	Biblioteksgatan 8, Mäster Samuelsgatan 5	775	1958	1902/85	173.0
Rännilen 18 ¹⁾	Birger Jarlsgatan 7–9, Smålandsgatan 8–10	1,677	1963	1888/1986/2009	425.0
Rännilen 19	Norrmalmstorg 12–14, Biblioteksgatan 2–4, Mäster Samuelsgatan 3	2,169	1931/39/ 2007	1902/42/64/90/2002	651.0
Skären 9	Smålandsgatan 18–20, Norrlandsgatan 8–10	2,195	1917	1984/2001	603.0
Vildmannen 7 ^{1) 4)}	Biblioteksgatan 9, Jakobsbergsgatan 6	1,290	1918	1897/1996	208.6
<i>Total</i>		17,663			4,854.9
<i>Management Area, West</i>					
Achilles 1 ⁵⁾	Slussplan 5–9, Skeppsbron 48, Södra Dryckesgränd 1, Järntorgsgatan 7	1,046	1979	17th Century/1974	146.0
Grönlandet Södra 11	Drottninggatan 92–94, Wallingatan 5, Adolf Fredriks Kyrkogata 12	1,662	1923	1911/91	270.0
Kungliga Trädgården 5	Västra Trädgårdsgatan 8	673	1984	1984/95	127.0
Medusa 1 ^{1) 6)}	Kornhamnstorg 61, Slussplan 1–3, Järntorgsgatan 6	547	1980	1878/1991	75.4
Orgelpipan 7 ⁷⁾	Klarabergsgatan 56–64, Vasagatan 24–26, Mäster Samuelsgatan 65–73, Klara Norra Kyrkogata 3–5	6,294	1979	1964/2001	916.0
Svärdfisken 2 ¹⁾	Drottninggatan 82, Apelbergsgatan 50–52, Olof Palmes gata 13	1,853	1921	1851/1987	209.0
<i>Total</i>		12,075			1,743.4
Total, Stockholm Business Area		41,568			9,706.3
NK Business Area					
<i>NK Management Area, Stockholm</i>					
Hästen 19 ^{1) 9)} and 20 ^{8) 9)} , Spektern 14 ^{8) 9)}	Hamngatan 18–20, Regeringsgatan 36–40	8,875	1998	1915/91	2,775.0
<i>NK Management Area, Gothenburg</i>					
Inom Vallgraven 10:9 ⁹⁾	Östra Hamngatan 42, Kyrkogatan 48–54, Fredsgatan 5–7, Drottninggatan 39–45	4,520	1998	1964/94	691.0
<i>Parkaden Management Area</i>					
Hästskon 10 ¹⁰⁾	Regeringsgatan 47–55, Mäster Samuelsgatan 29–33	4,921	1977	1964/95	550.5
Total, NK Business Area		18,316			4,016.5
Gothenburg Business Area					
<i>Gothenburg Management Area</i>					
Inom Vallgraven 3:2 ¹¹⁾	Stora Nygatan 17, Lilla Drottninggatan 3	784	2016	1856	24.8
Inom Vallgraven 12:10	Södra Hamngatan 49–57, Östra Larmgatan 1, Drottninggatan 54–60	4,157	1967	1975	276.0
Inom Vallgraven 12:11	Drottninggatan 50–52, Södra Hamngatan 45–47, Fredsgatan 2–4	2,127	1967/ 2010/11	1875/1929/30	170.0
Nordstaden 8:24	Postgatan 26–32 och 39–43, Nordstadstorget 2–8, Spannmålgatan 19, Nils Ericssonsgatan 17, Götgatan 9–11, Köpmansgatan 28–34, Östra Hamngatan 26–28	12,678	1979/2013	1972/2005/11	2,323.0
Nordstaden GA:5 ¹²⁾	Nordstadstorget and others				276.7
Total, Gothenburg Business Area		19,746			3,070.5
TOTAL		79,630			16,793.3

Rentable space, sq m								
Offices	Stores	Restaurants	Cinemas	Storage	Parking	Residential	Other	Total
4,986	1,881			239				7,106
6,433	1,809			1,028				9,270
17,093	2,925	1,676		1,103				22,797
20,787	5,078			2,027	1,612		5	29,509
49,299	11,693	1,676		4,397	1,612		5	68,682
2,840	825			281	726			4,672
2,808	1,151	2,944		137				7,040
2,458	593	144		242				3,437
		194						194
10,871	3,313	704		438				15,326
7,795	3,848	499		75		192	1	12,410
1,996	750			28				2,774
1,630	840	546		2				3,018
5,199	1,337	84		291				6,911
7,843	2,105			507	836			11,291
7,861	1,643			399	1,105			11,008
51,301	16,405	5,115		2,400	2,667	192	1	78,081
4,014	351			610				4,975
7,596	379	263		872				9,110
2,756				8				2,764
1,283	242	271		104		303		2,203
9,961	3,709	1,969		1,350	13,450		1	30,440
3,729	175		1,893	562	1,107			7,466
29,339	4,856	2,503	1,893	3,506	14,557	303	1	56,958
129,939	32,954	9,294	1,893	10,303	18,836	495	7	203,721
11,591	21,955	2,259		3,535			17	39,357
5,174	9,913	247		1,309			4	16,647
	2,637	515		8,680	24,482		1	36,315
16,765	34,505	3,021		13,524	24,482		22	92,319
1,230	262			72				1,564
10,438	3,262	381		1,107	1,275			16,463
1,823	1,709			343		779		4,654
37,192	23,629	1,765		3,312			41	65,939
50,683	28,862	2,146		4,834	1,275	779	41	88,620
197,387	96,321	14,461	1,893	28,661	44,593	1,274	70	384,660

- 1) The property is classified as being of cultural and historical importance.
- 2) The property is a held on a lease.
- 3) Owned by the subsidiary Fastighetsaktiebolaget Stockholms City.
- 4) The property was struck by a fire on November 7, 2017 and much of the building was destroyed.
- 5) The property is classified as a listed building.
- 6) Owned by the subsidiary Fastighetsaktiebolaget Medusa.
- 7) Orgelpipan 7 is a leasehold property. The ground rent is SEK 12.8 million, fixed until October 31, 2024. The tax assessment value of the land is included to the amount of SEK 396.0 million.
- 8) Hästen 20 and Spektern 14 are leasehold properties. The ground rent for Hästen 20 is SEK 3.3 million, fixed until April 30, 2022. The ground rent for Spektern 14 is SEK 1.5 million, fixed until September 30, 2025. The tax assessment value of the land is included to the amount of SEK 57.0 million.
- 9) Owned by the subsidiary AB Nordiska Kompaniet.
- 10) Owned by the subsidiary AB Hamnsgatgaraget. Hästskon 10 is a leasehold property and the ground rent is SEK 4.4 million, fixed until August 31, 2024. The tax assessment value of the land is included to the amount of SEK 259.6 million. A review of the tax assessments for 2013 and 2016 has been requested.
- 11) Owned by the subsidiary Gbg Inom Vallgraven 3-2 AB.
- 12) The property is jointly owned and includes parking operations, certain leasing of premises, as well as servicing and maintenance of pedestrian precincts, loading areas, cooling systems and emergency power supplies. The tax assessment value refers to Hufvudstaden's share of 39.4 per cent, equivalent to approximately 31,000 square metres.

For maps and photographs, see pages 18–19 and 22.



KUNGSGATAN

Stockholm

DEFINITIONS AND GLOSSARY

Hufvudstaden applies the European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures. Certain performance metrics below are defined as alternative performance measures, i.e. a financial metric that is not defined according to IFRS and which is used to describe the Company's development and to improve comparability between periods. As not all companies calculate financial performance metrics in the same way, these are not always comparable with metrics used by other companies. Derivations of alternative performance measures are presented at www.hufvudstaden.se under Financial Information/Multi-year overview.

Finance

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

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

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

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

EPRA. European Public Real Estate Association. Interest organization for listed property companies in Europe.

EPRA NAV. Non-current net asset value. Shareholders' equity plus reversal of interest derivatives and deferred tax. For derivation see page 60.

EPRA NNNNAV. Current net asset value. Shareholders' equity following adjustment for actual deferred tax instead of nominal deferred tax. For derivation see page 60.

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

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

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

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

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

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

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.

Surplus ratio. Gross profit in relation to net revenue.

Tax. The Group's total tax comprises current tax and deferred tax.

Shares

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

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

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

Dividend proportion. Dividend in relation to net profit from current operations.

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

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

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

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

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

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

Properties

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

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

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

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.

Fair value. The estimated market value of the properties.

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

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

Fredstan. The area around Fredsgatan, between Brunnsparken and Trädgårdsföreningen, with the vision of offering a unique range of stores, cultural attractions and restaurants.

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

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

Property tax supplement. Reimbursement of property tax by tenants.

Renegotiated leases. New or extended leases with existing tenants whose earlier leases have come to an end.

Rentable floor space. Total floor space available for renting.

Rental losses. Loss of revenue as a result of vacant premises.

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

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

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

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



BIBLIOTEKSTAN

Biblioteksgatan, Stockholm

ANNUAL MEETING

The Annual Meeting will take place at 3.30pm on Thursday, March 22, 2018 at the Grand Hôtel, Vinterträdgården, Stockholm. The entrance is on the corner of Stallgatan and Blasieholmsgatan. Notice to attend the Annual Meeting will be published on the *Post- och Inrikes Tidningar* website www.bolagsverket.se/poit and on the Company's website 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, 2018, 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, 2018.

- notify Hufvudstaden by Friday March 16, 2018, preferably before 4pm. Notification must be sent using the Company's website www.hufvudstaden.se, by e-mail at anm@hufvudstaden.se, by telephone on +46 8 762 90 00, or in writing to Hufvudstaden AB, NK 100, SE-111 77 Stockholm.

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

Company at the above address by March 16, 2018 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 3.50 per share, totaling SEK 721.9 million, be paid for 2017, with the record date set as March 26, 2018. Payment is expected to be made on March 29, 2018.

Change of address

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

CALENDAR

Interim Report, Jan – Mar 2018 May 3, 2018
Interim Report, Jan – Jun 2018 August 20, 2018
Interim Report Jan – Sept 2018 November 9, 2018
Year-End Report 2018 February 14, 2019
Annual Report 2018 March 2019

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This information is also published on www.hufvudstaden.se. The Annual Report is distributed to all new shareholders and to other shareholders on request.

ADDRESSES

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Group brands

normalmstorg1



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



NORDISKA KOMPANIET

Hamngatan, Stockholm



HUFVUDSTADEN