

Diös

18



DIÖS FASTIGHETER
ANNUAL REPORT 2018

WELCOME TO DIÖS

ONE OF SWEDEN'S LARGEST PROPERTY COMPANIES

Our strategy is urban development. Through strong relationships, a local presence and a responsible approach, we develop commercial and residential properties in our cities. That enables us to create Sweden's most attractive places and build long-term value for our tenants, our owners and ourselves.



SEK 21BN
PROPERTY VALUE



330
PROPERTIES



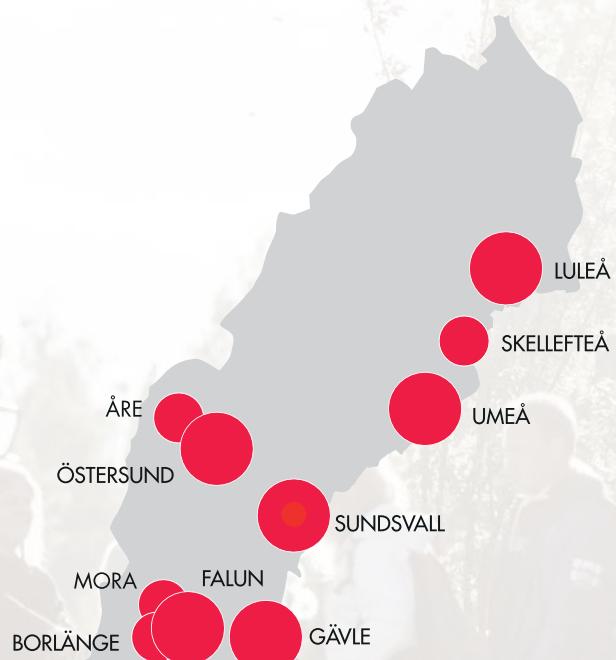
1,464 SQ.M
LEASABLE AREA



158
EMPLOYEES



98%
RENEWABLE ENERGY



➤ OUR VISION

TO BE THE MOST ACTIVE AND SOUGHT-AFTER LANDLORD IN OUR MARKET.

➤ INVEST IN DIÖS

- DIVERSIFIED PROPERTY PORTFOLIO
- ATTRACTIVE YIELD
- VALUE GROWTH THROUGH INCREASED CASH FLOW

OVERVIEW OF THE YEAR

➤ SEK 894 MILLION

property management income

➤ 5%

increase in revenue to SEK 1 810 m

➤ SEK 9.94

earnings per share

➤ 7%

increase in the value of the portfolio to SEK 20.8bn

➤ ALL

financial targets were achieved

➤ SEK 3.00

per share dividend proposed, evenly divided between two distributions



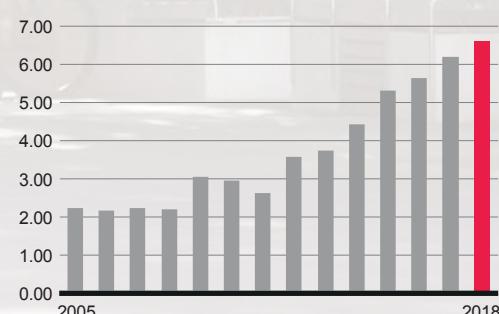
7%

GROWTH IN PROPERTY MANAGEMENT INCOME PER SHARE

➤ PROFIT FOR THE PERIOD, SEKM

	2018	2017
Income	1,810	1,719
Operating surplus	1,140	1,080
Property management income	894	822
Profit before tax	1,597	1,261
Profit after tax	1,341	1,029
Surplus ratio, %	64	64
Occupancy rate, %	91	91
Equity ratio, %	37.2	34.9
Property loan-to-value ratio, %	53.4	57.1
Equity per share, SEK	58.3	51.2
EPRA NAV per share, SEK	67.6	59.7

➤ PROPERTY MANAGEMENT INCOME, SEK PER SHARE



➤ ACTIVITIES IN 2018...

Q1

Winter-related costs have bigger impact on earnings than normal.

Development of untouched inner-city courtyard in Östersund for lease to several tenants.

Jenny Järverud takes over as new Business Area Manager for Gävle.

Our solar installation in Sundsvall goes live.

Executive management is expanded to include Mia Forsgren, Director of Communications.

Q2

Completion on two office properties in Skellefteå.

Sale of all properties in Ljusdal.

Jonas Silfver Wikstrand is appointed Head of Digitisation, a new role at Diös.

Q3

Another project developer is recruited to strengthen Diös' project organisation.

Two new roles are created and filled: Urban Development Strategist and Head of New Business.

Decision to obtain environmental certification for all properties over long term.

Diös acquires three centrally located properties in Östersund.

Diös signs 6,800 sq.m green lease with the County Administrative Board of Dalarna.

Four industrial and retail properties sold in Östersund.

An interest rate derivative expires, resulting in a further reduction in Diös' financing rate.

Johan Fryksborn takes over as new Business Area Manager for Åre/Östersund.

Sale of a retail property in Malung.

Diös acquires 6 properties and sells 14 in Gävle.

Q4

Maria Fjellström is recruited as new Business Area Manager for Diös' new Skellefteå business unit.

Diös signs letter of intent with the Transport Administration in Borlänge on tomorrow's office.

... AIMED AT CREATING SWEDEN'S MOST ATTRACTIVE CITIES.



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KEY RATIOS AND DEFINITIONS

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A complete list of properties is available at www.dios.se.



KNUT ROST, CEO

ACTIVITIES FOR GROWTH

This year's result is good! Profitable investments and a more clear-cut position will enable us to continue to grow in our cities. Our property management income was up by 9 per cent to SEK 894 million, mainly on increased revenue, improved efficiency and reduced interest expenses. All financial key ratios improved

GROWING CITIES

The strong momentum in the Swedish economy has carried through into 2019. Although we are probably passed peak growth, we still see a very high level of activity amid new business openings, new peak rents and continued population growth. Umeå stands out in terms of population growth, with an increase of 1.8 per cent for 2018. We are confident that the urbanisation trend will continue. More people will be living in cities in future in order to benefit from what the city has to offer. New technology is creating new behaviours, increasing the importance of location and the content of the site.

RISING RENTS

We see continued increases in rents in the central areas of our cities. Top office rents are now around SEK 2,500/sq.m. Investments in our existing portfolio, which increased by 34 per cent to SEK 677 million in 2018, are enabling our tenants to grow their businesses, which increases our net operating income and raises the value of our properties. It is inspiring and encouraging to see that we are able to drive growth that translates into higher cash flows as well as unrealised changes in value. Thanks to our market-leading position, we

have been able to continue to move the agenda forward, which will increase the attractiveness of our cities and push rents higher.

LEADERSHIP FOR A SUCCESSFUL ORGANISATION

We are proud to have achieved our target of a surplus ratio of 64 per cent in a year which saw costs increase due to a cold and snowy winter as well as an unusually warm summer. While new leasing activity has been very strong, a number of major leases were also terminated, which meant that net leasing for the year came in at SEK 10 million (55). Relationships will be a focus area, and this will become evident in an improvement in net leasing. I am confident that entrepreneurial leadership, where everyone knows how to act within the framework of our strategy for urban development, will continue to create value for our tenants and increase Diös' attractiveness as an employer.

AN ATTRACTIVE YIELD

We have continued to pursue our adopted strategy of being a cash flow-focused company in our low-risk market. This year as well, the yield on our shares is among the highest in the industry and among listed Swedish companies. The dividend proposed by the Board, SEK 3.00 per share, to be distributed in two payouts, equates to a yield of 5.3 per cent based on the share price at year-end.

EVEN LOWER FINANCING COSTS

Our biggest source of financing is the Nordic banks. Thanks to our strong cash flow and choice of financing structure, our financing rate is among the lowest in the industry, standing at 1.2 per cent at year-end. We expect interest rates to remain low for many years to come and are therefore opting for relatively short fixed-rate terms. Through profitable investments in our properties and repayment of debt, our loan-to-value ratio has been shrinking continually since 2009 and is now down to 53.4 per cent.

ACTIVITIES THAT CREATE SUSTAINABLE VALUE

A few examples of our activities in 2018 include our transactions in Gävle, where we now have a better and clearer position in the central area of town and where we have deliberately reduced the proportion of industrial properties. We have implemented a similar shift in all our cities. We opened our first solar cell facilities. We sold our properties in Ljusdal, which will enable us to further increase our focus on tenants in our selected cities. We also reduced our retail and industrial space by converting premises into offices and for use by public-sector tenants. With a stronger organisation and better properties in central locations, we are in a unique position to drive growth and development in a responsible and profitable way.

SWEDEN'S MOST INSPIRING CITIES

We want to develop our cities. The aim is to take a responsible approach and promote sustainable urban development. What we mean is that growth creates growth. We have therefore adopted a long-term target of 5 per cent annual growth in property management income per share. I am confident that we will become more profitable if we are able to enable growth for our tenants and the cities where we operate.

All our activities and investments should benefit current as well as future generations. With a clear focus on growth and by taking a responsible, long-term approach, we create value for our shareholders, tenants and cities. We are now taking leave of a strong 2018 and entering 2019 full of energy. With a focus on relationships and our strong knowledge of the market, and eager to see what the future holds, we will continue to pursue our mission of creating Sweden's most inspiring cities.

Knut Rost, CEO



► Knut Rost, CEO, at Centralpalatset in Östersund, Barberaren 7.

HOW WE CREATE VALUE

CORPORATE RESPONSIBILITY

ASSETS

WITHIN THE COMPANY



EMPLOYEES

158 employees
Local expertise
Specialist skills
Ambassadors



CAPITAL

Shareholder contributions
Bank loans
Capital market financing
Confidence



PROPERTY PORTFOLIO

330 properties
Commercial premises
Residential
Development rights



RELATIONSHIPS

Tenants
EMPLOYEES
Shareholders
Suppliers
Lenders
Analysts
Society



VALUE CREATION

BUSINESS MODEL



EXTERNAL FACTORS

TRENDS IN SOCIETY

See pages 12–13.

RENTAL MARKET AND INTEREST RATES

See pages 32–33.

TARGETS AND REQUIRED RETURN

See pages 10–11.



ECONOMIC VALUE ADDED

SEK 2,268M

VALUE

FOR OUR STAKEHOLDERS

URBAN DEVELOPMENT

- Sustainable growth
- Inspiring cities
- Attractive places
- More housing
- Increased accessibility
- Increased safety and security
- Increased flows

AN ATTRACTIVE YIELD

- 5.3% yield
- SEK 404m in dividends

A FOCUS ON CASH FLOW

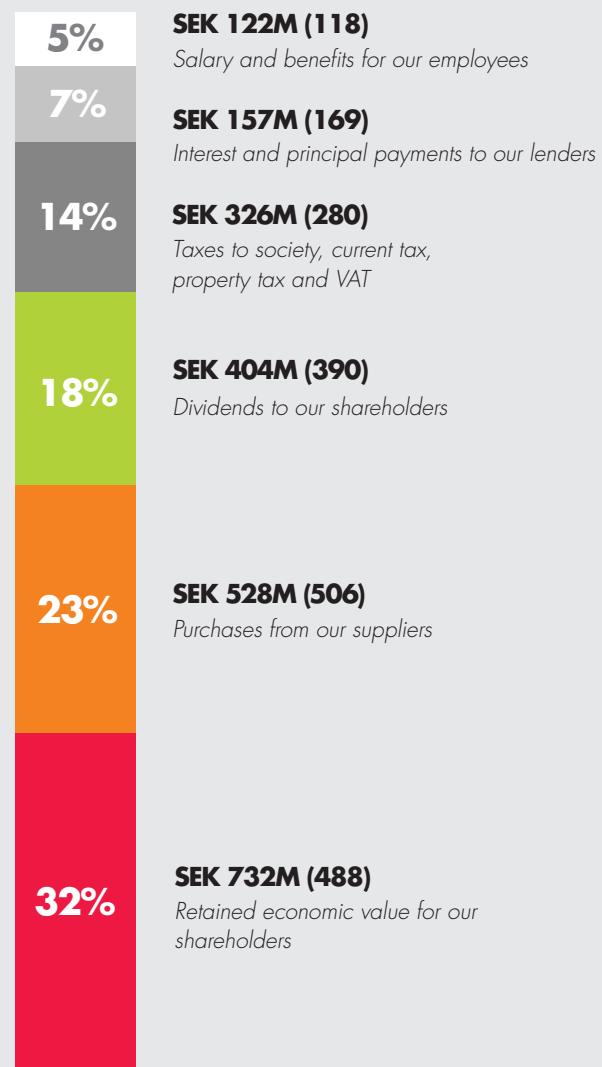
- SEK 800m in cash flow
- Long-term stability
- Low risk
- Jobs and training opportunities
- Social security
- Investment opportunities
- Low earnings volatility

A DIVERSIFIED PORTFOLIO

- 330 properties
- 3,000 commercial leases
- 1,600 residential tenants
- 10 growth cities

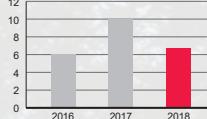
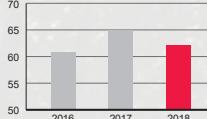
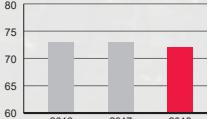
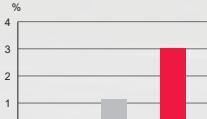
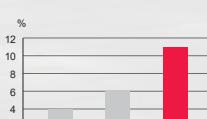
VALUE DISTRIBUTION

OF REVENUE (GRI 201-1)



► TARGETS AND TARGET ACHIEVEMENT

Our strategy is our tool for achieving our business goals and for ensuring that we run a sustainable business that has a positive impact on the environment and on people's lives.

	OUTCOME 2018	TARGET								
 GROWTH	<p>7% GROWTH IN PROPERTY MANAGEMENT INCOME PER SHARE</p> <p>Increased revenue, efficient property management and reduced financing costs added to growth. Not defined for 2018.</p>  <table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2016</td><td>6</td></tr><tr><td>2017</td><td>10</td></tr><tr><td>2018</td><td>7</td></tr></tbody></table>	Year	Value	2016	6	2017	10	2018	7	<p>>5% <small>LONG-TERM TARGET</small> GROWTH IN PROPERTY MANAGEMENT INCOME PER SHARE</p> <p>By setting a target for growth, we help our cities to grow, create a good return for our shareholders and ensure that our business model is sustainable.</p>
Year	Value									
2016	6									
2017	10									
2018	7									
 DEALS AND RELATIONS	<p>62 CUSTOMER SATISFACTION INDEX (CSI)</p> <p>Organisational changes and changes of roles affected the result. The target for 2018 was 70.</p>  <table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2016</td><td>61</td></tr><tr><td>2017</td><td>66</td></tr><tr><td>2018</td><td>63</td></tr></tbody></table>	Year	Value	2016	61	2017	66	2018	63	<p>70 <small>TARGET FOR 2019</small> CUSTOMER SATISFACTION INDEX (CSI)</p> <p>To ensure that our focus on the customer does not cause us to step back from our ambitions. Our focus on deals and relationships should translate into an improvement in our key ratios.</p>
Year	Value									
2016	61									
2017	66									
2018	63									
 ENVIRONMENT AND SUSTAINABILITY	<p>72 EMPLOYEE SATISFACTION INDEX (ESI)</p> <p>A focus on increasing participation. The target for 2018 was 76.</p>  <table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2016</td><td>73</td></tr><tr><td>2017</td><td>73</td></tr><tr><td>2018</td><td>72</td></tr></tbody></table>	Year	Value	2016	73	2017	73	2018	72	<p>76 <small>TARGET FOR 2019</small> EMPLOYEE SATISFACTION INDEX (ESI)</p> <p>Our employees are the key to our success. Satisfied employees perform better and create a better experience for our tenants.</p>
Year	Value									
2016	73									
2017	73									
2018	72									
	<p>3% ENERGY SAVINGS</p> <p>A stronger focus and changed governance helped to reduce energy use. The target for 2018 was 3%.</p>  <table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2016</td><td>0.5</td></tr><tr><td>2017</td><td>1.2</td></tr><tr><td>2018</td><td>3.2</td></tr></tbody></table>	Year	Value	2016	0.5	2017	1.2	2018	3.2	<p>3% <small>TARGET FOR 2019</small> ENERGY SAVINGS</p> <p>Our climate impact is decreasing over time, resulting in better and more efficient environments for our tenants.</p>
Year	Value									
2016	0.5									
2017	1.2									
2018	3.2									
	<p>11% ENVIRONMENTALLY CERTIFIED PROPERTIES</p> <p>The long-term target is 100%.</p>  <table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2016</td><td>4</td></tr><tr><td>2017</td><td>6</td></tr><tr><td>2018</td><td>11</td></tr></tbody></table>	Year	Value	2016	4	2017	6	2018	11	<p>17% <small>TARGET FOR 2019</small> ENVIRONMENTALLY CERTIFIED PROPERTIES</p> <p>Environmentally certified properties are a seal of quality. A reduced environmental impact and improved tenant experience increase the value of the property.</p>
Year	Value									
2016	4									
2017	6									
2018	11									



OUTCOME 2018

TARGET



EFFICIENCY

64%

SURPLUS RATIO

Increased revenue and good cost control help to ensure target achievement. The target for 2018 was 64%.



65% TARGET FOR 2019

SURPLUS RATIO

Increased revenue, good cost control and a focus on reduced energy use help to improve our profitability while also reducing the climate impact.

18.2%

RETURN ON EQUITY

Increased property management income and positive changes in value helped us to achieve the target. The target for 2018 was >12%.



>12% LONG-TERM TARGET

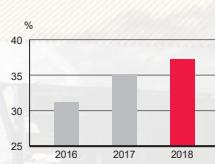
RETURN ON EQUITY

By creating long-term value for our owners, we become more competitive, gain easier access to capital and create more interest in the company.

37.2%

EQUITY RATIO

Improved profitability had a positive impact on equity while liabilities have remained stable. The target for 2018 was >30%.



>35% LONG-TERM TARGET

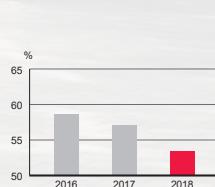
EQUITY RATIO

A sound capital structure reduces financial risk, which leads to increased trust and enables us to obtain better financing terms.

53.4%

LOAN-TO-VALUE RATIO

Rising property values on the back of increased net operating income coupled with a stable debt level have improved our loan-to-value ratio. The target for 2018 was <60%.



<55% LONG-TERM TARGET

LOAN-TO-VALUE RATIO

The loan-to-value ratio for our properties is a risk-limiting factor. A sound debt level creates opportunities for new deals and is included as a covenant under our financing agreements.



FINANCIAL

The outcome for the occupancy rate target in 2018 was 91 per cent while the dividend payout ratio was 50 per cent. For 2019, we have chosen not to set targets for these ratios, as we believe our activities should be guided by the targets presented above. Diös' dividend policy remains the same: to distribute around 50 per cent of the profit for the year to the shareholders.

› UNDERSTANDING THE WORLD IN WHICH WE OPERATE

Understanding the trends and general changes taking place in our external environment that are most relevant and significant to our business is a key success factor. It enables us to develop our offering more effectively and take a proactive approach in our relationships.

› NEW BEHAVIOURS AND NEEDS

Changed behaviours in the form of new consumption patterns, the transfer of the social living room to cafés and fossil fuel-free travel are creating new demands for property owners. Business models are being developed and new opportunities are arising. Increased flows, sustainability and flexibility have become key words regardless of segment and city.

› POLARISATION

A shift that is becoming increasingly pronounced is the polarisation between different locations as attractive places are seeing stronger demand and greater increases in rents. The ability to create flows and thereby attractive locations for everything from retail outlets to offices has become ever more crucial. For property owners, the right content mix is becoming increasingly vital for long-term success.

› SUSTAINABILITY

Demands for more sustainable business models, a more responsible approach and increased transparency are coming from all stakeholders. Living up to the Agenda 2030 goals will require changed behaviours and new solutions. Running a business in a responsible way that helps to build a better world should be a given.

WHAT WE ARE DOING:

Our properties, our knowledge and our relationships are tools for creating Sweden's most attractive places. A concrete example is the inner-city courtyard that we have developed in central Östersund, with offices, co-working spaces, an art gallery and café. A new meeting place that meets demand and creates new needs for tenants and visitors to the city.

WHAT WE ARE DOING:

In 2018, we continued to concentrate our portfolio with the aim of expanding our offering. A deeper dialogue with a number of selected tenants has enabled us to broaden our understanding of how to add value. Through research and business intelligence, we are leveraging our unique position and expertise to create attractive locations.

WHAT WE ARE DOING:

Our business model is based on a responsible approach. Our business, our property management activities and our strategy are based on a responsible, long-term approach that we believe is the key to success. We have signed up to the UN Global Compact and report in accordance with GRI, GRESB, EPRA and the Swedish Annual Accounts Act, which helps to ensure transparency.



➤ **DIGITISATION**

Digitisation is creating many new opportunities. So far, the emphasis has been on digitising analogue processes, but new behaviours and needs can also lead to changed business models, and technical innovations can create new ways of working and new offerings.

WHAT WE ARE DOING:

We have strengthened our staff resources in digitisation, new business and urban development. A close dialogue with tenants and experts enables us to better understand what demands the future will bring. We have the properties and the financial strength to drive things forward and create new business in areas such as last-mile solutions.

➤ **URBANISATION**

According to the UN, 360 million more people will be living in cities within ten years. In Sweden, it is mainly young people who are moving to the cities in order to access a wider range of options and services. The labour market, culture and diversity are some of the key drivers. Continued urbanisation is creating opportunities for increased urban density, new builds and more sustainable approaches.

WHAT WE ARE DOING:

We want the city to live round the clock, every day of the week, and that everyone should feel safe and secure. Our responsibility is to ensure that the right mix of service providers is present. We have development rights for 150,000 sq.m of floor space in central locations, where we intend to create new commercial and residential premises to respond to, and drive, growth in our cities.





OUR BUSINESS

SUSTAINABLE

VALUE

CREATION

➤ Elin Almqvist, Property Manager, with Döös tenant Markus Richtmann, owner of Stadskällaren, Lekatten 9, Skellefteå.

➤ OUR STRATEGY: URBAN DEVELOPMENT

Our strategy is urban development with the goal of creating Sweden's most attractive places.

With a unique position through our centrally located properties, our geographic diversification and our clear focus on cash flow, we deliver stable profitability and growth.

For Diös, responsible business is about taking a comprehensive approach to economic, social and environmental aspects. We are making a concerted effort to change our own behaviour, which is having a positive impact and will

ultimately inspire and encourage our stakeholders to do the same. We want to help fight climate change and create safer cities while also creating new opportunities for businesses and new meeting places for people.

By actively managing and developing our properties, we influence the content of our cities, develop our tenant offering and create a foundation for business success. Strategic transactions and new build projects are two other key elements of our urban development strategy. We are doing all this with a local presence and broad knowledge and through active relationship-building.

We want the value we create to help our cities to grow. To highlight the importance of growth, both within the company and in the context in which we operate, we have defined our own long-term growth target. We are aiming to increase our property management income per share by at least 5 per cent annually. Other targets are either risk-limiting or value-creating with the aim of developing the business from where it is today. By maintaining a low risk in the business, we are able to obtain competitive financing terms while ensuring a stable capital structure and good returns for our shareholders.

➤ Through **GOOD RELATIONSHIPS**, we build a profitable long-term business. With satisfied employees, we build good relationships. Our success is in the hands of **OUR EMPLOYEES**. That's why we have a strong focus on building a company where people are happy, can grow and develop, and show commitment.

Our core values **SIMPLE, CLOSE AND ACTIVE** are the basis for everything we do. Everyone at Diös is different, but equal in terms of our core values. In a world that is changing faster than ever, it is essential to be dynamic.

We are convinced that **EVERYTHING IS POSSIBLE!** That is the starting-point for all our business dealings and all our relations.

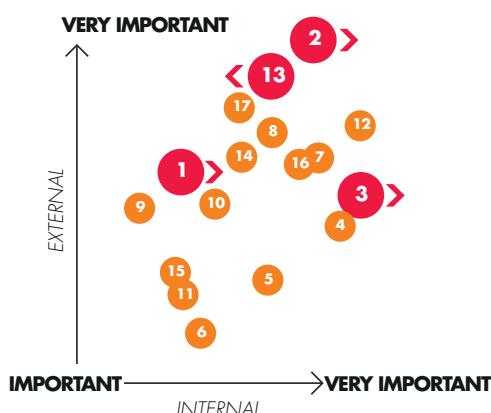
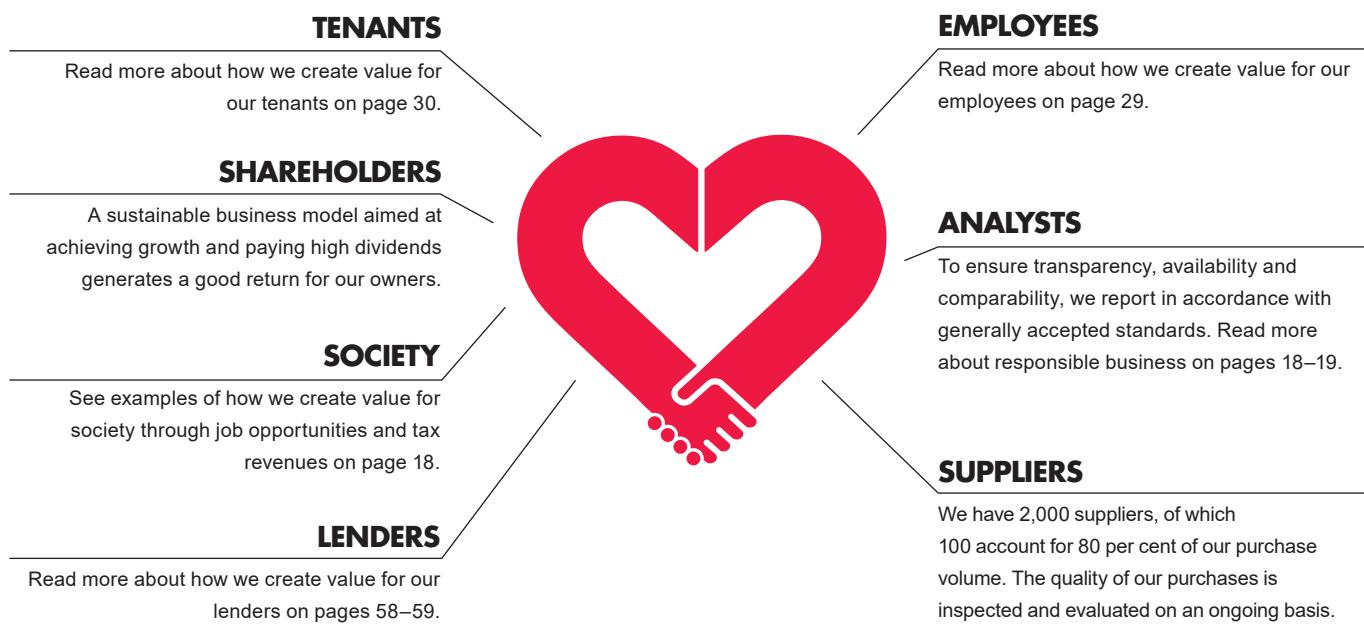


OUR RELATIONSHIPS

Developing relevant offers and being a credible partner requires courage and initiative. With our knowledge of the market, we push the agenda forward in the direction that creates most value.

In a fast changing world, we need to be attuned to and eager to learn more about our stakeholders. Our stakeholders are our tenants, employees and shareholders as well as analysts, lenders, suppliers and society at large. By trying to understand and take responsibility for those issues which are most important to each of these players, we can steer our business in the

right direction. To ensure that we live up to the demands and expectations of our various stakeholder groups, we analyse our daily stakeholder engagement as well as the in-depth discussions that we have at regular intervals. Stakeholder engagement and the materiality analysis are described in detail in the Sustainability Supplement on our website.



► OUR EMPLOYEES' CHANGING PRIORITIES

In 2018, we conducted a survey among our employees to determine whether their priorities had changed since we last enquired. We also asked a question about their own contribution to building a more sustainable business. Based on the answers, we can see that activities relating to training (3), health and safety (2) and supplier requirements (1) are those which most employees want to prioritise. A new area is Safer cities, while less emphasis is now placed on anti-corruption (13). With regard to the employees' own contributions, the replies mentioned changing one's own behaviour, travel habits and inspiring other employees as well as tenants. Read more about our stakeholders' priorities in the Sustainability Supplement on our website.



➤ RESPONSIBLE BUSINESS FOR OUR FUTURE

By making informed decisions that take account of our stakeholders' requirements and expectations, and of our long-term impact on social, economic and environmental aspects, we take our responsibility.

Sustainability includes the concept of responsibility. We take account of sustainability aspects at all stages and at all levels of decision-making. Our efforts need to be focused and help to achieve concrete results. Diös' overall strategy and business plan concerning the urban development for sustainable cities is initiated by executive management and decided by the Board.

OUR POSITION

In 2017, we signed up to the UN Global Compact in order to emphasise the importance of these issues. To ensure that the values behind the Global Compact inspire our culture and working climate, we have based our Code of Conduct on the Global Compact's ten principles on human rights, labour, environment and anti-corruption. The Code of Conduct covers all employees, is presented to new recruits and is used as a reference point in our regular performance reviews.

Based on our responsibility to uphold human rights, as an employer and as a business partner, we have zero tolerance for discrimination, harassment and corruption. We are working towards a vision of a zero rate of incidents, accidents and insecurity, and also have a long-term ambition to achieve zero greenhouse gas emissions.

A CREDIBLE BUSINESS PARTNER

Being a reliable business partner that creates value for our stakeholders is a prerequisite for good long-term relations. Our core values, along with our policies and codes of conduct, forms the basis of the corporate culture of trust and professionalism that we strive for. With transparency becoming an increasingly central issue in today's society, it is important to facilitate comparisons between companies, both nationally and internationally. That's why we have chosen to report according to generally accepted systems and standards. Every year, we report our sustainability aspects in accordance with the standards defined by the international organisation GRI, using the Core option. In 2017 and 2018, we received the EPRA Gold award, which represents the highest standard of sustainability reporting and transparency, from the European Public Real Estate Association (EPRA). In 2018, we also reported to GRESB, achieving the highest, Green Star rating.

ANTI-CORRUPTION

Preventive anti-corruption work was continued during the year to increase understanding of the potential consequences of different decisions and behaviours. The aim is to reduce the risk of incidents. No cases of corruption or suspected corruption were reported during the year.

WHISTLEBLOWER FUNCTION

Our whistleblower service is accessible through our website, allowing both internal and external parties to report any irregularities anonymously. Any reported cases are sent to at least two independent persons at Diös and addressed according to the applicable procedure.

TAXES

Part of running a responsible business is to contribute to the tax system that finances public welfare. It goes without saying that we need to comply with applicable tax regulations and pay the right tax, while we also have a professional responsibility to operate the business in the interests of our shareholders. In cases where the tax rules do not provide clear guidance, we strive for caution and transparency. In addition to reported income tax, we pay property tax, non-tax-deductible VAT, social security contributions, energy tax, stamp duty and payroll tax. Read more in our Sustainability Supplement.



GRESB

GRESB is an industry-driven organisation that measures and assesses sustainability activities with reference to specific ESG factors for property companies and from an investor perspective. In 2018, GRESB assessed more than 900 member property funds and real estate companies representing over \$18 trillion of institutional capital.



EPRA GOLD

In 2018, we received a Gold award from EPRA for our reporting of sustainability data. EPRA Gold is the highest level for sustainability reporting which demonstrates a high standard and transparency.

The key ratios are available at www.dios.se

WE SUPPORT



GLOBAL COMPACT

The Global Compact aims to mobilise sustainable companies to conduct their business responsibly on the basis of ten principles relating to human rights, labour, the environment and anti-corruption.

More information at: www.unglobalcompact.org

We have chosen to link some of our activities to the UN Global Sustainable Development Goals. The business sector plays an important role in helping to achieve Agenda 2030, and the property industry is often linked to Goals 7, 11, 12 and 13. That's why have chosen to present examples of how we are linked to these particular goals.

7. SUSTAINABLE ENERGY FOR ALL

 By producing solar energy on the roofs of our properties, we indirectly increase access to clean energy in the electricity market. Our solar panels, generate 220 MWh of electricity annually. Encouraged by our positive experience of two major solar panel projects in the last few years, we are now raising our ambition and investing in another 20 projects in 2019.

11. SUSTAINABLE CITIES AND SOCIETIES

 Through a major infrastructure project in our cities, we are assisting the transition from a fossil fuel-powered fleet in all our cities. Over the next few years, we want to add 700 charging points, as we believe this will be necessary to enable more people to drive electric cars. We are also adjusting internally by replacing fossil fuel-powered service cars with electric cars. Half our service cars were replaced in 2018 and by the end of 2019 we expect to have a 100 per cent electrically powered fleet in our service organisation.

12. SUSTAINABLE CONSUMPTION AND PRODUCTION

 In 2018, we drew up a new agreement that is designed to improve control of purchases of products for care and upkeep of properties. The use of a single agreement will cut costs, regulate chemicals management, give us a better overview of our needs and make it easier to specify requirements for the products that we use. The new agreement also introduces a new way of working for our building maintenance technicians that will require better planning and more sustainable consumption patterns, including fewer journeys.

13. FIGHTING CLIMATE CHANGE

 To increase our knowledge and enable our employees to be a part of the transition to a more sustainable business, and to give us a better understanding of our role and how we will be affected by the climate change that is already taking place, we engage in sustainability training activities on an ongoing basis. By strengthening our expertise internally, we also hope to be able to spread knowledge and information to our tenants and partners.





► PROPERTIES IN CENTRAL LOCATIONS

We have captured a unique position in our cities. As the leading property owner, we are in a position to drive growth. By developing our properties, city blocks and districts into attractive and sustainable places where people want to be, we increase the value of our portfolio.

PROPERTY PORTFOLIO

As at 31 December 2018, the property portfolio consisted of 330 properties (339) with a total leasable area of 1,464,000 sq.m (1,553,000). The market value was SEK 20,802 million (19,457). The portfolio consisted of 93 per cent (93) commercial properties, with offices accounting for most of the value and floor space, and 7 per cent (7) residential properties. Geographically, our properties are concentrated to our ten cities, with other localities accounting for only 0.3 per cent of the value. The portfolio is well diversified both geographically and in terms of type of property, and the properties are located in growing markets with good prospects for the future.

Our focus is and has always been on concentrating our property portfolio to the central areas of our cities and to areas close to

transport hubs. A strong position and increased concentration put us in a better position to influence decisions, new business openings and growth that are in line with our urban development strategy.

CHANGES IN THE PORTFOLIO

In 2018, Diös sold a number of industrial and retail properties in non-central locations and non-priority localities, and acquired office and social-use properties. Read more on page 28.

VACANCIES

Vacancies fell in 2018 and as at 31 December the economic vacancy rate was 8 per cent (9) while the vacant area was 13 per cent (14). Economic vacancies are highest in office and retail premises while physical vacancy rates are highest in office and industrial premises. Increased investments, an increase in net leasing and a more relevant portfolio of properties in central locations as a result of transactions resulted in a decrease in vacancies.

The economic vacancy rate for the year excluding discounts, also called EPRA vacancy rate, was 8 per cent (8).

VALUATION

All properties are valued at fair value at each closing date. The purpose is to determine the value of each property.

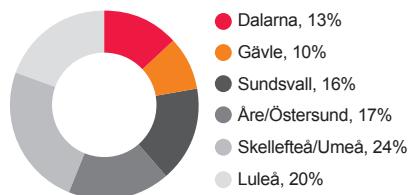
Changes in value in 2018 were SEK 687 million (412), of which SEK 9 million (10) refers to realised values and SEK 677 million (402) to unrealised values. The unrealised changes in value are mainly due to an increase in net operating income driven by profitable investments and rising rents. Read more about valuation on pages 76–79.

ENVIRONMENT

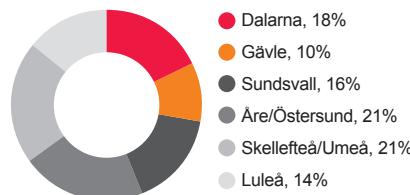
We want to create a property portfolio with a small environmental footprint and inspiring environments where people can thrive. To quality-assure and improve the efficiency of our property management activities, we have chosen to start certifying our existing properties. In 2018, ten properties were certified under the Breeam In-Use scheme, which means that 11 per cent of the portfolio by floor space has now been environmentally certified. See a full list of certifications in the Sustainability Supplement on our website. Our target for 2019 is to certify another 16 properties.

Developed in Great Britain, BREEAM is one of the world's most widely used international certification systems, covering project management, energy use, indoor environment, water, waste, materials and surrounding area. BREEAM SE has been adapted to Swedish rules and BREEAM In-Use is used for existing buildings.

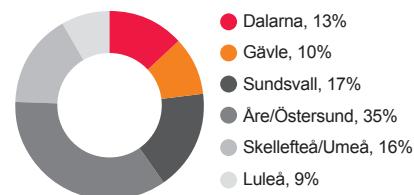
SHARE OF TOTAL PROPERTY VALUE



PROPORTION OF TOTAL LEASABLE AREA



SHARE OF TOTAL NUMBER OF PROPERTIES





Göran Bärnsten, Managing Director of communications agency Grand North, felt that it was time to think anew and to think bigger – to challenge and develop the company concept in a way that would also raise Östersund to a new level as a city.

“With a vision of building a creative platform consisting of meeting places, co-working spaces, a café and an arts space, we got in touch with Diös to realise our plans,” Göran says.

The Norra Station project took shape, and the vacant property and the adjoining courtyard on Prästgatan proved the perfect starting-point. After standing empty for many years, the property is today a place that is buzzing with activity, flows and an inspiring mix of activities.

“For Grand North, Norra Station is much more than just a new office space. The new location is essential to growth, as it creates opportunities to offer customers and stakeholders meeting and conference spaces. The new concept also makes it easier to collaborate within and across industries,” Göran says.

The good relationship between Diös and Grand North has given the project a strong foundation to stand on and for continuing to develop Norra Station.

“We are continuing our efforts to improve the offering through a colourful mix of international and local players, and we hope this will generate an increased flow of people to Östersund. Concepts like Norra Station are aimed at making it easier for new businesses to set up shop in the city, and at giving Östersundians a new and long-awaited meeting place,” says Johan Fryksborn, Business Area Manager Östersund/Åre at Diös.





PROPERTY MANAGEMENT

WITH A FOCUS ON RELATIONSHIPS AND CONTENT

By creating the right mix of services and content in our cities, we generate flows, increase the attractiveness of our cities and improve the profitability of our business. By placing the emphasis on relationships, our local business units are making a difference for our existing and potential tenants.

ORGANISATION

In addition to lettings and financial and technical management of the properties, Diös' property managers also need to understand the challenges that our tenants face, whatever their industry, and carry out their duties in accordance with current sustainability requirements. Headed by the Business Area Manager, each local organisation is engaged in urban development. The organisation consists of letting agents, technical managers, building maintenance technicians, project managers, customer and office coordinators, and energy optimisers. In addition to our local presence, we have central functions which support the property management organisation. These include the newly created roles of Urban Development Strategist, Head of New Business and Business Developer.

NEEDS AND BEHAVIOURAL CHANGES

Changing consumption patterns, demands for new types of working environment, climate change and a broader commitment to deal with social challenges are needs that we have identified and are responding to. Our unique position as a

leading property owner enables us to see solutions that meet existing as well as future needs. We therefore need to be attentive to any changes in demand, so that we are able to offer the right tenant the right premises at the right time.

RELATIONSHIPS

Our interaction with the tenant is the foundation for a good, long-term business relationship in which a growing understanding and interest in our tenant's business is a crucial factor. We work with local authorities, businesses and other players, and engage in a dialogue with residents and visitors with the aim of creating value for all stakeholders. A long-term relationship is based on a local presence, openness and inquisitiveness. To further improve our contacts, we are aiming to increase our availability and show even greater drive.

CONTENTS

By ensuring that the city, block and property have the right content, we want to create flows that drive profitability and growth for our tenants. By content we mean what the place has to offer, such as the combination of offices, local services and housing or a combination of different players who benefit from each other. Today, there is an ongoing polarisation between different locations in the city that is driven precisely by what each location has to offer. This is having an ever greater impact on where people want to live and work. Location is not about views and the colour of the building but about what is happening in and around our properties. The challenges created by a polarised market are part of our strategy for urban development.

EFFICIENT PROPERTY MANAGEMENT

Efficient property management centred on the relationship with the tenant will, together with expert lettings management, high-quality projects and focused efforts to optimise energy use, help to improve our surplus ratio and ensure that we achieve our growth target for property management income. In 2018, we achieved our target of a three per cent reduction in energy use through a stronger focus on monitoring and clearer management of efforts to optimise energy use.

After a couple of years in which we did not achieve our energy optimisation targets, we decided to introduce a new, more decentralised way of working. A target of a three per cent reduction applies also for 2019, and we are continuing to develop our new approach. Longer-term, we are aiming to obtain environmental certification for all properties in our portfolio. This will quality-assure the properties as well as our property management activities.

ENERGY USE AND CARBON DIOXIDE EMISSIONS

	Unit	2018	2017
Heating ¹	kWh/sq.m	84.1	87.5
Electricity ²	kWh/sq.m	58.1	58.9
District cooling ³	kWh/sq.m	15.2	10.5
Carbon dioxide ⁴	g CO ₂ /kWh	25.5	25.4
Water	m ³ /sq.m	0.4	0.4

¹ Adjusted to a normal year.

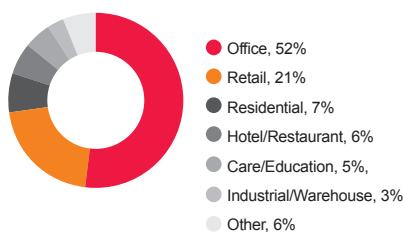
² Own consumption and tenant consumption where electricity is included in the lease.

³ Excludes self-produced cooling.

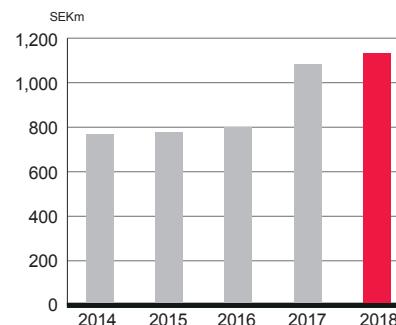
⁴ From electricity and heat.

All values have been provided by the suppliers. Floor area refers to the tempered floor area, excluding garages. The comparative figures have been updated for the current portfolio and thus show changes for comparable properties.

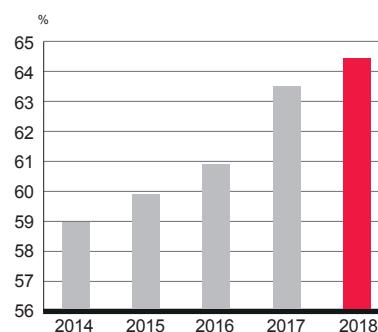
RENTAL VALUE BY TYPE OF PREMISES



OPERATING SURPLUS



SURPLUS RATIO





104 EMPLOYEES

*in property management
in our ten cities*



1,463,822 SQ.M

*of leasable floor space to offer
our tenants*



64%

surplus ratio for the year



SEK 220M

*value of new leases signed
in 2018*



SEK 2,500/SQ.M

top rent for office space



98%

*renewable energy in our
properties*

► David Jonasson, Building Maintenance Technician, Umeå.



› TAKING RESPONSIBILITY



› DIGITISATION INCREASES CUSTOMER FOCUS

Led by newly appointed Head of Digitisation Jonas Silfver Wikstrand, we are taking one more step to increase our customer focus. Digital tools will enable us to get closer to our tenants. By increasing our availability and streamlining our administration, we can free up time for personal meetings. Jonas is responsible for integrating our property management processes with energy optimisation and purchasing.



› A SOLAR-PANELLED FUTURE

In 2018, we completed another major solar panel installation. The station building in Åre is now covered in 1,000 square metres of solar panels. The panels generate 158 kW of power, enough to cover around 15 per cent of the property's electricity requirement. The panels have been up and running since November and have provided more electricity than we expected. Encouraged by two successful projects, we are now shifting up a gear and aiming to complete around 20 new installations in 2019.

› SAVING WATER

In 2017, we implemented water-saving measures in 700 apartments in Östersund, which resulted in a 15 per cent reduction in water use. These efforts will be continued in 2019, when we are aiming to carry out the same measures in 100 per cent of our residential portfolio. The water saving project comprises installation of low-flush products in kitchens and bathrooms, and leakage detection. These measures are combined with information activities to raise awareness among tenants so that we can work together to achieve the desired results.



› LOWERING OUR EMISSIONS

Energy optimisation is a key element of our efforts to ultimately achieve climate neutrality. Today, 98 per cent of our energy consumption comes from renewable sources. By replacing our fossil fuel-powered service cars with electric cars, we are reducing our annual emissions of carbon dioxide from our property management activities by 30–40 tonnes. The next step in terms of reducing emissions is to raise the level of knowledge in areas like consumption, purchasing and waste, which will enable us to decide on the right measures.

”

ANDREAS ERIKSSON HEAD OF NEW BUSINESS

Since 2018, Andreas Eriksson has been Head of New Business at Diös. With experience from the co-working industry, as co-founder of the House Be tech hub in Åre, as an IT entrepreneur in a number of companies and with experience of e-commerce from small and large companies, he is entering a relatively traditional property industry with new eyes and new perspectives.



► NEW BEHAVIOURS NEW BUSINESS

“I see three main areas where we are in a very good position to create new business opportunities as part of our urban development strategy: co-working, logistics and big data. The changes that are taking place are being driven mainly by changed behaviours. We continually discuss ideas and challenges with our tenants and acquire new knowledge so that we can respond to these trends. Thanks to our large portfolio of centrally located properties, we are in an ideal situation to generate new business in these areas.”

“Co-working is where we have made most progress. We already have established spaces in Åre and Sundsvall, with Umeå and Gävle to follow shortly, and we expect new spaces to open in more cities. To create a successful co-working space, you need, in addition to a

good space in the right location, interesting content and an operator with the necessary drive. We have chosen to work with a few select operators who are highly skilled and know what creates value for the people who chose to work in these communities. It is mainly about creating watering holes where people can meet, and not about nice-looking furniture or the latest technology.”

“With regard to city-centre logistics, or the “last mile”, there are big problems and challenges to solve. Every day, more parcels are being sent with a requirement for fast and efficient logistical solutions and delivery to where I am right now. Large, centrally located properties can act as hubs in the city where we as a property owner can create a framework for more efficient logistical management, and in a

more sustainable manner too. Our ambition for 2019 is to launch pilot projects in last-mile logistics in at least one of our cities.”

“As a major property owner, we have access to significant amounts of data – big data – on how people move and at what times of day, for example. By using this data in the right way, we can assist our tenants by producing decision guidance documents for everything from the need for meeting spaces at the office to store staffing requirements at different times of day based on the flow of people. Big data can also assist our urban development strategy, enabling us to offer the right tenant the right space at the right time, and to make the place more attractive, which is something I think benefits everyone who lives in or visits the city.”



BIG INVESTMENTS

IN URBAN DEVELOPMENT

Record investments in our properties enable our tenants to grow. Our new build projects will generate increased flows and make our cities more attractive.

CREATING ATTRACTIVE PLACES

To drive development and growth, you need courage, financial strength and a sustainable business model, but also a portfolio of properties that tick the right boxes. Our centrally located properties and development rights in our cities do just that. Coupled with a strong cash flow and strong internal expertise, we can enhance our portfolio through projects and property development to create attractive places where people want to be.

NEW BUILDS AND DEVELOPMENT RIGHTS

In 2018, we stepped up our efforts to launch new projects using our existing development rights. Our existing and potential development rights cover over 150,000 sq.m of gross floor space, of which around 50 per cent is commercial and the rest residential. Among these, Diös has identified various types of projects with a total estimated investment volume of around SEK 4 000 million. We are working continually to create new potential development rights and make use of our existing development rights.

With a large portfolio of development rights, we are able to adapt and improve districts, neighbourhoods and properties based on specific needs and content requirements. Our cities are growing, as are the demands for increased urban

density and enhancements to existing properties. We regularly review areas with development potential close to city centres and transport hubs in order to establish a position that will enable us to develop these places in the future.

RESIDENTIAL CONSTRUCTION

There is still a big need for new housing. The process of urbanisation continues and greater urban density is essential to ensuring a sustainable future. We have residential development rights in central locations in our portfolio that we intend to use mainly to build new rental properties. Centrally located housing is a key ingredient for creating a city that is alive round the clock and which therefore feels safe and attractive.

PROFITABLE INVESTMENTS

We make improvements to and adapt our properties through continuous investments that enhance our tenants' experience and create efficiencies. New builds, conversions and extensions added SEK 677 million (505) to the value of Diös' property portfolio for the year. Our investments in our existing portfolio comprise conversions and extensions as well as energy-saving measures. The investments must result in a higher occupancy rate, increased customer satisfaction, lower costs and a reduced impact on the environment. At the end of the year, 29 major¹ improvement projects were ongoing, with a remaining investment volume of SEK 262 million and a total investment volume of SEK 571 million. The return on investment for projects completed in 2018 was 8.0 per cent. The estimated return on ongoing projects is 6.8 per cent.

¹ =Initial investment volume > SEK 4 million.

GREEN PROPERTIES

Through building certification for new builds, we quality-assure the finished product as well as the process of constructing it (during the building process). The BREEAM SE certification system provides a broader perspective on construction and takes greater account of the building's immediate surroundings as well as its impact on the environment and on human beings, both during the construction process and as a finished product. In 2018, we initiated certification processes for two new build projects, Noten and Magne.

INITIATED NEW BUILD PROJECTS

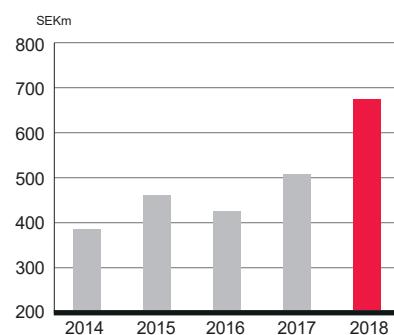
The Falan 24 residential property project in Falun is ongoing and is expected to be completed in summer 2019. 95 per cent of the apartments have already been sold.

The hotel project in Diös' Noten property Sundsvall has been initiated, with preparatory work underway on the underground car park on which the hotel will stand. Construction is scheduled to begin in February 2019. The production stage of the hotel project on the Magne property in Umeå is expected to commence in the first half of 2019.

PROJECT ORGANISATION STRENGTHENED

In 2017, two project developers were hired to meet requirements for the start-up of several major projects, including the construction of new residential and hotel buildings. In 2018, the project organisation was further expanded through the recruitment a project developer and a business developer, who will be focusing on new leasing in new builds. The aim is to strengthen the resources of the organisation and ensure a steady flow of new tenants.

INVESTMENTS IN PROJECTS



CHANGES IN VALUE OF PROPERTIES BY BUSINESS AREA

	Market value 31 Dec 2018	Market value 31 Dec 2017	Change, %	Change, SEKm
Dalarna	2,805	2,647	6.0	158
Gävle	1,971	2,046	-3.7	-75
Sundsvall	3,424	3,234	5.9	190
Are/Östersund	3,554	3,258	9.1	296
Skellefteå/Umeå	4,994	4,494	11.1	500
Luleå	4,053	3,777	7.3	276
TOTAL	20,802	19,457	6.9	1,345

► SUNDSVALL

In a magnificent location in central Sundsvall, on the banks of the beautiful Selångersån river, we will start construction in February 2019 on a new state-of-the-art hotel in partnership with Nordic Choice Hotels and the architects Krook & Tjäder. The hotel is part of a new block that is being created in the heart of Sundsvall and that will be linked to the In:Gallerian shopping centre.

PROPERTY: Noten

START OF CONSTRUCTION: Q1 2019

ESTIMATED COMPLETION:

Q2 2021

LEASABLE AREA:

14,350 sq.m (270 rooms)

TENANT:

Nordic Choice Hotel

ESTIMATED INVESTMENT: SEK 385m

ENVIRONMENTAL CATEGORY

BREEAM_SE Very Good



► UMEÅ

Close to the north abutment of the Tegsbron bridge in Umeå stands the well-known Thulehuset, one of the tallest buildings in Umeå, which contains offices for both small and large companies. Nearby, a new state-of-the-art hotel providing a wide range of services, meeting places and opportunities will have been erected by 2022.

PROPERTY: Magne 4

START OF CONSTRUCTION: Q1 2019

ESTIMATED COMPLETION:

Q3 2022

LEASABLE AREA:

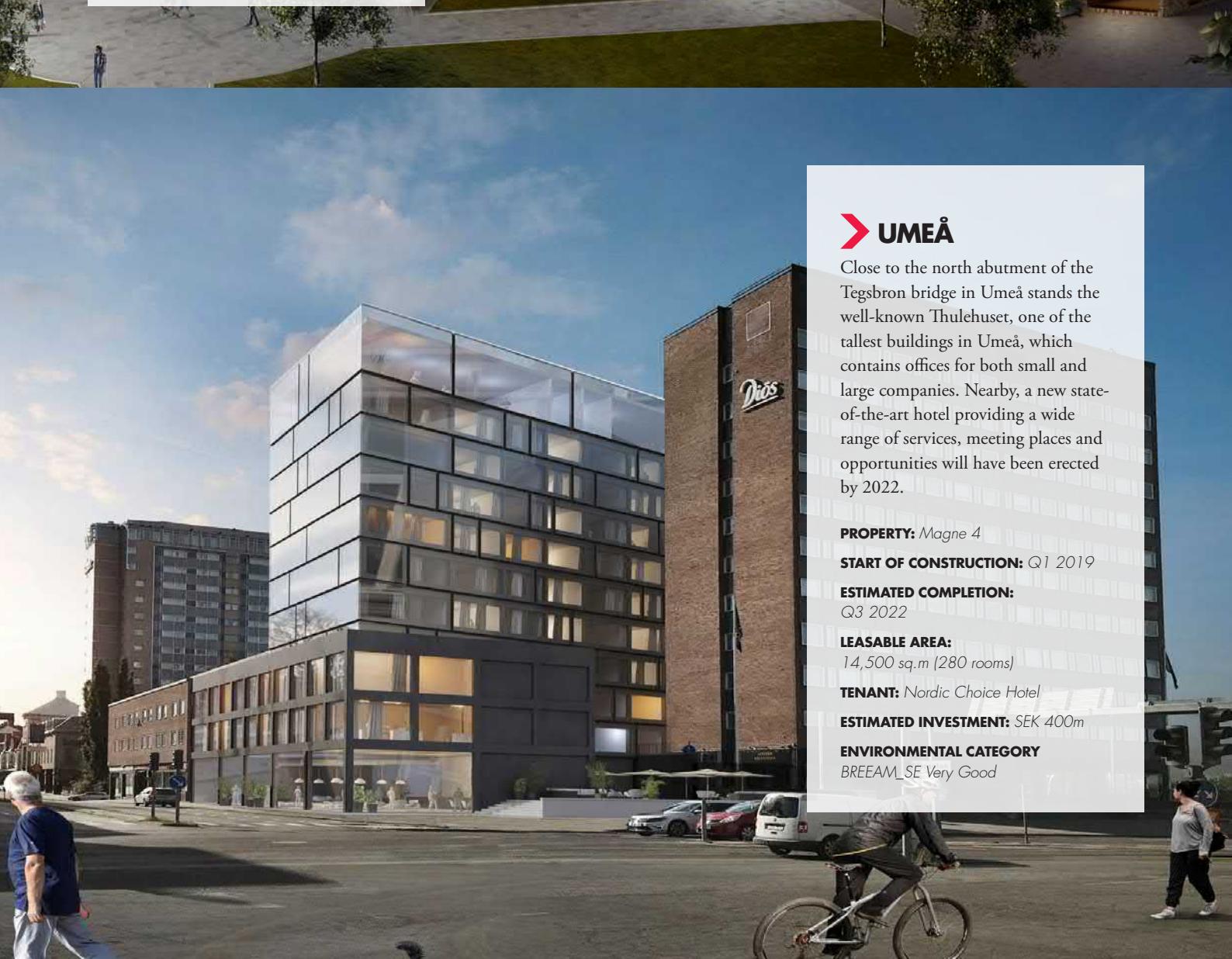
14,500 sq.m (280 rooms)

TENANT: Nordic Choice Hotel

ESTIMATED INVESTMENT: SEK 400m

ENVIRONMENTAL CATEGORY

BREEAM_SE Very Good



➤ TRANSACTIONS

THAT CREATE SYNERGIES

Transactions are a key part of our business model for creating Sweden's most inspiring places.

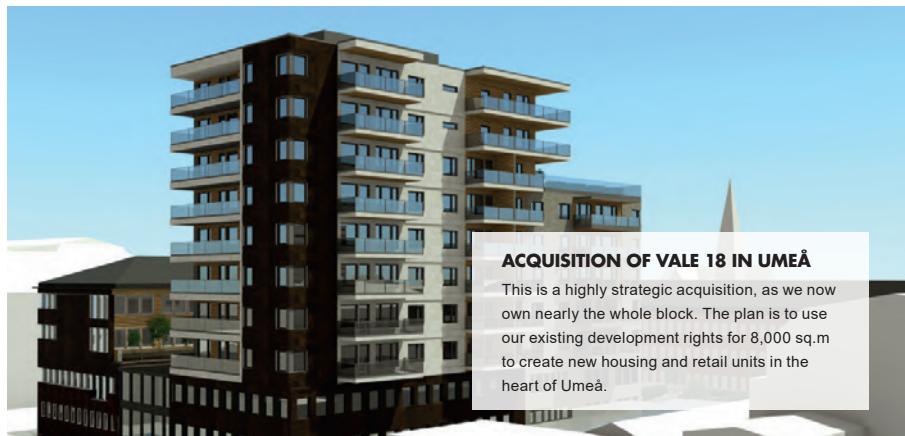
FOCUSING ON SYNERGIES

Diös acquires properties to achieve synergies, market presence and good capital growth, and to establish a position for future development. Properties outside the city centre and properties which offer limited potential to add further value may be divested. Sales create scope for new investments.

TRANSACTIONS IN 2018

In 2018, Diös acquired 11 properties in Skellefteå, Umeå, Gävle and Östersund. All properties are located near the city centre and/or close to a transport hub. They complement the existing properties and create new opportunities for projects and property development. We also sold 20 properties in non-priority localities and in locations that are not in line with our strategy for urban development. We sold our properties in Ljusdal during the year in order to focus our resources in the business unit on Gävle.

We believe the outlook and growth opportunities are better in Gävle than in



Ljusdal, and have therefore chosen to terminate all activities in this locality.

DUE DILIGENCE

We carry out valuations and assessments of all properties, areas and districts on an ongoing basis to identify and take advantage of opportunities, through purchases as well as sales. Factors such as location, condition, the possibility of acquiring additional development rights, rent levels and vacancies determine the growth potential of a property. Through our local experts, we are in a strong position to assess the potential of individual properties as well as entire

districts. We use a comprehensive checklist to assist our assessment of the condition, location and future potential of a property. Aspects such as environmental impact, exposure to natural disasters and the local authority's urban planning are key checkpoints. In addition to physical and technical inspections, we carry out a thorough financial assessment of the property and of the company which owns the property. As a majority of all property transactions take the form of an acquisition of the company that owns the property, it is of the utmost importance to ensure that financial statements are correct and that taxes have been paid.

ACQUISITIONS IN 2018

Property	Number	Property type	Leasable area, sq.m	Purchase price ¹ , SEKm	Completion
Polaris 39, Skellefteå	1	Offices	3,209	36.5	15 Jan 2018
Idun 10, Skellefteå	1	Retail	2,157	32.5	1 Feb 2018
Vale 18, Umeå	1	Office, residential, retail	3,272	70.0	28 Jun 2018
Portfolio in Gävle	4	Social-use properties, offices	12,230	186	3 Sep 2018
Norr 36:2, Gävle	1	Offices	1,173	17.6	25 Sep 2018
Portfolio in Östersund	3	Gym, offices, retail, development rights	12,002	89.4	14 Nov 2018
TOTAL	11		34,043	432	

SALES IN 2018

Property	Number	Property type	Rentable area, sq.m	Sale price ¹ , SEKm	Completion date
Portfölj in Ljusdal	4	Offices, retail, industrial	24,007	71.7	27 Mar 2018
Fisken 5, Malung	1	Retail	2,781	16.3	30 Aug 2018
Portfolio in Gävle	13	Industrial	80,147	345	3 Sep 2018
Hemsta 12:17, Gävle	1	Industrial	3,425	21.0	25 Sep 2018
Bräcke 4:4, Bräcke	1	Industrial	12,000	8.0	9 Nov 2018
TOTAL	20		122,360	452	

¹ Underlying property value.



➤ OUR EMPLOYEES

– THE KEY TO OUR SUCCESS

We strive to be an attractive employer by offering varied and challenging work duties involving a large degree of responsibility in a safe and positive working environment.

SKILLS AND KNOWLEDGE

Our leadership is aimed at ensuring that our employees build long-term skills and grow with us. To ensure that we as a company evolve in line with society and take a leading position on the trends that affect our business, we need to have an inquisitive spirit and a forward-looking agenda. To renew our business, relationships and offers, we update our organisation by recruiting new talent and training our existing employees. By continually developing our organisation, we are able to meet new needs and develop a more efficient and enjoyable way of working.

SATISFIED EMPLOYEES

Essential to our ability to achieve our ambitious goals is the wellbeing and motivation of our employees. That's why we are working towards a vision of zero accidents and insecurity at work, and why we carry out

a series of health promotion activities every year, partly through our sports club, Diös IF. We take a systematic and proactive approach to health and safety, and the activities are managed by a health and safety team consisting of representatives from across the company. The team plans, monitors and develops Diös' health and safety activities at all our offices. During the year, no (one) workplace accidents were reported and one (zero) incidents. Through our occupational health service, we are able to take early action to prevent sick leave. All permanent employees are offered private health insurance. Our rate of sick leave remains low.

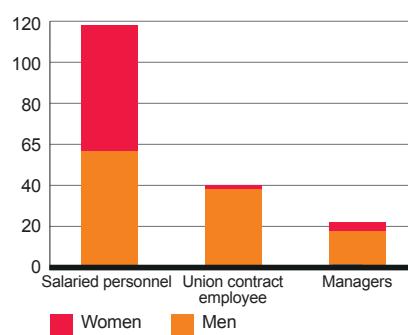
To find out how our employees feel and what they are demanding, we conduct an annual survey that results in an employee satisfaction index (ESI). The index provides a picture of how well we have managed to live up to our employees' expectations in various areas. The 2018 survey shows that our managers on the whole are achieving ever higher scores while fewer employees feel that they are under sustained pressure at work and a greater number say they have a good work-life balance. Our long-term target is an employee satisfaction score of 76. In 2018, our score edged down to 72 (73). This is due to an organisational change, as a result of which certain work methods and

roles have yet to become established. According to the survey, a majority of the group concerned are happy with the change and in their new roles, but we see a need to continue to develop work methods and system support to achieve a more positive result.

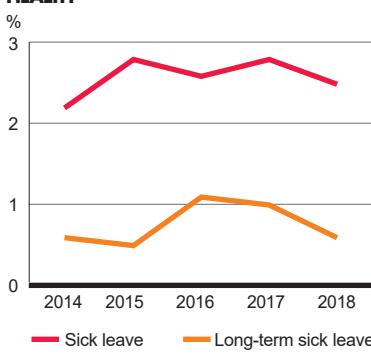
DIÖS ACADEMY

Diös Academy is our training programme that covers all employees. As part of the programme, our managers developed their leadership during the year. Our employee survey is a good way to establish that our management and leadership training activities are a good way to invest resources. Each year, our employees take part in company-wide as well as role-specific training activities. In 2018, 2,400 (3,200) hours of training were provided, which equates to around 15 hours per employee. Through Diös Academy, we want to promote internal career opportunities for those employees who want to grow and develop within the company, and in 2018 ten employees made such a move. In 2019, we will be appointing a training council to further improve our ability to identify needs and coordinate training activities. In early 2018, all building maintenance technicians were certified under the FT1 industry standard and the FAVAL validation system in order to improve quality and the efficiency of our property management activities.

EQUALITY



HEALTH



ORGANISATION

	2018	2017
Number of employees 31 December	158	156
of which local property management	104	106
Number that left during the year	31	20
of which retirement	4	3
Number of new employees during the year	30	33
Staff turnover (%)	19	13

FOCUSING ON

THE TENANT

By being the best at urban development, we will be the landlord of choice for centrally located premises in our cities. We want to create and enable growth for our tenants – everything must be possible!

A DIVERSIFIED TENANT BASE

Around 93 per cent (93) of our tenants are commercial tenants and 7 per cent (7) are residential tenants. We have private-sector tenants as well as tenants linked to the public sector; 26 per cent of our rental income comes from activities run by the central government, county councils and local authorities.

The number of commercial leases was 3,007 (3,071), with an average lease term of 3.2 years (3.6). The number of residential leases was 1,635 (1,643). Our rental income is thus well diversified in terms of geography, type of premises, number of leases, lease term and type of activity, providing a stable foundation for future revenues.

DIFFERING NEEDS

The world is changing faster than ever, and this is directly or indirectly having an impact on

our tenants' needs. Business models are being challenged and new ones are emerging, leading to changing requirements in terms of premises. Tenants are increasingly looking for flexibility, modern solutions and attractive locations, regardless of the type of premises, and are willing to pay more for these features. In concrete terms, top rents for office space have reached new highs of around SEK 2,500/sq.m in Skellefteå and Umeå. Through our tenant offering, we are able to meet these changes effectively when our tenants are looking to expand or reduce their space or when entering into a lease with a new tenant.

A LOCAL PRESENCE AND KNOWLEDGE

Our local presence is something that our existing and potential tenants value highly. And because of our ability and commitment to driving growth in our cities, we are the landlord of choice for many tenants and partners in discussions on new business openings and urban development.

NET LEASING

Net leasing for the year was SEK 10 million (55) as a result of continued good demand as well as our active efforts to find tenants for our premises. Noteworthy lets in 2018 included the contracts with Luleå Local Authority in Råttan 18, Luleå, Swedbank in

Sirius 25, Skellefteå, Olearys in Lyckan 6, Sundsvall and ÅF AB in Norr 31:9, Gävle. The turnover of lease contracts was high, indicating a buoyant rental market. Gross leasing for the year was SEK 220 million (150) while contracts worth a gross SEK 210 million (95) were terminated.

SATISFIED CUSTOMERS

Business relationships and professional and proactive conduct are our approach to developing our business and achieving our long-term goals. We measure our success in developing our tenant relationships by means of annual follow-ups of our customer satisfaction index (CSI).

The results of our customer satisfaction survey remained good, with a score of 62 (65), although this is down slightly on 2017 and means that we did not achieve our targeted improvement. Our ambition in relation to our tenants is high. We therefore analyse the results carefully in order to implement adequate measures. We have not yet reached the necessary level of relationship focus, but view this as an ongoing process. In 2019, we will be taking steps to enable our property managers to work even more closely with our tenants, mainly through increased availability and faster response times.

OUR LARGEST TENANTS

AT 31 DEC 2018	No. of contracts	Annual contract value, SEK '000	Average lease term, years
Swedish Transport Administration	31	63,548	1.5
Östersund Local Authority	119	37,637	2.6
Swedish Public Employment Service	39	32,161	2.2
Swedbank AB	11	23,022	3.6
Ahléns AB	5	22,799	4.2
Swedish Social Insurance Agency	24	22,696	3.3
Swedish Migration Board	17	22,318	2.5
Folksam ömsesidig sakförsäkring	43	20,437	4.1
Falun Local Authority	7	20,251	1.9
Telia Sverige AB	24	20,219	10.0
Total, largest tenants	320	285,088	3.1

LEASES AND MATURITIES

AT 31 DEC 2018	Number contract	Contract value SEKm	Share of value, %
Commercial leases, expiration year			
2019	919	279	16
2020	824	339	19
2021	655	357	20
2022	348	196	11
2023+	261	416	23
Total	3,007	1,587	89
Residential	1,635	125	7
Other leases ¹	4,128	63	4
TOTAL	8,770	1,775	100

¹ Other leases refer mainly to garage and parking spaces.

TEN STRONG CITIES

OUR MARKET



➤ Åsa Johansson, Property Manager Luleå.

MARKET OVERVIEW

A continued strong economy and growing populations in our cities are boosting demand for commercial and residential premises. Growth in the wider economy is slowing down, which we think will lead to continued low interest rates.

SWEDEN IN A GLOBAL PERSPECTIVE

The strong momentum in the Swedish economy has carried through into 2019 but is expected to weaken compared with recent years. The National Institute of Economic Research (KI) forecasts 1.3 per cent GDP growth for Sweden in 2019. This is lower than the 2.3 per cent rate seen in 2018. The major investments that have underpinned GDP growth are expected to be trimmed while global growth is seen declining from 3.8 per cent in 2018 to around 3.6 per cent in 2019. The major tax cuts that were implemented in the US in late 2017 had a positive impact on growth in 2018, both domestically and also indirectly at the global level. This effect is expected to wane in 2019. Escalating US-Chinese trade tensions, the risk of a hard Brexit, increased geopolitical instability and other sources of concern are creating an uncertain global environment.

Global debt levels are rising rapidly, outpacing underlying economic growth by a wide margin. Central banks worldwide have expanded their balance sheets to encourage new lending in an effort to boost growth. This expansion is expected to go into reverse in 2019, which could have an impact on currencies, asset prices and general risk appetite. The Riksbank is currently holding

SEK 350 billion of Swedish government bonds, although this volume is expected to remain constant in 2019.

THE LABOUR MARKET IS STRONG, BUT CHALLENGING

Employment growth in Sweden has remained constant for some time and unemployment is falling. KI expects unemployment to increase to 6.4 per cent in 2019, marginally up from the low of 6.3 per cent reached in 2018. Demand for labour remains strong but it is becoming increasingly difficult to match supply and demand. The integration of new workers in the Swedish labour market will be one of the biggest challenges also in 2019.

REPO RATE AND INFLATION

In December, the Riksbank raised its repo rate by 25 basis points to -0.25 per cent, pointing to the strong economic activity, the fact that inflation is close to target and is expected to remain there, and a reduced need for ultra-loose monetary policy. This was the first change in the repo rate since February 2016. The Riksbank's own forecast from February points to a further increase in the repo rate in the second half of 2019 and a repo rate of around 1 per cent at the end of 2021. However, the bank also states that the risks have increased and that it will be monitoring the situation closely to assess various potential effects on Swedish growth and inflation. The December forecast indicates that inflation will remain close to the 2 per cent target for the foreseeable future. The raising of the repo rate has been accompanied by a rise in the 3-month STIBOR rate. STIBOR is used as a base rate for variable loans and therefore has a direct impact on household and corporate

interest expenses. Several of the Swedish banks have repo rate forecasts that point to a slower pace of rate increases and suggest that interest rates will peak at a lower level than the Riksbank is projecting. The main reasons for this are declining global and domestic demand coupled with lower inflation and unemployment than in the Riksbank's forecast.

Despite the matching difficulties on the job market, wage pressure and its contributions to inflation are low. Rising energy prices and a good economic situation raised inflation, measured through the fixed-interest CPI, to around 2 per cent. KI anticipates that the rate of inflation will decrease somewhat in the coming years as a result of falling energy prices, minimal price increases and the absence of wage pressure.

A GROWING POPULATION

The Swedish population increased by around 110,000 in 2018, to 10.2 million. This is an increase of around 1.1 per cent. Average population growth in our cities is around 0.8 per cent, with Umeå, our largest city, growing at faster pace of about 1.8 per cent. In terms of local labour market regions, the population base around our cities is around 1 million.

HOUSE PRICES AND INVESTMENTS

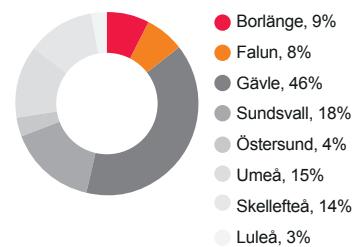
Swedish house prices fell in 2017 and early 2018 but have since stabilised. The negative trend has led to a decline in residential investments, which has had a direct impact on GDP. Housing starts declined by around 10,000 in 2018 and are expected to decrease further in 2019. Population growth and a shortage of housing are expected to keep house prices stable, despite slower growth.



1 MILLION PEOPLE

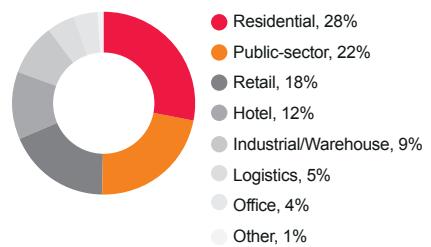
LABOUR MARKET REGION
AROUND OUR CITIES

TRANSACTION VOLUME BY MUNICIPALITY



Source: Pangea Research.

TRANSACTION VOLUME BY SEGMENT



Source: Pangea Research.



THE ECONOMY IN NORTHERN SWEDEN

According to Norrlandsfonden's business climate index from autumn 2018, the economy in our region remains strong with a continued high level of economic activity in several industries. The Gävle region has the highest pace of growth while the other regions report above-average growth. The industrial sector has the biggest impact on economic growth in northern Sweden and is expected to remain stable in 2019 after a period of robust activity. IT services is the industry that is most optimistic about the future and where growth is expected to come from structural factors rather than being linked directly to a strong economy.

TOURISM AND HOSPITALITY

Tourism and hospitality is a growing sector globally and Sweden is in a good position to benefit from this growth. The number of guest nights is increasing, especially among foreign visitors. Tourism and hospitality has the biggest economic impact in Jämtland, and with two world championships scheduled for 2019 – the Alpine World Ski Championships and the Biathlon World Championships – there is every prospect for continued growth.

THE PROPERTY MARKET

The property market in our cities is marked by high total returns and low volatility in property values. The volatility in the total return on property was nearly 6 per cent lower than in Stockholm over the period 1996–2018, as illustrated in the graph to the right. The main reason for the lower volatility is the higher yield on the properties.

In 2018, properties worth SEK 13.3 billion changed hands in our market. By municipality,

the transaction volume was highest in Gävle while residential properties had the highest turnover segment-wise. See the graph on the preceding spread for a full breakdown.

THE RENTAL MARKET

Offices

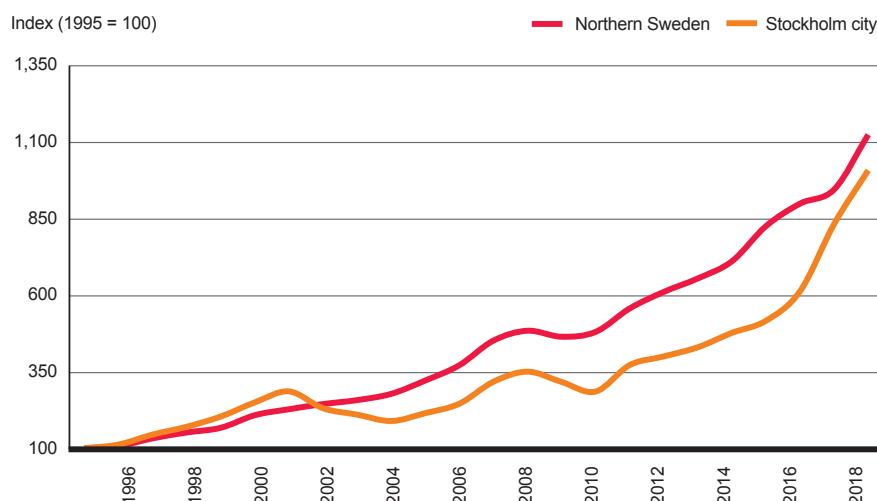
The office market in our cities remains strong amid rising rents. The strongest markets are those in Skellefteå and Umeå, where demand for centrally located offices is high while supply is limited. Flexibility and a relevant location are what tenants are looking for and what they are willing to pay most for. There is also good demand for co-working, where the business and payment models differ compared with normal office lets. Due to the continued

polarisation, rental growth in class B and C locations is very limited.

Retail

Centrally located retail properties and shopping centres have seen stable rental growth. The rise of e-commerce and changing consumption patterns are affecting the stores' space requirements. In the retail sector, polarisation, and the content and relevance of the place are even more important, which results in a degree of conversion from retail to something else when the place is no longer sufficiently attractive for running a shop. Offices, cafés and co-working spaces have replaced retailers without significantly affecting rents.

TOTAL RETURN ON THE PROPERTIES



Source: Pangea Research. The diagram shows a proxy for total return based on standardised assumptions. Total return refers to the yield on the properties plus unrealised changes in value.



POPULATION GROWTH FORECAST

POPULATION GROWTH FORECAST FOR 2027

	Growth	Current situation		Growth	Current situation
Falun	4%	58,920	Åre	16%	11,530
BORLÄNGE	7%	52,220	Östersund	9%	63,230
Mora	6%	20,390	Umeå	12%	127,120
Gävle	8%	101,460	Skellefteå	8%	72,470
Sundsvall	4%	98,850	Luleå	7%	77,830

Source: Statistics Sweden, regional targets and forecasts (local authority websites).

58,920

Population of the municipality

1.2%

Population growth in the municipality 2018

5.6%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



► The Årummet residential property, Falun.

► FALUN

Falun is a city with a vibrant centre, an attractive shopping district and a flourishing cultural scene. The Lugnet national ski stadium and Falun Copper Mine are two of the city's best known attractions.

Here we are continuing our efforts to link up Holmtorget and Knutpunkten while developing a modern, efficient and green 7,000 sq.m office together with the county council.

SHARE OF TOTAL PROPERTY VALUE



● Falun, 7%
● Other cities, 93%

RENTAL VALUE BY TYPE OF PREMISES



● Office, 39%
● Retail, 33%
● Residential, 2%
● Hotel/Restaurant, 6%
● Care/Education, 17%
● Industrial/Warehouse, 1%
● Other, 3%

34



17
PROPERTIES



107,000
SQ.M
LEASABLE AREA



SEK 1,466M
MARKET VALUE



MIKAEL HEDH ON OUR FALUN MARKET



➤ Mikael Hedh, Head of Operations for Falun/Borlänge/Mora.

➤ WHAT MAKES FALUN AN ATTRACTIVE CITY FOR DIÖS?

Falun has a well functioning central shopping area with a varied and attractive range of shops and services. The fact that we have a very good relationship with the local authority in Falun also puts us in a strong position to help drive urban development.

➤ WHAT MAKES FALUN AN ATTRACTIVE LOCALITY FOR BUSINESSES AND RETAILERS?

The city is seeing a steady influx of people and has a vibrant centre. We and the local authority are also working actively to continue to develop the city centre. We are well aware that we need to stay on our toes and respond to the changes that are taking place in e-commerce to keep the brick-and-mortar stores alive. Our tenants need the right premises, in the right locations, with the

right content and have every opportunity to flourish – that applies to both new and existing tenants. For each new business opening, we factor in all these parameters.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We have good relationships with several different players in the locality that are active and want to push the agenda forward. We have partnered with Falu P, a joint parking company for the local authority and private companies, to ensure good access and easy parking. Centrala Stadsrum, which is working to develop the city centre, is another important forum for us.

➤ WHAT WERE DIÖS' FOCUS AREAS IN FALUN IN 2018?

In 2018, our main focus was on developing the Bergströms Galleria shopping centre, where Lyko, Harrys, Scorett and other tenants have set up shop in entirely new premises. Next in line is Bastard Burgers, which will open in summer 2019.

In January, the American Take Away concept was established in our premises just outside the Falan Galleria.

In spring, construction commenced on the Årummet residential property – 19 apartments that there has been strong demand for. The tenants will move in in summer 2019.

We also began work on the major redevelopment of the county council's premises, where we are aiming to create a modern, more efficient and greener office.

➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

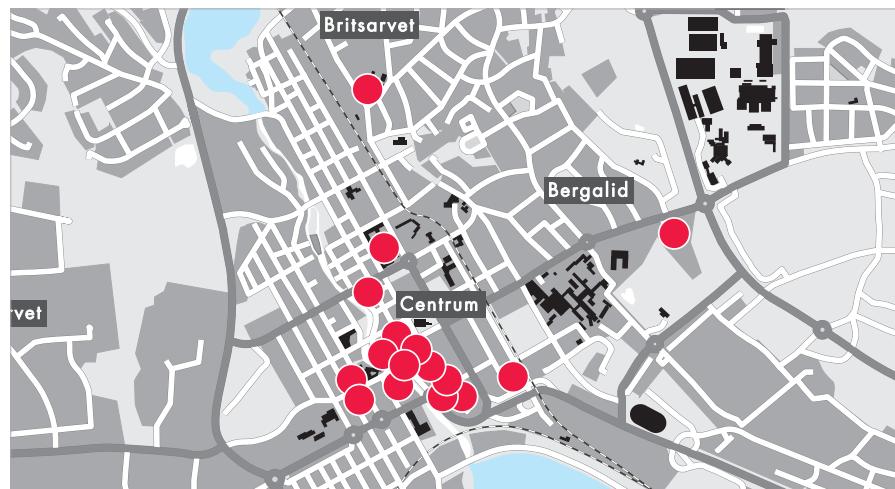
We will continue our project to develop Holmtorget that we have been working on for a couple of years. We will, for example, create new premises for Pressbyrån and the waiting room at the Knutpunkten bus station, to link up Knutpunkten with Holmtorget and the rest of the central shopping district. We have also signed a new lease with Åhléns, whose premises will be developed in line with their new store concept. In the same building, Everytime Fitness will be moving in around mid-August. We will be making some major changes to the 1,500 sq.m space, turning it into a modern 24-hour fitness centre. Our goal is to complete all projects around Holmtorget by the end of 2019.

As I mentioned previously, the redevelopment of the county council's offices is under way. 7,000 square metres are being turned into new, adapted premises in a project that is scheduled for completion in autumn 2019.

The Restaurant and Food Programme will also be moving into Diös premises in central Falun. Right now, we are converting the space into a full-scale restaurant school with two kitchens, a bar, dining room, classrooms and new changing rooms. Occupancy is scheduled for August 2019.

Apart from these projects, we are of course looking forward to welcoming more tenants who want to expand and develop their premises together with us.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	950–1,400	6.75–7.75
	B-location	800–1,150	7.25–8.25
Retail	A-location	1,300–3,000	5.90–6.75
	B-location	1,000–1,800	6.25–7.00
Warehouse/ industrial	A-location	400–700	6.75–9.50
	B-location	350–450	8.50–11.00

¹ Data taken from Datscha AB.

52,220

Population of the municipality

0.7%

Population growth in the municipality 2018

8.0%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



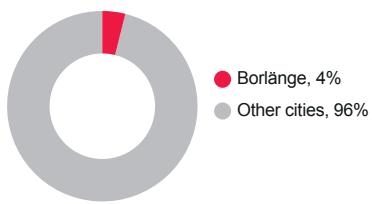
➤ Offices of the Swedish Transport Administration, one of our tenants, at Intagan 1, Borlänge.

➤ BORLÄNGE

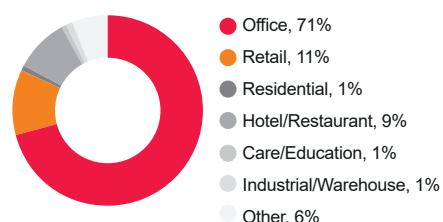
Borlänge wants to take the step from traditional market town to events city. There is a desire to arrange more big events, such as the Dalecarlia Cup and the Peace & Love festival, and to develop the city's retail and restaurant services to meet the inhabitants' changing shopping habits and needs. The Transport Administration and Dalarna Science Park attract IT consultants from other places and there are good transport connections from the centre of town.

We are planning tomorrow's office together with the Transport Administration and are creating even more space for housing as well as offices.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



36



14

PROPERTIES



95,000 SQ.M

LEASABLE AREA



SEK 904M

MARKET VALUE



MIKAEL HEDH ON OUR BORLÄNGE MARKET



➤ Mikael Hedh, Head of Operations for Falun/Borlänge/Mora.

➤ WHAT MAKES BORLÄNGE AN ATTRACTIVE CITY FOR DIÖS?

Borlänge has a strong local economy, good transport connections and a popular university college. There is a considerable need for office space and a big development potential in retail, where we can actively help to adapt the range of shops and services in response to new buying habits and new needs. The eating-out trend is growing ever stronger, and we see big opportunities in continuing to develop the range of restaurants and other activities throughout the city centre.

➤ WHAT MAKES BORLÄNGE AN ATTRACTIVE LOCALITY FOR BUSINESSES AND RETAILERS?

The good transport connections are important. There are many stable companies in the locality and a large number of consultants from outside who work at places like the Transport Administration and Dalarna Science Park. This in turn creates increased demand, and job opportunities, for service providers in the area.

With regard to the central shopping district, we are facing a new era of changing buying habits and see big opportunities to create openings for entirely new concepts that complement rather than compete with the city's out-of-town shopping centres. An wider range of activities and restaurants in the centre of town will lead to more people moving about in the city, which in turn will result in further tenants with attractive concepts choosing to establish a presence here.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We have a very good relationship with the business and enterprise team at the local authority and with other property owners. We are also involved in the "Händelstaden Borlänge" project, which is aiming to transform Borlänge from a traditional market town into an events city – a big and important step for the development of the city. Last but not least, our

collaboration with the Transport Administration is very important for ensuring that they remain in the city and that we are able to meet their future needs.

➤ WHAT WERE DIÖS' FOCUS AREAS IN BORLÄNGE IN 2018?

In 2018, Norconsult, the Nordic region's largest consultancy in land use planning and project planning, established a presence in our centrally located office premises. We have also developed premises for the software company tretton37.

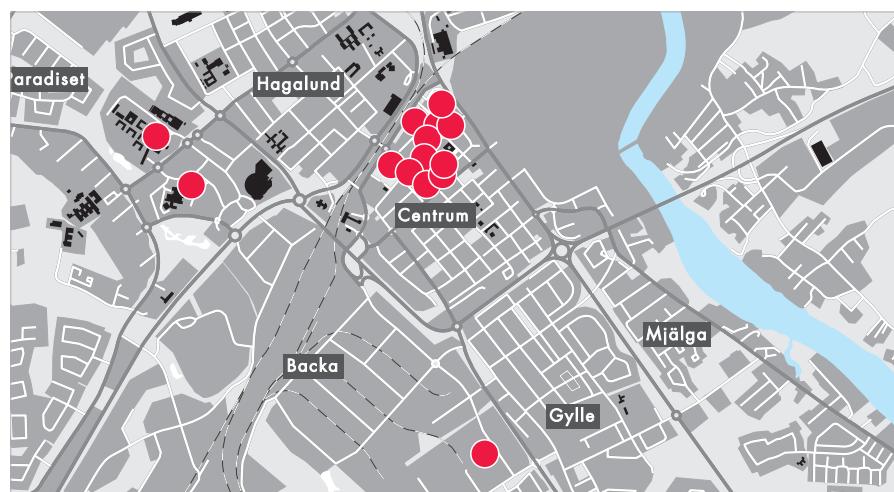
➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

Above all, we want to take responsibility for developing a good mix of retailers, activities and places to eat in central Borlänge. We want to create more prime locations, adapt to the city's flows and find the right tenants with the right offerings – based on the inhabitants' new shopping habits.

We have signed a letter of intent with the Transport Administration to develop their existing premises, where we will create tomorrow's office – a modern, activity-adapted and creative environment. We are also building a new service office for the Tax Agency.

Right now, we are working on a big and crucial new business opening in the city centre that we hope to be able to communicate shortly.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	900–1,500	6.50–8.00
	B-location	800–1,150	7.25–9.00
Retail	A-location	1,200–2,500	5.75–6.50
	B-location	800–1,100	6.75–7.75
Warehouse/ industrial	A-location	450–800	7.00–9.00
	B-location	350–600	8.75–10.50

¹ Data taken from Datscha AB.

20,390

Population of the municipality

Source: Statistics Sweden and the Swedish Public Employment Service

0.2%

Population growth in the municipality 2018

3.8%

Unemployment in the municipality

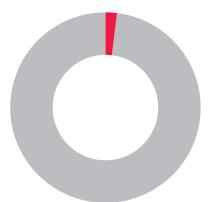
► Stranden 35:8, Mora.

►MORA

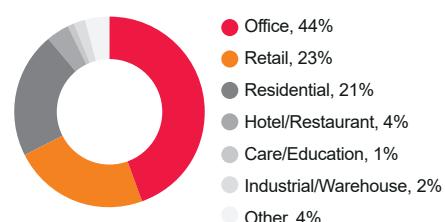
Mora is the strong tourist destination that keeps growing, with a good mix of shops, services and experiences. It is home to several big sporting events that put the city on the map and attract businesses and visitors from across the world, not least the Vasaloppet ski race. There is a strong entrepreneurial spirit, with brands like Dalahästen (Dalecarlian horse) and Morakniv (Mora knife).

We help local entrepreneurs to establish a presence in the city centre and are developing the former Åhléns building into a gym, offices and retail spaces based on exciting new store concepts.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



38



12

PROPERTIES



37,000 SQ.M

LEASABLE AREA

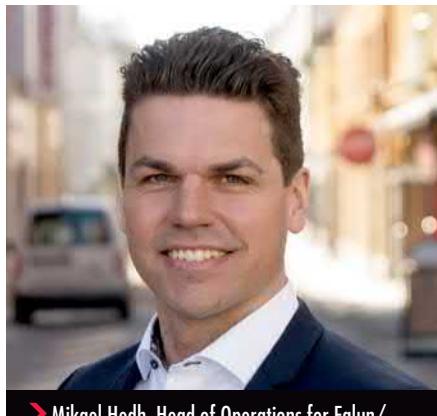


SEK 402M

MARKET VALUE



MIKAEL HEDH ON OUR MORA MARKET



➤ Mikael Hedh, Head of Operations for Falun/Borlänge/Mora.

➤ WHAT MAKES MORA AN ATTRACTIVE CITY FOR DIÖS?

Mora is a city that is growing rapidly, partly because of the tourist industry, as the city attracts large numbers of tourists in both summer and winter. Those of us who live here feel that there are things happening everywhere.

Mora has a wide range of sports facilities and hosts sporting events that put the city on the map, foremost of which is the enormous Vasaloppet ski race. The city's proximity to Norway is a boon to local retailers and Mora has become a meeting place and centre of trade for many people.

➤ WHAT MAKES MORA AN ATTRACTIVE LOCALITY FOR BUSINESSES AND RETAILERS?

Mora is the hub of northern Dalarna, with a big catchment area. We have a good mix of shops,

experiences and services – provided by local businesses as well as big companies – and a strong entrepreneurial spirit. Everyone that is active in Mora tries to do their bit to maintain an attractive range of services and to continually develop the city.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We have a good dialogue with the local authority, politicians, government officials and other property owners in the centre, including Regionstad Mora and Visit Dalarna. It is incredibly important for the city to ensure that we have a shared view and work together across all industries, particularly in the retail and tourism sectors but also in the industrial and construction sectors.

➤ WHAT WERE DIÖS' FOCUS AREAS IN MORA IN 2018?

In early 2018, Dalarna County Council and Mora Local Authority opened their new integrated family centre, Familjecentralen, in the centre of town. We developed the 1,600 sq.m premises for them to provide space for an open kindergarten, maternity clinic, postnatal clinic and schools health centre. The contract with the county council and local authority is a 'green' lease, which means that we are working together to reduce energy use – in the activities as well as in the property – and reviewing our progress annually.

In the spring, Swedbank moved into a brand new office that we have developed based on their

concept, with flexible workplaces and attractive spaces for customer visits and meetings.

In the autumn, Espresso House also set up shop in our premises, with a completely new interior design concept.

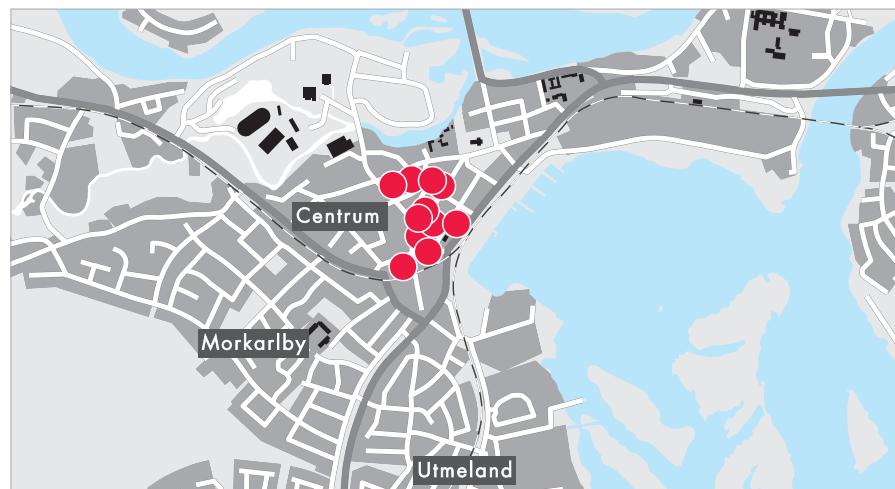
➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

We are seeing strong demand for commercial premises, especially from local entrepreneurs. We will of course try to meet that demand by developing further attractive premises in the right locations.

We will also continue to develop Åhléns' former premises and fill them with new and exciting content. Apart from the new Espresso House outlet, we will be developing premises for the Arctic health and wellness chain and explore the possibility of creating new co-working spaces.

The local authority is working with the Transport Administration to rebuild the road that runs through Mora, the "Mora Thoroughfare". The current traffic situation is not ideal, and the roadworks are intended to improve access to the city.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	750–1,000	7.00–8.00
	B-location	600–850	8.00–10.00
Retail	A-location	900–1,350	6.75–8.00
	B-location	700–1,000	8.50–9.25
Warehouse/industrial	A-location	350–550	8.25–9.00
	B-location	250–400	9.00–11.00

¹ Data taken from Datscha AB.

101,460

Population of the municipality

0.9%

Population growth in the municipality 2018

9.4%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



► Flanör shopping centre, Norr 14:5, Gävle.

>GÄVLE

Gävle has an ever expanding port and is in a perfect location for commuting. The local businesses are expert networkers and the growing population is continually creating new flows. The local authority is planning to build a cultural centre as well as new housing.

We are getting on board with the local authority's plans and are charting our own course to find the best possible development opportunities for our properties in the city centre. Our focus is on the areas around Stortorget and Alderholmen.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



- Office, 49%
- Retail, 22%
- Residential, 4%
- Hotel/Restaurant, 7%
- Care/Education, 9%
- Industrial/Warehouse, 2%
- Other, 8%



32

PROPERTIES



147,000
SQ.M

LEASABLE AREA



SEK 1,971M

MARKET VALUE



“ JENNIE JÄRVERUD ON OUR GÄVLE MARKET



► Jennie Järverud, Business Area Manager Gävle.

► WHAT MAKES GÄVLE AN ATTRACTIVE CITY FOR DIÖS?

Mainly that it is a city where there is a lot going on and no one is standing still. Gävle is also in a really good location for commuting – 80 minutes by train from Stockholm and 60 minutes by train from Arlanda Airport.

The port keeps growing, and at a time when logistics is becoming ever more important many big businesses are looking at Gävle as an alternative logistics hub. Microsoft recently bought 130 hectares of land here, which says a lot about the city's location.

The local authority is looking at how to expand train services, more housing will be built in the centre of town and there is a big need for more office space. So there is every opportunity

for us at Diös to assume an active and driving role in enabling new business openings and new office concepts.

► WHAT MAKES GÄVLE AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?

The fact that the population is growing every year is of course attractive. The goal is 120,000 inhabitants by 2030, and for each new inhabitant the need for housing, stores and offices increases. We have a popular university college, are close to Stockholm and have good logistics. Businesses owners in Gävle are also good at networking and taking part in various forums, which gives the city a positive image in other parts of the country. Many businesses appreciate that we are a local property owner, unlike many others. They feel that they can have a simple and direct dialogue with us.

► HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We have a really good relations with other players and take part in a variety forums, such as Marketplace Gävle, a joint initiative between the local authority and several big companies, and the City Renewal Group, which includes politicians and town planners. I am also on the board of Gävle City, which coordinates activities relating to the city centre and has representatives from public transport, the retail sector and the local authority.

One of the issues that we are addressing is how to make Gävle attractive for new business openings.

► WHAT WERE DIÖS' FOCUS AREAS IN GÄVLE IN 2018?

In 2018, we began working on the major development project in our Konvaljen property on Stortorget in the heart of Gävle. In the autumn, the new tenants moved in, and the building is now fully let. ÅF, the technical co-working office DoSpace and the Basta restaurant are some of the new tenants. The development project is expected to be completed now in early 2019.

► WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

We will be focusing on our properties around Stortorget and Alderholmen and the Wasahuset property. We will also complete on the purchase of the Centralpalatset property next to the central station, which has great development potential.

The local authority is exploring the possibility of creating a new cultural centre in the heart of Gävle, and we will be looking at how we can benefit from the new flows that this will create. New housing areas will also increase the flow of people passing through Alderholmen and the central station, and we are therefore working with other property owners to identify the right development opportunities in that area.

► OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	1,050–1,600	5.40–6.40
	B-location	950–1 500	6.00–7.00
Retail	A-location	1,600–3,750	5.75–6.50
	B-location	1,200–1,800	6.25–7.00
Warehouse/ industrial	A-location	550–900	6.50–8.00
	B-location	450–650	7.00–8.50

¹ Data taken from Datscha AB.

98,850

Population of the municipality

0.1%

Population growth in the municipality 2018

7.3%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



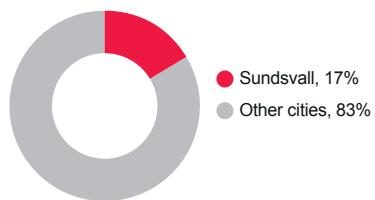
► Sundsvall.

►SUNDSVALL

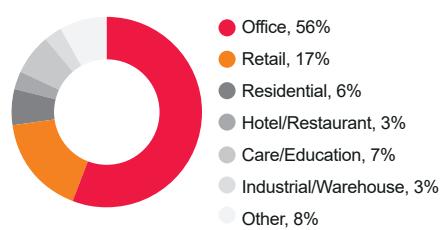
Sundsvall is the city between the hills, with Sweden's most beautiful city centre, Stenstaden. The football stadium occupies a central location, restaurants of every hue dot the city and it will soon become easier to get about by public transport. New areas of town are being created and old ones are growing, all with the ambition of increasing density and linking up the city centre. Sundsvall never stands still.

We are building a new hotel, developing the content of an entire block and driving development issues together with the local authority.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



52

PROPERTIES



**233,000
SQ.M**

LEASABLE AREA



SEK 3,424M

MARKET VALUE



SOFIE STARK ON OUR SUNDSVALL MARKET



► Sofie Stark, Business Area Manager for Sundsvall

► **WHAT MAKES SUNDSVALL AN ATTRACTIVE CITY FOR DIÖS?**
Sundsvall is in an incredibly good location in Sweden with good transport connections to the north and south. The city has several industries that are growing at a steady pace, including banking, IT, insurance, and tourism and hospitality. It is a city that is constantly changing, and right now several new areas of town are being created close to the centre of town: Norra Kajen, Södra Kajen and Alliero. The areas around Åkroken and Mid Sweden University are also expanding.

► **WHAT MAKES SUNDSVALL AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?**
The fact that we have one of the country's most beautiful city centres is a big draw for many businesses. As mentioned, we have very good transport connections with frequent services to

the north and south, which is big advantage for our companies. The football stadium is in the centre of town and helps to create a positive flow of people. Access to skilled workers is high on the agenda for local businesses – a challenge that they solve through strong entrepreneurship and an understanding of how to cater for graduates. This enables the companies to grow and develop. The great outdoors is just round the corner and we also have a world-class ski centre.

► HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We have a very good partnership with the local authority, Näringslivsbolaget and the Centre for Research on Economic Relations (CER), and meet regularly to drive development issues. We also have frequent discussions with the chamber of commerce, which drives communication issues, and have a seat on the board of the city's urban development company. Sundsvall is aiming to win the City Centre of the Year award in 2021, when the city will be celebrating its 400th anniversary, and that is something that we are working together to achieve. In 2019, the local authority will also be launching a business promotion programme that Diös will be participating in.

► WHAT WERE DIÖS' FOCUS AREAS IN 2018?

In 2018, it was decided that we would build a centrally located hotel together with Nordic Choice Hotels, which is an incredibly exciting project. We have also initiated a major transformation of the In:Gallerian shopping

centre in the heart of town. We will be developing a new block with an international feel and a cool mix of shops, restaurants, co-working spaces and housing. Already, Grant Thornton has moved in to a space that has been converted from retail premises into state-of-the-art offices. In the autumn, we also started developing the Metropol business centre.

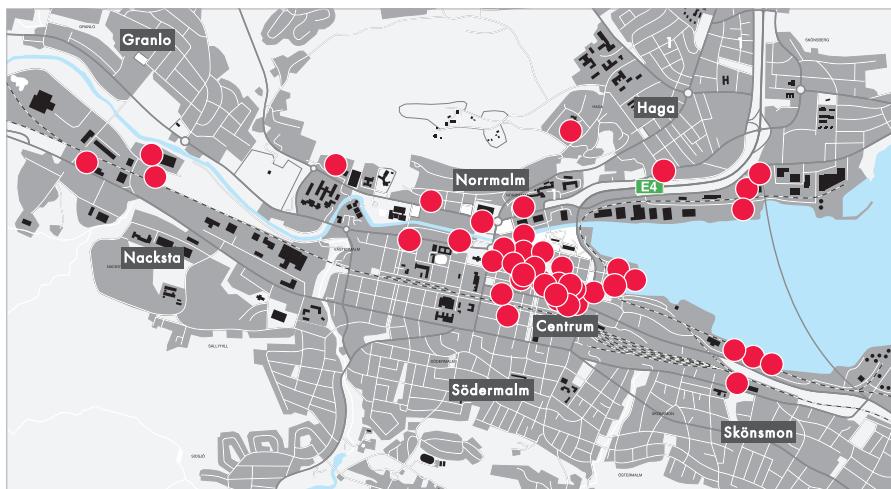
► WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

The most exciting development is of course that construction will commence on our new hotel. The hotel will be an important part of the new block that we are creating in the heart of Sundsvall, close to the existing In:Gallerian shopping centre. The development will lead to rent increases for these as well as the adjoining properties, as we will be creating new prime locations and places where people want to be. We will be working with existing and new tenants to develop the premises as well as the content. The first sod will be turned on 1 March and construction is expected to take two years.

We will also continue the initiated development of the Metropol business centre to create further new attractive workplaces.

In summer 2019, the local authority will begin work on creating Sundsvall's new transport hub, which is set to improve public transports in the city. The autumn also saw the launch of "Sundsvall is growing", a joint initiative covering 30-odd projects, including investments in road and rail transports, water and sewage systems, and green areas. New housing will also be built in several areas. All these projects will be ongoing in 2019.

► OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m.	Yield, %
Offices	A-location	1,400–2,000	5.50–6.50
	B-location	1,200–1,800	5.50–6.50
Retail	A-location	1,600–3,500	5.75–6.50
	B-location	1,200–1,800	6.25–7.00
Warehouse/ industrial	A-location	600–1,000	6.75–8.00
	B-location	500–900	7.00–8.50

¹ Data taken from Datscha AB.

63,230

Population of the municipality

1.1%

Population growth in the municipality 2018

5.7%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



➤ Östersund with Frösön in the foreground.

➤ ÖSTERSUND

Östersund is a city where there is a strong drive for development – among the skiing elite as well as the business sector. The proximity to the mountains, lakeside setting and vibrant city centre are a big draw for many people, and businesses here attract new staff with promises of a richer life at the foothills of the mountains.

We are opening up courtyards in the city to create new flows, are developing premises for everything from creative industries to government agencies, and are implementing further sustainable energy and environmental solutions.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



- Office, 39%
- Retail, 16%
- Residential, 19%
- Hotel/Restaurant, 6%
- Care/Education, 7%
- Industrial/Warehouse, 8%
- Other, 6%



86

PROPERTIES



271,000
SQ.M

LEASABLE AREA



SEK 3,086M

MARKET VALUE



JOHAN FRYKSBORN ON OUR ÖSTERSUND MARKET



➤ **Johan Fryksborn, Business Area Manager
Östersund/Are.**

➤ WHAT MAKES ÖSTERSUND AN ATTRACTIVE CITY FOR DIÖS?

In Östersund, there is an incredibly strong drive for development and a genuine will among all players to work together and do business – from the local authority, businesses and local clubs and societies to non-profit groups and private individuals. Companies are willing to invest in their businesses and their employees.

The fact that Östersund time and again draws the attention of the world in connection with big sporting events has turned the city into a strong and attractive brand.

➤ WHAT MAKES ÖSTERSUND AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?

Östersund is a unique city in many ways, mainly because of its location right next to lakes and mountains. We are seeing a clear trend in

recruitment, especially in IT, where coveted workers are attracted by the prospect of working in a place where they can combine a high-calibre job with rewarding leisure time in a mountain landscape.

Historically, Östersund has been an important centre of trade, which is shown by the fact that we still have a living city centre with fantastic restaurants and cafés. The city is known and prized for its gastronomy, which attracts visitors from across the world.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

In our role as a major private property owner, we naturally want to take part in any initiatives aimed at developing the city. One example is Destinationsbolaget, where Diös is working with the local authority, private businesses and other property owners to create a living city centre. In 2019, Östersund will be putting itself forward as a candidate for the City Centre of the Year award, thanks to the efforts of Destinationsbolaget.

Another big player that we are working with is local power company Jämtkraft. Together, we identify energy vampires and turn our properties into smart properties.

We are also working with Jämtlands Basket and Region Jämtland Härjedalen, where we support the Team 12-17 project, which gives children aged 12–17 the chance to attend all Jämtland Basket's home matches in the premier basket league by saying no to drugs.

➤ WHAT WERE DIÖS' FOCUS AREAS IN ÖSTERSUND IN 2018?

At the end of the year, the courtyard on Hamngatan in the centre of town that we have been developing for some time, Norra Station, was opened. It now houses a restaurant, café and co-working space as well as Galleri Lux, the city's new rendezvous for culture and art buffs. This is a fantastic example of business owners getting together to work in a creative environment.

The Swedish Agency for Economic and Regional Growth expanded its space in the same property and we opened Östersund's new indoor skate park, which has already attracted 800 members.

We also continued to develop the Söder district, where new offices of varying kinds are emerging.

➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

In the coming years, our urban development activities will be aimed at continuing to "open up" the city in order to create new and better flows. We will do this partly by opening up more courtyards and by increasing the density and concentrating the city's shops and restaurants. We will also be implementing further sustainable energy and environmental solutions.

We are also planning a new build/redevelopment of the Läkaren block, where we want to create new office space in an attractive location close to the city and the mountains.

And we are continuing our discussions with the local authority concerning Gustav III:s torg, which we want to be a living and safe area of town with housing, offices and a hotel.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	1,050–1,750	5.75–6.75
	B-location	1,000–1,350	6.50–7.25
Retail	A-location	1,500–2,500	6.00–7.00
	B-location	1,100–1,800	6.25–7.25
Warehouse/ industrial	A-location	500–850	7.25–9.00
	B-location	400–800	7.50–9.25

¹ Data taken from Datscha AB.

11,530

Population of the municipality

3.1%

Population growth in the municipality 2018

6.4%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



➤ Åre Prästbod 1:76, Åre.

➤ ÅRE

Åre has taken the step from ski resort to popular year-round destination, especially for cycle tourism. The locality is also one of the country's hottest places for business start-ups, networking and gastronomy.

Events such as Åre Business Forum, Åre Session and Åre Autumn Fair attract residents as well as visitors of all ages.

We are involved in what is happening – and make it happen. A strong co-working concept, flexible office modules and an expanded retail venue are some of the results so far, and we have only just begun.

SHARE OF TOTAL PROPERTY VALUE



● Åre, 2%
● Other cities, 98%

RENTAL VALUE BY TYPE OF PREMISES



● Office, 27%
● Retail, 46%
● Residential, 0%
● Hotel/Restaurant, 10%
● Care/Education, 8%
● Industrial/Warehouse, 1%
● Other, 8%

46



6
PROPERTIES



30,000 SQ.M
LEASABLE AREA



SEK 456M
MARKET VALUE



JOHAN FRYKSBORN ON OUR ÅRE MARKET



➤ **Johan Fryksborn, Business Area Manager
Östersund/Åre.**

➤ **WHAT MAKES ÅRE AN ATTRACTIVE LOCALITY FOR DIÖS?**
Åre has gone from being simply a ski resort to a full-scale year-round destination that is attracting a growing number of permanent residents. More people in the Åre valley also means a growing number of businesses. In 2017, Åre was ranked among the top three municipalities in Sweden for largest number of new businesses per inhabitant. There is a big need for new, modern office premises, and by creating such offices Diös is doing its part in helping to develop the locality.

➤ WHAT MAKES ÅRE AN ATTRACTIVE LOCALITY FOR BUSINESSES AND RETAILERS?

Åre is an attractive alternative for those who want to get away from the big cities or do business in an exciting and challenging environment. Today,

the workplace is more than just a place where you do your work; a workplace also needs to fit in with the sort of lifestyle you want to have. That's why many businesses are establishing "satellite offices" in alternative localities with the aim of attracting new employees.

Åre Local Authority is continuing to develop the existing infrastructure as well as housing and local services to encourage more business owners to move here.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

Together with the local authority and other players we are part of Åre Destination AB, a company that is owned by local businesses. This enables us to engage closely with businesses and the local authority, and to take an active role in driving the long-term sustainable development of the Åre valley.

We are also involved in interesting partnerships through House Be, the tech and start-up hub of which we are a partner. In autumn 2018, Luleå University established a presence in Åre through a partnership with Campus Åre and House Be. They will be starting with courses in web development, which is incredibly important, as there is strong demand for labour in the IT industry.

We are also a partner of Åre Business Forum, Sweden's premier business and investment forum.

➤ WHAT WERE DIÖS' FOCUS AREAS IN ÅRE IN 2018?

House Be has continued to grow, and in 2018 we opened a further 500 sq.m of office space spread across two stories.

We have developed new, flexible office modules at Årekompaniet, which is just next to House Be and is Åre's new meeting place for businesses.

And we have raised the profile of the area around COOP and Systembolaget as a retail venue by expanding their premises.

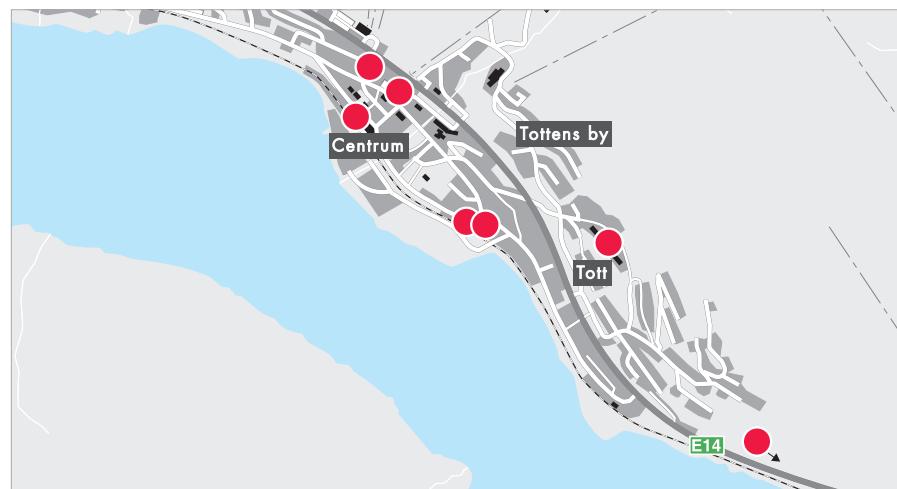
➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

Over the next few years, we will be implementing further sustainable energy and environmental solutions, like the one at Åre station. The solar panels that were installed there in 2018 are expected to generate 135 MWh annually, which covers more than 15 per cent of the property's total energy use.

We will also continue to develop Årekompaniet with the aim of establishing Åre's meeting place of choice for businesses. House Be, Campus Åre and Skistar already have a presence here, as do important functions such as the police and the Åre health centre.

We will also continue to develop Centrumhuset on Åre torg, where we will be investing in new, modern offices on the third floor in 2019. In spring 2019, we will be welcoming outdoor clothing company Stellar Equipment, which will establish its customer service and office functions in our premises.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	600–950	7.25–9.75
Retail	A-location	650–1,250	6.50–8.00
Warehouse/ industrial			

¹ Data taken from Datscha AB.

127,120

Population of the municipality

Source: Statistics Sweden and the Swedish Public Employment Service

1.8%

Population growth in the municipality 2018

5.2%

Unemployment in the municipality

► Umeå.

► UMEÅ

Umeå is buzzing with students, music, culture and idealism. "Umeå wants more" is the city's slogan, and this is evident not least in the ambition to grow the population to 200,000 by 2050. The city has one of Sweden's biggest universities and a large pool of qualified labour. Businesses view Umeå as a safe place to set up shop, and the city's environmental profile is crystal-clear: everything should be within reach without a car.

We are actively involved in the process of increasing the density of the inner city, partly by developing the Vale block. We are building more housing in the centre and a new hotel in collaboration with Nordic Choice Hotels.

SHARE OF TOTAL PROPERTY VALUE



Umeå, 17%
Other cities, 83%

RENTAL VALUE BY TYPE OF PREMISES



Office, 61%
Retail, 19%
Residential, 5%
Hotel/Restaurant, 6%
Care/Education, 1%
Industrial/Warehouse, 3%
Other, 5%

48



34

PROPERTIES



178,000
SQ.M

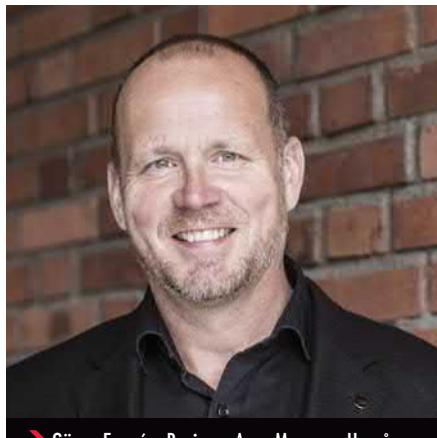
LEASABLE AREA



SEK 3,541M
MARKET VALUE



“ GÖRAN FONZÉN ON OUR UMEÅ MARKET



➤ Göran Fonzén, Business Area Manager Umeå.

➤ WHAT MAKES UMEÅ AN ATTRACTIVE CITY FOR DIÖS?

Umeå's population is growing by an average of 2,000 a year, and the goal is to reach 200,000 by 2050. This means that everything from housing and jobs to shops and activities will need to increase. The local authority's clear growth target acts as fuel for our ongoing projects. The local authority's ambition to increase the number of residents in the centre, a living city centre and that residents should be able to reach everything within a five kilometre radius is completely in line with our view on urban development and our focus on increased density.

➤ WHAT MAKES UMEÅ AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?

Umeå has a red-hot labour market and there is intense demand for qualified labour. That is drawing people to the city, which in turn attracts businesses. It creates a positive feedback loop centred on recruitment.

A city that is continually attracting new residents needs more of everything: more restaurants, more shops and a broader range of entertainment. I think the businesses that are setting up shop here view Umeå as a low-risk prospect.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

As a major player in the centre of Umeå, it is our responsibility to develop Umeå in a good and sustainable manner. Our projects need to both respond to and drive the city's development. That's why we engage in a continuous dialogue with the local authority, university, other big property owners and other players.

➤ WHAT WERE DIÖS' FOCUS AREAS IN UMEÅ IN 2018?

The biggest thing that happened in 2018 was our contract with Nordic Choice Hotels for the construction of a centrally located hotel in the Magne block. The hotel will be a completely new meeting place in the heart of town.

Otherwise, 2018 was a year of strong demand for office premises. This is a consequence of the city's strong growth and gives us inspiration in our efforts to develop new office concepts.

➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

We will be working to increase density in the centre of town and the adjoining areas. One project that will have a big impact is the Vale block by Vasaplan and the bus station, where we will be creating spaces for a restaurant and café on the ground floor, offices on the first floor and housing above that. By creating more housing in the block, we increase the buying power, the flow of people and the value of the properties.

The second big project that will be launched in 2019 is the hotel that we are building together with Nordic Choice Hotels, which is expected to take two years to complete. In connection with that, we will also be developing the MVG-gallerian shopping centre and welcome a new tenant, the House Be co-working concept. This will help to create a lively atmosphere in the block as a whole.

In 2021, Västra Esplanaden in Umeå will be converted from a four-lane road into a city street. This will have a big impact on the cityscape and the flow of people, creating new opportunities for our properties in the area.

The local authority is focusing on developing schools and care facilities to meet the needs of the growing population. The local authority-owned property company Bostaden will be building 1,000–1,500 apartments a year over the coming years, and the county council is investing SEK 3–4 billion in the redevelopment of the University Hospital.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	1,400–2,050	5.00–6.25
	B-location	1,000–1,650	5.50–7.50
Retail	A-location	2,200–4,200	5.75–6.75
	B-location	1,400–1,900	6.25–7.00
Warehouse/ industrial	A-location	500–950	6.50–8.00
	B-location	400–700	7.75–9.75

¹ Data taken from Datscha AB.

72,470

Population of the municipality

Source: Statistics Sweden and the Swedish Public Employment Service

-0.2%

Population growth in the municipality 2018

5.8%

Unemployment in the municipality

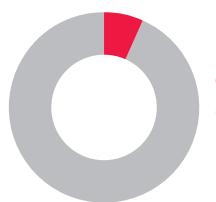
► Skellefteå.

► SKELLEFTEÅ

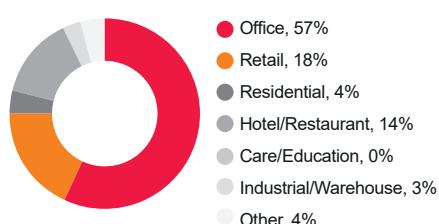
Skellefteå is a city that is known for its many authors and deeply rooted ice hockey culture. The city's traditional industrial sector is stable, but services and tourism and hospitality are expanding, and Europe's largest battery factory is also set to be built here. Skellefteå believes in the future.

We are developing two centrally located properties with more apartments and new office concepts. We will also be creating even more efficient and inspiring environments for our existing tenants.

SHARE OF TOTAL PROPERTY VALUE



RENTAL VALUE BY TYPE OF PREMISES



15

PROPERTIES



109,000
SQ.M

LEASABLE AREA



SEK 1,430M
MARKET VALUE



MARIA FJELLSTRÖM ON OUR SKELLEFTEÅ MARKET



► Maria Fjellström, newly appointed Business Area Manager Skellefteå.

► WHAT MAKES SKELLEFTEÅ AN ATTRACTIVE CITY FOR DIÖS?

The city is bubbling with new opportunities and offers a place for ideas. New apartments are being built, both for sale and to rent. The goal is a population of 80,000 by 2030, but there is so much happening in Skellefteå right now that the local authority is planning for an expansion to 100,000. New projects, new confidence and positive feelings for what we like to call "schtaan" are attracting new residents as well as returnees.

At Diös, we of course want to be involved in developing tomorrow's Skellefteå. We will

continue to invest, help to build more housing, increase the attractiveness of the city and the range of shops and services to make Skellefteå an even better city in which to live and work.

► WHAT MAKES SKELLEFTEÅ AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?

Where there is confidence in the future and growth, more jobs are created. More jobs attract new residents, which in turn leads to increased demand for housing, shops, meeting places and entertainment.

Northvolt's decision to build Europe's largest battery factory here, for example, has prompted architects and construction project designers to relocate here. The positive feedback loop is thus making the city ever more attractive as a place to set up business.

In Skellefteå, we have no vacancies in the retail segment, and the shops that are here are doing well and want to stay. This in turn is drawing even more brands to Skellefteå. In the office segment, too, vacancies are low, which is pushing up rents and increasing the value of our properties.

► HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

We are well positioned in Skellefteå, with several properties close to the city's main squares and the new cultural centre that the local authority is

building, which will house a library, hotel and spaces for activities and exhibitions. Due to Skellefteå's strong foundation and growth, all local players have a positive and open attitude to working together to take the city to the next level. In that effort, Diös is a close, strong and active player.

► WHAT WERE DIÖS' FOCUS AREAS IN SKELLEFTEÅ IN 2018?

In 2018, we acquired the Hjorten property in the middle of Skellefteå's pedestrian street, which we are planning to develop with an entirely new office concept and new housing in the next few years.

► WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

As in all our cities, our focus for the future is on increasing the density in the city centre. In 2019, we will continue the project planning process for the Polaris block on Torggatan, where we are planning to build housing. We will placing a strong emphasis on maintaining and building closer relations with our existing tenants. By implementing efficiencies and creating inspiring work spaces, we will create a good foundation for growth for our tenants. We also want to deepen our relationship with the local authority and our partners in Skellefteå, where there is a shared interest in development.

► OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	900–1,400	6.75–7.75
	B-location	800–1,175	7.75–9.00
Retail	A-location	1,400–2,500	6.25–7.00
	B-location	900–1,400	6.50–7.50
Warehouse/ industrial	A-location	400–1,000	7.00–9.00
	B-location	250–600	8.00–11.00

¹ Data taken from Datscha AB.

77,830

Population of the municipality

0.6%

Population growth in the municipality 2018

6.2%

Unemployment in the municipality

Source: Statistics Sweden and the Swedish Public Employment Service



► The Smedjan Galleria shopping centre, Luleå.

► LULEÅ

Luleå, the modern coastal city in the north, has a fantastic archipelago in summertime and a host of activities on the ice in wintertime. This is a city with a steadily growing population, a university of technology that attracts the very brightest, and a growing tourism and hospitality industry.

We have taken an active and driving role in urban development in Luleå. We are increasing the density of the centre by creating more housing and new, modern offices, and continue to develop our three central shopping centres to create tomorrow's meeting places in Luleå.

SHARE OF TOTAL PROPERTY VALUE



● Luleå, 20%
● Other cities, 80%

RENTAL VALUE BY TYPE OF PREMISES



● Office, 56%
● Retail, 28%
● Residential, 4%
● Hotel/Restaurant, 3%
● Care/Education, 2%
● Industrial/Warehouse, 1%
● Other, 5%

52



28

PROPERTIES



205,000
SQ.M

LEASABLE AREA



SEK 4,053M
MARKET VALUE



JOHAN LÄNG ON OUR LULEÅ MARKET



➤ **Johan Läng, Business Area Manager for Luleå**

➤ WHAT MAKES LULEÅ AN ATTRACTIVE CITY FOR DIÖS?

Luleå has seen steady population growth and everywhere you look things are being developed and renewed. The local authority has a clear policy that drives and enables development. Previously an industrial town, Luleå is now a modern city with a good mix of industrial firms and service companies. The tourism and hospitality sector is another strong engine, driven by a steadily increasing flow of tourists and fully booked hotels.

➤ WHAT MAKES LULEÅ AN ATTRACTIVE CITY FOR BUSINESSES AND RETAILERS?

Luleå is an incredibly beautiful city, surrounded by water and with a unique archipelago. We are easily accessible thanks to frequent air and rail

services. We have a living city centre with three shopping centres, a good mix of shops, top-notch restaurants and meeting places. The city also has a clear strategy for the breakdown between out-of-town and city-centre shopping centres, ensuring that they complement each other.

Luleå is also a fantastic sports city whose local teams are in the premier league in basketball as well as ice hockey.

➤ HOW ARE YOU COLLABORATING WITH OTHER PLAYERS IN THE LOCALITY?

In Luleå, there is a successful partnership among businesses, the local authority and the university (Triple Helix). A clear example of this is our activities relating to Luleå Science Park, where we have created a joint company that will be driving the development of the park.

We are also shareholders and have a seat on the board of Visit Luleå. By driving growth in retailing and tourism, we are making Luleå a more attractive city. In short: urban development.

➤ WHAT WERE DIÖS' FOCUS AREAS IN LULEÅ IN 2018?

As part of our urban development strategy, we developed the Strand galleria shopping centre in 2018. By moving the shops up to ground level and creating a space for a gym in the basement, we have created a modern meeting place and retail venue.

In 2018, we also developed new, modern office premises for Försäkringskassan IT, Pöyry and ALS Scandinavia.

Our involvement in setting up Luleå Science Park AB, which also rents premises from us, was of course another important event in 2018. Luleå Science Park AB will be working to attract new businesses to the science park and improve the range of services in the area and turn it into a dynamic and living place that adds value for those who work there.

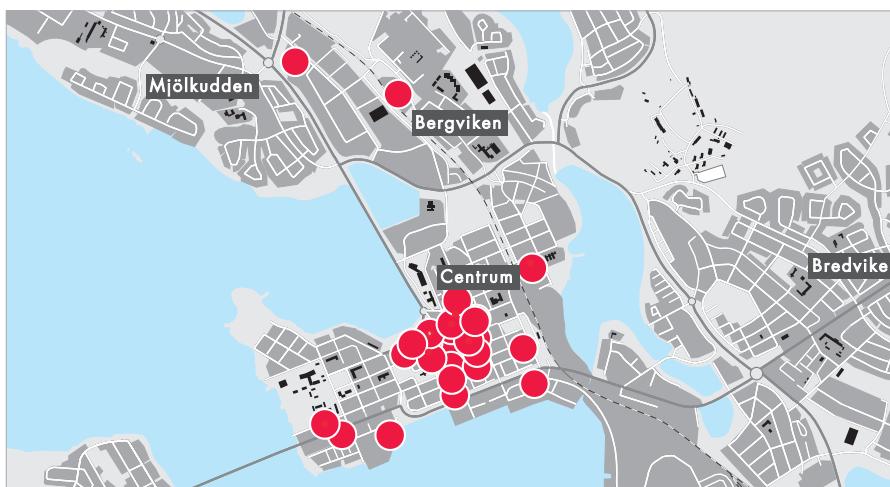
➤ WHAT WILL YOU BE DOING IN 2019 AND GOING FORWARD?

For us, the coming years are very much about increasing density, which is something that is very important for us in view of our position in the city. We are planning to build 80–100 centrally located apartments in our Tjädern property and to develop our Biet property by adding new commercial and residential units. We will also continue to develop our three shopping centres: Strand, Shopping and Smedjan. In the first hand, we are planning to review and develop Shopping as a destination.

We will also be helping our tenants, the Transport Administration and the county council, to adapt their premises so that they support their way of working in an even better way.

Finally, we will of course also continue our ongoing efforts to create an even better mix of stores, restaurants and cafés in central Luleå. We view that as our responsibility in our role as the city's largest property owner.

➤ OUR PROPERTIES



MARKET RENTS AND YIELD¹

		Rent, SEK/sq.m	Yield, %
Offices	A-location	1,500–2,300	5.25–6.50
	B-location	1,000–1,500	6.00–7.00
Retail	A-location	1,800–3,600	5.75–6.75
	B-location	1,200–2,000	6.00–7.00
Warehouse/ industrial	A-location	700–1,200	6.75–8.25
	B-location	500–800	8.00–10.00

¹ Data taken from Datscha AB.



> FINANCIAL INFORMATION



DIRECTORS' REPORT

The Board of Directors and CEO of Diös Fastigheter AB (publ), company registration number 556501-1771, hereby present their annual report for the Group and parent company for the financial year 2018.

The Board's report on internal control concerning financial reporting, the corporate governance report, covers both the parent company and the Group and has been prepared in accordance with the Swedish Annual Accounts Act, see pages 65–72. In accordance with chapter 6, section 11 of the Act, the company has opted to draw up the statutory Sustainability Report separately from the Directors' Report. An index for the Sustainability Report is presented on page 57.

OPERATIONS

We are one of Sweden's leading private property companies with a total property value of SEK 20,802 million (19,457). The property portfolio is spread across ten cities and consists of commercial premises and residential properties in central locations.

Our strategy is urban development. That means that we want to create Sweden's most attractive places. We do this by managing and improving our existing properties and by building new properties in a sustainable manner.

Operations were organised into six business units in 2018: Dalarna, Gävle, Sundsvall, Åre/Östersund, Skellefteå/Umeå, Luleå and the head office, which is located in Östersund.

Our portfolio is spread across several segments with a strong emphasis on office, retail and residential properties. We are affected in various

ways by the Swedish economy, the property and rental market, the financial market, and each sub-market and segment. For further information on our markets, see pages 32–53.

In 2018, we acquired 11 properties (40) with a total value of SEK 420 million (5,144) and sold 20 properties (15) worth a total of SEK 450 million (239). Diös' property transactions are aimed at enhancing our portfolio and strengthening our tenant offering in line with our strategy.

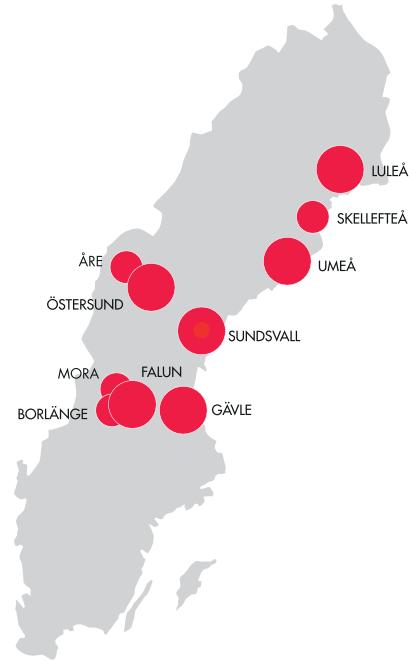
At 31 December 2018, Diös had potential and existing development rights for a gross floor area of 150,000sq.m with a potential investment volume of around SEK 4,000 million. These rights constitute the core of the project portfolio. In 2018, investments in new builds were concentrated to the Falan 24 residential project in Falun. In 2019, two hotel projects will be launched in the first half, one in Sundsvall and one in Umeå. Leases have been signed for both projects.

In addition to the project portfolio, we invest continually in property development in our existing portfolio through conversions and redevelopment as well as energy-saving measures. The investments must result in a higher occupancy rate, increased customer satisfaction, lower costs and a reduced impact on the environment.

Financial targets

The financial targets for the Group are designed to ensure the company's financial stability. The measurable and risk-limiting financial targets for 2018 were:

- An equity ratio of at least 30 per cent.
- A loan-to-value ratio of no more than 60 per cent.
- Return on equity over 12 per cent.



For 2018, we achieved our financial targets. All financial key ratios improved, and the company is comfortably meeting the financial stability requirements defined by the banks. The equity ratio amounted to 37.2 per cent (34.9) in the Group, and 24.8 per cent (22.7) in the parent company. After the proposed dividend of SEK 3.00 per share (2.90), the equity ratio at 31 December 2018 will be 35.3 per cent (33.6) in the Group and 21.7 per cent (20.4) in the parent company.

Employees, guidelines and remuneration

Diös operates almost exclusively with in-house staff. The number of employees as at 31 December 2018 was 158 (156), of whom 63 were women (61). The majority of the employees, 104 people (106), are engaged in physical property management at our business units. The remaining members of staff work at our head office in Östersund. For more information, see page 29.

For decisions on remuneration for senior executives and the latest approved guidelines, see Note 5 and the Corporate Governance Report. All employees are covered by our

PROPERTY PORTFOLIO BY BUSINESS UNIT	Dalarna	Gävle	Sundsvall	Åre/ Östersund	Skellefteå/ Umeå	Luleå	Diös Group
Balance sheet items and key ratios							
No. of properties	44	33	55	117	53	28	330
Leasable area, thousand sq.m	264	147	234	305	310	205	1,464
Investments, SEKm	135	86	93	124	96	143	677
Fair value, SEKm	2,805	1,971	3,424	3,554	4,994	4,053	20,802
Rental value, SEKm	304	207	325	356	414	330	1,936
Surplus ratio, %	63	63	62	60	68	69	64
Economic occupancy rate, %	91	90	88	92	93	95	91

¹ Columns/rows may not add up due to rounding.



profit-sharing foundation, Grunden, into which payments are made based on a combination of the profit for the year, required rates of return and dividends to the shareholders. Annual transfers to the profit-sharing foundation are capped at SEK 30,000 per employee. For 2018, this provision came to SEK 2,026,000 (1,960,000). At year-end, Diös' profit-sharing foundation owned 214,000 Diös shares. For more information, see the Corporate Governance Report on pages 65–72.

Sustainability

For Diös, responsible business is about taking a comprehensive perspective on economic, social and environmental aspects. We are making a concerted effort to change our own behaviour, which is having a positive impact and will ultimately inspire and encourage our stakeholders to do the same. Sustainability management is therefore integrated in the reporting process for all aspects of the business. We have produced a separate sustainability report in accordance with the Swedish Annual Accounts Act, which covers Diös Fastigheter (publ) and all subsidiaries. The contents of the Sustainability Report are presented on page 57. In addition to the statutory report, Diös has prepared a sustainability report in accordance with GRI standards. The GRI index is presented on pages 114–115.

Dividend

Approximately 50 per cent of the net profit after tax excluding unrealised changes in value and deferred should be paid out in dividends to the shareholders unless investments or the

company's financial position warrant a deviation from the policy. For 2018, a dividend of SEK 3.00 per share (2.90) is proposed, which represents 49.7 per cent of distributable earnings (49.5). For more information, see Appropriation of retained earnings and dividend on page 103.

OUTLOOK

The focus of operations in 2019 will be the same as before. Our continued strategy is urban development, which means that we are developing our properties in a sustainable manner to allow for growth. In 2019, construction of a new hotel on Diös' Noten property in Sundsvall and of a hotel on the Magne property in Umeå will commence. The construction period is 2.5–3.5 years and the total investment is around SEK 800 million.

PARENT COMPANY

Parent company operations are made up of shared corporate functions, such as IT, economy and finance, HR, rent administration and communications, as well as the ownership and operation of the Group's subsidiaries. Income totalled SEK 164 million (170) and the profit after tax was SEK 602 million (436). Profit after tax includes dividends from Group companies in the amount of SEK 600 million (300) and received Group contributions of SEK 11 million (154). Revenue refers chiefly to services sold to subsidiaries.

SHARE INFORMATION AND SHAREHOLDERS

Our shares are listed on NASDAQ OMX Stockholm. The share capital is SEK

269,024,276 (269,024,276) and the number of shares is 134,512,438 (134,512,438). Each share carries one vote at the Annual General Meeting. The largest shareholders are AB Persson Invest with 15.4 per cent of the shares and voting rights and Backahill Inter AB with 10.5 per cent of the shares and voting rights.

The 2018 AGM authorised the company to buy back shares of the company, subject to a limit of 10 per cent of all outstanding shares. No share buybacks were made during the year. For more information on the resolutions adopted by the AGM, see the Corporate Governance Report on pages 65–72.

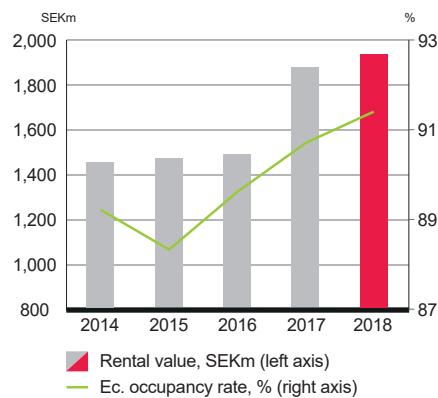
CHANGED REGULATIONS/CHANGED TAX RULES

On 14 June 2018, the Swedish parliament adopted a new law on limitation of interest deductibility for businesses, which became effective on 1 January 2019. The new law restricts the right to deduct interest expenses while gradually lowering the income tax rate from 22 per cent currently to 20.6 per cent. As at 30 June 2018, Diös restated its deferred tax liability in accordance with the new tax rates, which had a positive one-off effect of SEK 75 million during the period. In view of our strong cash flow and the prevailing historically low interest rates, the new law will have a minor impact on tax paid, but if interest rates were to rise it would have a negative impact (assuming cash flow remains unchanged).

EVENTS AFTER THE REPORTING PERIOD

For a description of events after the end of the financial year, see Note 28.

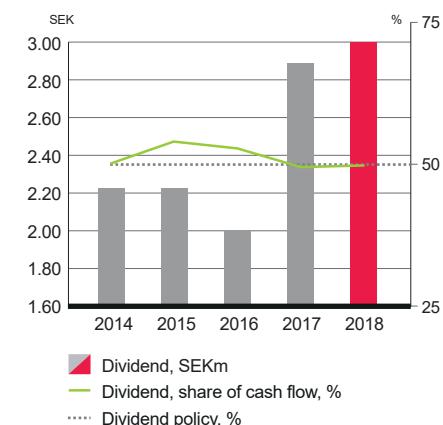
RENTAL VALUE AND OCCUPANCY



OPERATING SURPLUS AND SURPLUS RATIO



DIVIDEND AND DIVIDEND POLICY



➤ SIGNIFICANT EVENTS DURING THE YEAR

Q1

- We completed on the previously communicated acquisition of two properties in Skellefteå.
- It was decided to initiate the construction of the Årummet residential property in Falun in April.
- We sold four properties in Ljusdal.
- Earnings were affected by increased winter-related costs.

Q2

- Diös signed a letter of intent with Nordic Choice Hotels concerning the construction of a hotel in the Magne block in central Umeå. The hotel will be a full-scale Clarion hotel with around 280 rooms, conference facilities and a sky bar.
- Diös acquired and completed on the Vale 18 property in central Umeå.

Q3

- We acquired five centrally located social-use properties and sold 13 industrial and building supplies properties in Gävle.
- We sold a commercial property in central Malung.
- We bought a central office property and sold an industrial property in Gävle.
- One interest rate derivative expired, which resulted in a further reduction in Diös' average financing rate.

Q4

- The Skellefteå business unit was formed and Maria Fjellström was hired as Business Area Manager. Skellefteå is presented as a separate business unit from 1 January 2019.
- We acquired three centrally located properties in Östersund. One of the properties consists entirely of development rights.
- We sold one property in Bräcke.

➤ SUSTAINABILITY REPORT PURSUANT TO THE ANNUAL ACCOUNTS ACT

The table below shows references to the Sustainability Report that has been prepared in accordance with the Swedish Annual Accounts Act. References other than page references in this report refer to our Sustainability Supplement, which is available at dios.se/investerare.

	ENVIRONMENT	EMPLOYEES	SOCIAL CONDITIONS	HUMAN RIGHTS	ANTI-CORRUPTION
➤ BUSINESS MODEL			8–9, 16–18, How we create value, Our strategy, Our relations, Responsible business		
➤ POLICY AND POLICY OUTCOMES	18 Responsible business Sustainability Supplement	18 CORPORATE RESPONSIBILITY Sustainability annex	18 Responsible business Sustainability annex	18 Responsible business Sustainability annex	18 Responsible business Sustainability Supplement
➤ SIGNIFICANT RISKS AND HOW THEY ARE MANAGED	60–64 Risks and risk management	60–64 Risks and risk management	60–64 Risks and risk management	60–64 Risks and risk management	60–64 Risks and risk management
➤ PERFORMANCE INDICATORS	10–11, 20–24 Targets and target achievement Property portfolio Sustainability annex	10–11, 29, Targets and target monitoring Employees Sustainability Supplement	18–19, 29 Responsible business Employees Sustainability Supplement	18–19, 29 Responsible business Employees Sustainability Supplement	18–19, 29 Responsible business Employees Sustainability Supplement

This annual report has been prepared in accordance with the Swedish Annual Accounts Act and the Global Reporting Initiative (GRI) Standards.

FINANCING

Diös' financial strength increased in 2018. Diös' equity ratio increased to 37.2 per cent and the interest coverage ratio to 5.9 times. Stable financing solutions, an increased presence in the capital market and one of the industry's lowest financing rates in 2018 put Diös in a strong position to continue to generate value.

CAPITAL STRUCTURE

The property market is capital-intensive and the availability of capital is a prerequisite for continued development. The assets mainly comprise properties, which are financed through equity, interest-bearing debt and other liabilities. The breakdown of the capital structure depends on the stability of the company, the type of properties, risk aversion among owners and lenders as well as the owners' required rate of return. Factors such as levels of economic activity, the tax situation and the design of leases also have an impact.

EQUITY

Equity as per the balance sheet was SEK 7,839 million (6,887) and total assets stood at SEK

21,057 million (19,708), which represents an equity ratio of 37.2 per cent (34.9) at 31 December. The number of shares at year-end was 134,512,438 (134,512,438). All shares belong to the same share class and carry the same voting rights.

INTEREST-BEARING LIABILITIES

Interest-bearing liabilities in the form of bank loans, bonds and commercial paper amounted to SEK 11,099 million (11,104) as at 31 December. The loan-to-value ratio, i.e. the proportion of interest-bearing liabilities in relation to the market value of the properties, was 53.4 per cent (57.1). The net liability in relation to EBITDA shows how quickly the company's debts can be repaid with its current level of earnings. At year-end, this key ratio was 10.5 (11.0), which is among the strongest in the industry and testifies to our strong cash flow.

Bank loans

Bank loans, which are the main source of finance, accounted for 42 per cent (47) of total assets. Borrowing has been arranged with five Nordic banks and includes renewable credit, time-slice loans and undrawn credit facilities. The Group has undrawn credit facilities of SEK 1,480 million (1,754), which can be used if required.

Bonds

Bond financing has been done within the framework of the MTN programme of a jointly controlled company, Svensk FastighetsFinansiering AB (SFF). SFF is owned in equal parts by Diös Fastigheter AB, Catena AB, Faberge AB, Platzer Fastigheter Holding AB and Wihlborgs Fastigheter AB. The MTN programme, with property mortgage deeds as collateral, has a total outstanding loan volume of SEK 9,446 million (9,172) where Diös' volume amounts to SEK 1,240 million (1,206).

Commercial paper programme

The commercial paper programme is a Swedish company's commercial paper programme with a limit of SEK 2,000 million. As at 31 December 2018, outstanding commercial paper totalled SEK 1,090 million (600) with maximum maturities of 12 months. The programme was established in November 2017 and has secured back-up bank facilities to manage the refinancing risk.

OTHER LIABILITIES

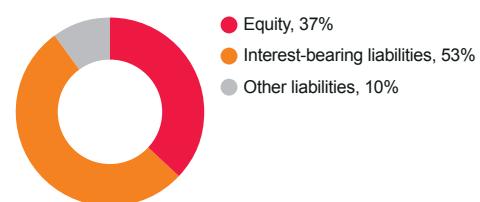
Other liabilities in the form of deferred tax liability, trade payables, prepaid rents, overdraft facilities and accrued interest expenses amounted to SEK 2,119 million (1,717), representing 10 per cent (9) of total assets.

FINANCIAL POLICY

Policy	Target	Outcome
Loan-to-value ratio	Capped at 65%	53.4%
Interest coverage ratio	At least 1.8 times	5.9 times
Currency risk	Not allowed	No exposure
Liquidity risk	Liquidity reserve to meet payment obligations	SEK 792 million in committed undrawn credit facilities
Equity ratio	At least 30%	37.2%

The financial policy is independent of the financial targets, which may result in certain deviations.

CAPITAL STRUCTURE





FINANCIAL INSTRUMENTS

At 31 December, financial instruments referred to interest rate caps, whose purpose is to protect against higher interest expenses in the event of rising market interest rates and thus financing rates. Of the Group's total interest-bearing liabilities, SEK 4,000 million (4,600) is subject to interest rate caps with an average remaining maturity of 1.8 years (2.6). If interest rates had been increased by 1 percentage point on 31 December 2018, the company's average interest rate would have risen by 0.3 percentage points and the value of the financial instruments would have increased by SEK 1 million (7). In 2018, an interest rate swap with a nominal value of SEK 600 million expired. All financial instruments are measured at fair value and classified at level 2 in accordance with IFRS 13. The market value of financial instruments was SEK 0.5 million (-16). See Note 21.

Interest rate swaps

The basis of interest rate swaps is a variable interest rate with three-month STIBOR, which is then swapped for a fixed annual interest rate. In 2018, an interest rate swap with a nominal value of SEK 600 million (1,600) which fixed the interest rate at 3.7 per cent (1.9–3.7) expired. There were no outstanding interest rate swaps at 31 December 2018.

Interest rate caps

The interest rate caps, which mean a cap on the variable interest rate based on the three-month STIBOR rate, covered a nominal volume of SEK 4,000 million (4 000). Interest rates were capped at an average rate of 2.7 per cent.

FIXED-RATE TERMS AND LOAN MATURITIES

The Group's interest-bearing liabilities had an average annual interest rate of 1.2 per cent (1.2), including loan commitments. The actual average annual interest rate, including costs related to financial instruments and loan commitments, amounted to 1.6 per cent (1.8). During the year, parts of the loan portfolio were expanded, renegotiated and extended, which resulted in lower interest expenses. This year's interest coverage ratio of 5.9 times (5.3) far exceeds the financial target of 1.8 times. The loans had an average fixed-rate term, including derivatives, of 1.4 years (2.5). The average loan maturity was 2.0 years (2.4).

Fastigheter AB. The ratio of collateralised financing to total assets was 52.7 per cent.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to SEK 0 million (32) and utilised overdraft facilities totalled SEK 198 million (0). The agreed limit on the overdraft facility was SEK 600 million (600).

COVENANTS

The agreements with lenders contain limits for various financial key ratios, so-called covenants, which are designed to limit the counterparty risk for the company's lenders. The Group's covenants are the equity ratio, loan-to-value ratio and interest coverage ratio. The minimum equity ratio is 25 per cent, the loan-to-value ratio must not exceed 65 per cent and the interest coverage ratio must be greater than 1.8 times.

PLEDGED ASSETS

Property mortgage deeds represent the greatest collateral when procuring financing. Mortgage deeds on the property portfolio amounted to SEK 12,107 million (12,101). Collateral was also provided in the form of shares in property-owning subsidiaries as well as a parent company guarantee in Diös

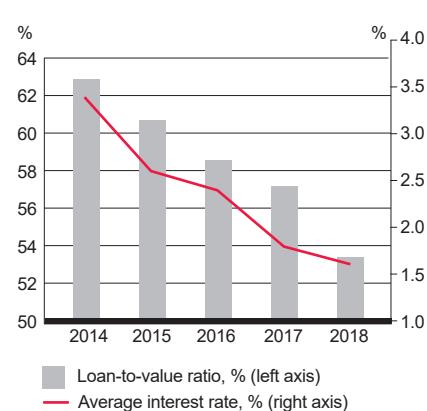
INTEREST RATES AND LOAN MATURITY STRUCTURE

Maturity year	Interest rate and margin expiration		Loan maturity		
	Loan amount, SEKm	Average annual interest rate ¹ , %	Credit agreements, SEKm	Drawn, SEKm	
2019	3,508	0.9	2,418	2,418	
2020	7,371	1.3	6,109	5,609	
2021	220	0.4	220	220	
2022	-	-	3,135	2,155	
2027	-	-	697	697	
Drawn credit facilities	11,099	1.1	12,579	11,099	
Unutilised credit facilities ²	1,480	0.1			
Financial instruments	4,000	0.0			
TOTAL		1.2			

¹ Average annual interest rate refers to the average interest rate based on interest rate terms and the outstanding liability as at 31 December 2018.

² The cost of unutilised credit facilities affects the average annual interest rate by 0.05 percentage points.

LOAN-TO-VALUE RATIO AND INTEREST



RISKS AND RISK MANAGEMENT

Effective identification and management of risks is crucial to our ability to generate the greatest possible value for our stakeholders. Risks can arise in other areas of the business and can be due to internal as well as external factors. Ultimate responsibility for the company's risk management rests with the Board of Directors. The CEO and executive management are responsible for ensuring that the Board's instructions are executed, and that procedures and processes exist and are complied with. Our risk universe is divided into three categories: strategic, operational and financial risks.

STRATEGIC RISKS

Strategic risks can affect our ability to implement our business strategies, achieve our long-term goals and create value for our stakeholders. Strategic risks include external as well as internal factors. These risks are identified and managed by the Board of Directors and executive management, and are normally discussed at Board meetings.

EXTERNAL RISKS

RISK	MANAGEMENT
Many risks are of an external nature. Political and macroeconomic risks can have a direct or indirect impact on our market and on the property industry. Global trends can lead to changed needs and behaviours among tenants.	A decentralised organisation with a local presence can adapt the business to new circumstances in an effective manner. A strong cash flow enables the company to invest capital when the need arises. A close relationship with our tenants enables us to quickly identify new behaviours and changes in demand.

COMPETITION

RISK	MANAGEMENT
All our markets are exposed to competition. There is a risk that our offering will become obsolete in relation to other property owners/landlords.	A property portfolio that is concentrated to central areas where the potential to create new space is limited reduces the risk of competition from new builds. A high-quality portfolio, good knowledge of the local market and high investment capacity strengthen our competitiveness. Our size enables us to take a leading role in new initiatives in all our cities.

SUSTAINABLE BUSINESS

RISK	MANAGEMENT
Our business model and strategies need to be sustainable, clear and create long-term profitability to ensure that we are able to run our business in a responsible and sustainable manner.	The business model and business plan are followed up on an ongoing basis by the Board of Directors and executive management. As is the sustainability strategy, which includes options for responsible enterprise, sustainable management, sustainable urban development and employer branding. We are committed to help achieve the Agenda 2030 goals.

SENSITIVITY ANALYSIS PROPERTY VALUATIONS

	Change	Change in fair value, SEKm
Rental value	+/-SEK 50/sq.m	+1,157/-1,159
Operating costs	-/+SEK 25/sq.m	+562/-561
Yield	-/+0.5% percentage points	+1,231/-1,455
Cost of capital	-/+0.5% percentage points	+411/-421
Vacancy rate	-/+1.0% percentage points	+/-237

SENSITIVITY ANALYSIS PROPERTY VALUE

	Change in property value, %		
	-7.5	0.0	7.5
Property value, SEKm	19,241	20,802	22,362
Equity ratio, %	32.2	37.2	41.6
Loan-to-value ratio, %	57.7	53.4	49.6

► OPERATIONAL RISKS

Operational risks include risks that can have a direct negative impact on the Group's results and financial position and on the business, in the short and long term. These risks are identified and managed on an ongoing basis by the Board of Directors, management and the business units.

THE PROPERTY PORTFOLIO, INCOME AND EXPENSES

»»» COMPOSITION OF THE PROPERTY PORTFOLIO

RISK	MANAGEMENT
The properties' geographic location, the breakdown by type of premises and the properties' technical status constitute risks. Operations in localities with limited prospects for the future can pose an exit risk.	The business model is based on the company's urban development strategy, one element of which is to concentrate the property portfolio to central locations in growth cities. The result is reduced fluctuations in value and a low vacancy rate on the back of stable demand. Properties in attractive locations attract higher demand, which limits the exit risk.

»»» CHANGE IN THE VALUE OF THE PORTFOLIO

RISK	MANAGEMENT
The value of the property portfolio is affected by both internal and external factors. The internal factors are linked to our ability to refine the portfolio, increase the attraction and return of the properties and also to value the properties. The external factors are linked to the state of the overall economy, which determines supply, demand and the required return on the rental market.	To reduce the risks of high fluctuations in value, the company maintains a well diversified portfolio of properties concentrated in central locations in growth cities. The well-balanced lease structure reduces the risk of high vacancy rates and loss of rental income. The property valuations are conducted according to established and revised methods.

»»» ACQUISITION OF COMPANIES AND PROPERTIES

RISK	MANAGEMENT
The objective of our acquisitions is to add value in excess of the purchase price. The risk inherent in acquisition is making incorrect assessments of the added value and synergies, and of the technical status.	Our acquisition strategy reduces the risk of making incorrect decisions and encountering surprises. In connection with each acquisition, extensive financial, legal and property inspections are performed in order to analyse and discover hidden risks and opportunities. We carry out macro- and micro-analyses on an ongoing basis.

»»» INVESTMENTS

RISK	MANAGEMENT
The purpose of making investments is to improve the quality of the property portfolio, implement energy efficiencies and achieve a higher occupancy rate and thereby improved cash flows and also a higher property value.	Performing quality assurance on the contractors engaged provides predictability and security. All procurements are subject to competitive bidding. Entering into contracts before the start of production reduces the risk of non-recoverable costs.

»»» RENTAL INCOME

RISK	MANAGEMENT
Contracted rental income is dependent on the ability of tenants to pay. Deficient internal processes and commitments may result in dissatisfied tenants and increased vacancies. Global and local economic growth, new builds, competitors and demand affect occupancy and thereby also rental income.	A large and diversified property portfolio with a well-balanced tenant structure reduces the risk of lower rental income if a particular tenant, industry or area should face economic setbacks. The majority of all leases include index compensation. The risk of default is in some cases managed through a parent company or bank guarantee.

»»» PROPERTY COSTS

RISK	MANAGEMENT
Tariff-based costs that are not regulated in the lease and unexpected or seasonal repair and maintenance costs represent obvious risks.	The risk of increased costs is managed by conducting reviews of the ability to pass on costs and/or perform lease indexation. An active management of electricity prices takes place through short and long term procurement. Our local presence gives the possibility of a proactive and cost-efficient administration. The properties follow multi-year maintenance plans and are insured based on assessed needs.

A SUSTAINABLE APPROACH

»» ENVIRONMENT

RISK

Property management and exploitation have an impact on the environment and leave ecological footprints. Under the Swedish Environmental Code, an entity which has engaged in operations or taken measures that have caused pollution or serious environmental damage is obliged to bear the cost of remedial measures. Direct or indirect emissions and waste represent a potential risk to the brand, local environment and climate.

MANAGEMENT

By reducing energy consumption, we are doing our bit to help meet national and international environmental targets. Extensive analyses are performed to uncover any environmental risks before an acquisition is carried out. The precautionary principle is applied when there is a risk of damage to the environment and surrounding area. Any negative environmental impacts are addressed in accordance with internal procedures and external expertise is brought in when the need arises. We are not currently aware of any significant environmental claims that could be brought against the company.

»» SOCIAL

RISK

Our employees are important. Being unable to offer reasonable, equal and non-discriminatory employment conditions, as well as a safe and secure working environment, constitutes a risk. Our subcontractors and partners' working conditions can also represent a risk that may affect us, whether directly or indirectly.

MANAGEMENT

Mandatory instruction on guidelines and policies helps to clarify the desired corporate culture and manage working conditions throughout the value chain. Annual employee satisfaction index (ESI) surveys are carried out to identify and manage areas of improvement and development. Regular working environment checks are carried out by an internal work environment group.

»» ETHICS AND PROFESSIONALISM

RISK

All deals and agreements shall be concluded without ethical uncertainties such as threats, bribes or other unreasonable or unhealthy requirements. Even if clear guidelines and policies have been set up and accepted by all employees, there is a risk that decisions are taken contrary to these.

MANAGEMENT

Through the use of clear conditions and continuous follow-up of compliance with our internal regulations and policies, we manage the risk of inappropriate conduct by employees and suppliers.

LAWS AND REGULATIONS

»» TAXES, REGULATIONS AND GRANTS

RISK

Changes that affect corporation, property and value added tax, housing benefit and interest deduction may result in additional costs.

MANAGEMENT

In order to comply with relevant legislation and regulations, external tax experts and legal advisers are consulted in order to round out our internal expertise. The leases contain provisions governing unforeseen costs as a result of decisions taken by Swedish Parliament, a local authority or government agency.

»» LEGAL RISKS

RISK

Operations are subject to changes in legislation and regulations in several different areas. Errors and deficiencies in documentation and agreements represent obvious risks.

MANAGEMENT

External experts in specific fields will be consulted in the event of inadequate internal expertise. Clear procedures and processes are established in order to prevent errors and deficiencies.

SENSITIVITY ANALYSIS RESULTS

	Change	Impact on earnings, SEKm
Contracted rental income	+/- 1%	+/-18
ECONOMIC OCCUPANCY RATE	+/- 1 percentage point	+/-19
Property costs	-/+ 1%	+/-7
Interest rate on interest-bearing liabilities	-/+ 1 percentage point	+/-38



INTERNAL

»» EMPLOYEES AND KEY INDIVIDUALS

RISK

Any deficiencies in our ability to attract, develop and retain the right competence in order to operate the business effectively and sustainably in the long term represent a risk.

MANAGEMENT

A clear vision and active efforts to create a values-driven corporate culture help to ensure greater transparency and engagement. Annual employee satisfaction index (ESI) surveys are carried out to identify areas of improvement and development. Diös Academy offers continuous skills development to our employees. The aim of the profit-sharing foundation is to increase loyalty and create a sense of involvement in the company's success. Benefits are also provided to promote physical activity and good health.

»» ADMINISTRATIVE RISKS

RISK

Inadequate or inappropriate procedures, poor reporting or control, human error and skills deficiencies as well as a poorly defined division of responsibilities represent risks that may prevent business from being conducted effectively.

MANAGEMENT

Procedures and guidelines are established in order to increase predictability and reduce the risk of errors. The four eyes principle is established for checking and approval of important documents. See also the Corporate Governance Report on pages 65–72.

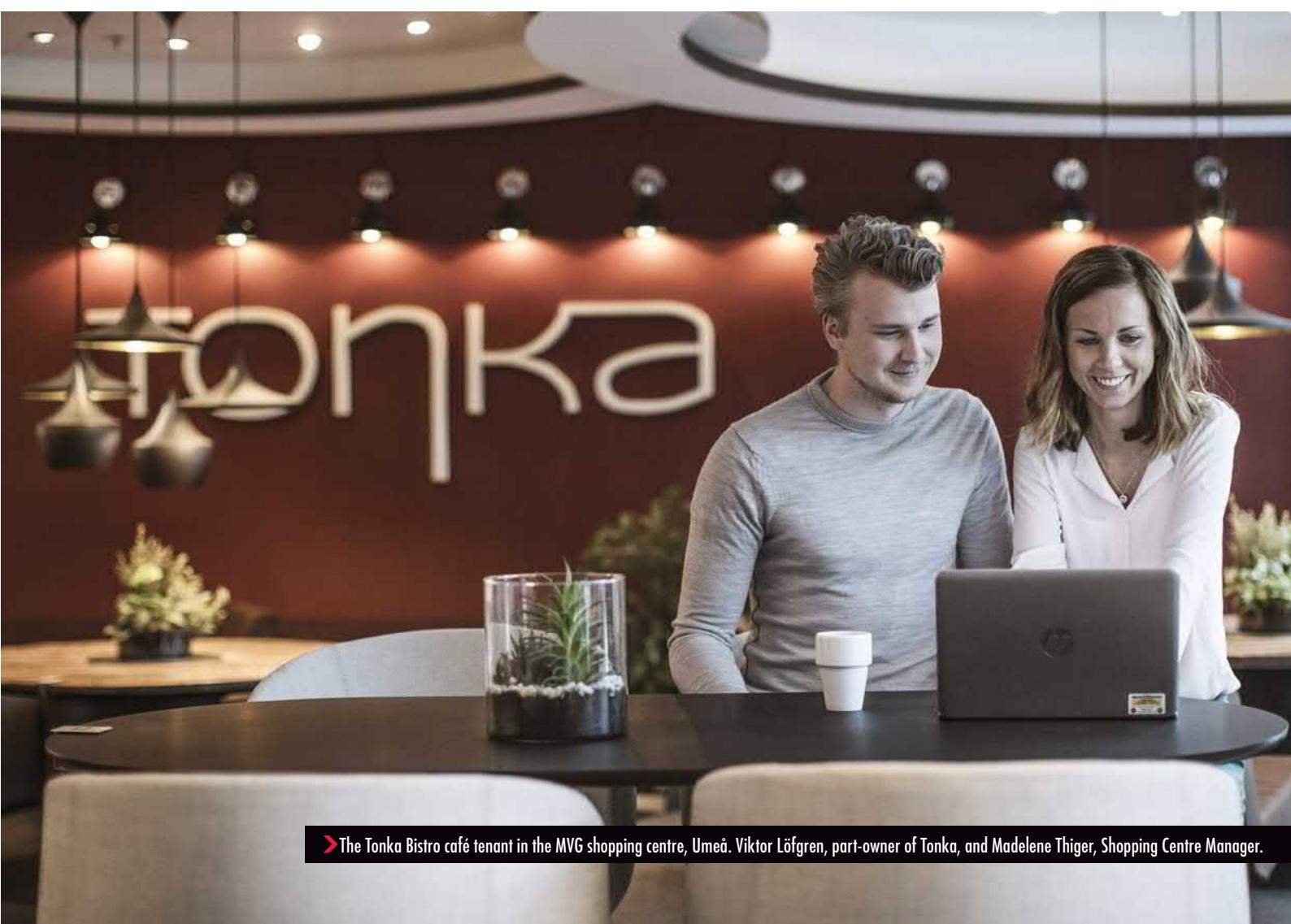
»» IT SYSTEMS

RISK

Properly functioning IT systems are needed in order to make our day-to-day operations more efficient and to meet regulatory and legislative requirements in the form of reporting. There is a risk of information leakage, outages and other interference risks if critical IT systems are improperly handled.

MANAGEMENT

Continuous assessment and updating of the IT policy allows us to manage and limit risks in the IT structure. The company only uses standardised IT systems from stable suppliers with a good reputation. In the same vein, effective processes for preventing and managing potential threats are also developed. See also the Corporate Governance Report on pages 65–72.



» The Tonka Bistro café tenant in the MVG shopping centre, Umeå. Viktor Löfgren, part-owner of Tonka, and Madelene Thiger, Shopping Centre Manager.

FINANCIAL RISKS

The financial risks are significant for a property company and are of fundamental importance for long-term value creation and financial performance. The management of financial risks is governed by the Group's financial policy, and risks are identified and managed by the Board of Directors, executive management and the finance department. For more information, see Note 21 and Note 24.

»» LIQUIDITY AND REFINANCING RISK

RISK	» MANAGEMENT
Difficulties in obtaining finance or increased costs for financing the company's capital requirements constitute a significant risk that can affect the company's financial situation as well as its ability to fulfil its investment commitments.	Our financial policy governs and limits financial risks. Business intelligence and good relationships with banks and capital markets as well as forward planning for liquidity and refinancing needs reduce the risk and establish trust between the company and its financiers and the market. The risk is spread by utilising several financial sources, including banking and capital marketing financing and liquidity reserve in the form of unutilised credit facilities.

»» INTEREST RATE RISK

RISK	» MANAGEMENT
A change in the interest rate is a risk, as it may negatively affect the value of the company and/or cash flow.	Clear targets and strategies help us manage the interest rate risk. Maintaining a diversified maturity structure and securing fixed-rate terms reduces the risk that individual changes in interest rates will have a significant effect.

»» CAPITAL STRUCTURE

RISK	» MANAGEMENT
The relationship between equity and liabilities affects the risk structure as a higher share of borrowed capital is more risky.	Based on the targets for equity ratio and loan-to-value ratio set forth in the financial policy, the operations are adapted through a trade-off between flexibility and risk profile. The level of economic activity and opportunities to make profitable investments affect the capital structure.

»» CREDIT RISK

RISK	» MANAGEMENT
A counterparty to an agreement that is unable to fulfil its obligations represents a risk.	Credit risks are limited through the financial policy, which specifies which counterparties the company may enter into contracts with and for which amounts. Before a contract is entered into and when required, an up-to-date individual assessment is made of the counterparty. We work with most banks and the capital market to reduce dependence on individual players.

LOAN PORTFOLIO SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2018

If market interest rates increase by 1 percentage point

	Fixed-rate term, years	Maturity, years	Average annual interest rate, %	Market value, SEKm	Change in average annual interest rate, %	Change in average annual interest rate, SEKm	Change in market value, SEKm
Loan portfolio excl. derivatives	0.8	2.0	1.2 ¹	11,099	0.3	38	-
Derivatives portfolio	1.8	-		0.5	0.0	0	+1
Loan portfolio incl. derivatives	1.4	2.0	1.2	--	0.3	38	+1

¹ The cost of unutilised credit facilities has been included.

CORPORATE GOVERNANCE REPORT

Diös Fastigheter AB (publ) is a Swedish property company listed on the Mid Cap list of the Nasdaq OMX Stockholm exchange. The company's corporate governance report describes the structure and processes for Diös' governance, management and control in 2018.

SWEDISH CORPORATE GOVERNANCE CODE

Diös applies the Swedish Corporate Governance Code. It covers, among other things, formalities for appointing the Board of Directors and auditors, the composition of the Board, financial reporting and information disclosure concerning corporate governance and internal control. Responsibility for the governance, management and control of the company's operations is distributed between shareholders at the Annual General Meeting, the Board of Directors and the Chief Executive Officer. Some governance issues are regulated in the Articles of Association. Corporate governance describes how Diös' owners directly and indirectly govern the company and how risks are managed. The company's governance is based on external and internal regulations which are developed and improved continually. Diös deviates from the Code on several points:

- The Audit Committee consists of the entire Board. The Board of Directors consists of six members, all of whom perform the Audit Committee's tasks. The review process of financial reports, as well as its internal controls, are therefore both managed by the entire Board of Directors.

➤ Independent Nomination Committee. The Nomination Committee is represented by the four largest shareholders and must consist of at least three members appointed by the Annual General Meeting. The majority of the members must be independent from the company. Diös' Nomination Committee consists of four members representing the company's four largest shareholders.

In addition to this, it is the Board's opinion that Diös has in all respects followed the Code in 2018 and has no deviations to report.

External regulations

- The Swedish Companies Act
- NASDAQ OMX Stockholm's rules for issuers
- The Swedish Corporate Governance Code
- Applicable accounting legislation

Internal regulations

- The Articles of Association
- Terms of reference and rules of procedure for the Board and CEO
- Internal guidelines, policies and handbooks

ANNUAL GENERAL MEETING

Diös' highest decision-making body is the Annual General Meeting, which, along with any extraordinary general meetings, gives the shareholders an opportunity to govern the company by exercising their decision-making power. The AGM appoints the Board of Directors and Chairman of the Board and adopts principles for the composition of the Nomination Committee and for remuneration of senior executives. The AGM also appoints auditors for the auditing of the consolidated financial statements and the Board of Directors' and CEO's

management. The Board appoints the CEO as well as representatives to the Remuneration Committee and Audit Committee.

ARTICLES OF ASSOCIATION

In accordance with the Articles of Association, Diös is a public limited company with its registered office in Östersund. The company's business is to own and manage properties, either directly or indirectly through subsidiaries, and engage in related business activities. The Board of Directors is elected each year at the AGM and must consist of no less than three and no more than ten members, with a maximum of ten deputies. Diös is required to maintain share capital of at least SEK 149 million and no more than SEK 596 million. The number of shares may amount to no less than 74,000,000 and no more than 296,000,000 shares.

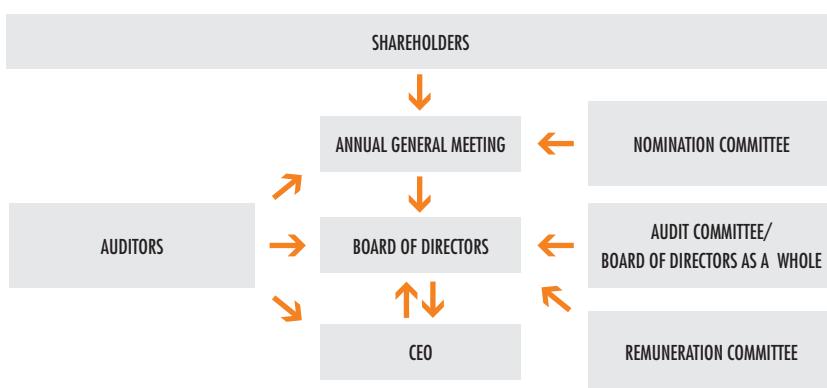
The full text of the Articles of Association is available at www.dios.se.

SHARE CAPITAL AND SHAREHOLDERS

At year-end, Diös had 13,921 shareholders holding a total of 134,512,438 shares. Each share has a face value of SEK 2. The proportion of foreign shareholders was 20.6 per cent. At 31 December 2018, the largest individual shareholders were AB Persson Invest with 15.4 per cent of the shares and voting rights, Backahill Inter AB with 10.5 per cent, Pensionskassan SHB Försäkringsförening with 6.0 per cent, Nordstjernan AB with 5.0 per cent and Bengtssons Tidnings AB with 5.0 per cent. The company's ten largest shareholders together owned 54.1 per cent of the votes and capital. Diös is required to maintain share capital of at least SEK 149 million and no more than SEK 596 million. Each share entitles the holder to one vote and refers to a portion of Diös' share capital.

ANNUAL GENERAL MEETING 2018

The 2018 Annual General Meeting (AGM) was held on 24 April in Östersund. At the AGM, 186 shareholders participated, in person or by proxy. The number of shares represented was 73,908,233, which is approximately 55 per cent of the total number of shares. The AGM adopted the consolidated balance





sheet and income statement for 2017 and discharged the Board of Directors and CEO from liability in respect of their management of the company in 2017. The AGM resolved:

- to reappoint Bob Persson, Anders Bengtsson, Ragnhild Backman, Anders Nelson to the Board and to appoint Eva Nygren as a new member.
- to appoint Bob Persson as Chairman of the Board.
- to approve a dividend payment of SEK 2.90 per share to the shareholders, to be distributed in two separate payments. The proposed record date for the first dividend payment is 26 April 2018 and the proposed record date for the second payment is 26 October 2018.
- to approve the Board's proposed policies for remuneration and other terms of employment for the company's senior executives.
- to ensure the same principles apply in relation to appointing the Nomination Committee before the 2019 AGM.
- to authorise the Board to acquire and transfer treasury shares in accordance with the Board's proposal during a period ending no later than the next Annual General Meeting.
- to authorise the Board of Directors to decide on a new share issue in accordance with the Board's proposal during a period ending no later than the next Annual General Meeting.

NOMINATION COMMITTEE

The composition and duties of the Nomination Committee are defined by the AGM based on the report submitted by the Nomination Committee. The terms of reference state that the Nomination Committee must be appointed annually and consist of the Chairman of the Board and one representative for each of the four largest shareholders. The members of the committee jointly represent around 37 per cent of the shares and votes of the company as at 31 December 2018. The chairman of the Nomination Committee may not be a member of the Board. If a member of the Nomination Committee steps down from the committee during the course of the year, he or she must be

replaced by another representative of the same shareholder. A member who no longer represents one of the four largest shareholders must be replaced by a representative of a new shareholder. If the applicable principles result in a Nomination Committee consisting of less than three members, a representative of the Swedish Shareholders' Association should be offered a seat on the committee.

Duties of the Nomination Committee

All members of the Nomination Committee have carefully considered and established that there is no conflict of interest in accepting the duty as a member of the Diös Nomination Committee. Ahead of the 2019 Annual General Meeting, the Nomination Committee held three minuted meetings at which all matters were dealt with in accordance with the Swedish Corporate Governance Code. The Nomination Committee has, among other things, discussed and considered:

- the degree to which the current members of the Board of Directors, individually and as a group, satisfy the requirements that will be imposed on the Board of Directors as a result of Diös' operations and development,
- the size of the Board of Directors,
- which areas of expertise are and should be represented within the Board of Directors,
- the composition of the Board with regards to experience, gender and background,
- fees for Board members,
- proposals for the election of auditors,
- which model for the composition of a new Nomination Committee for the 2020 Annual General Meeting will be applied.

The Nomination Committee also prepared a proposal for electing auditors to the Board of Directors and the Annual General Meeting in accordance with the European Audit Regulation (537/2014/EU) and issues regarding remuneration to the auditor.

The Nomination Committee's work is based on the Chairman's report for the evaluation of the work of the Board over the past year and

of the members' knowledge and experience. The CEO's presentations on the company's operations and strategic focus also constitute an important basis. In accordance with the terms of reference for the Nomination Committee, the members of the Committee, and the shareholders they represent, are announced no later than six months before the AGM. The election of representatives to the Nomination Committee is based on known shareholdings as at 31 August 2018.

Composition of the Nomination Committee

In accordance with the principles adopted at the 2018 AGM, Diös' Nomination Committee consists of representatives of the company's four largest shareholders: Bob Persson (AB Persson Invest), Bo Forsén, chairman of the Nomination Committee (Backahill Inter AB), Carl Engström (Nordstjernan AB) and Stefan Nilsson (Pensionskassan SHB Försäkringsförening). As Nordstjernan AB and Bengtssons Tidnings AB have the same number of shares, Bengtssons Tidnings AB relinquished its seat in favour of Nordstjernan AB. Shareholders who wish to submit proposals to the Nomination Committee may do so by e-mail to valberedningen@dios.se or by post to: Diös Fastigheter AB, Nomination Committee, PO Box 188, SE-831 22 Östersund, Sweden.

BOARD OF DIRECTORS

Responsibilities of the Board and CEO

The Board of Directors consists of five Directors and one employee representative, with no deputies. The Directors are appointed annually by the AGM for the period until the next AGM. The Board has overall responsibility for the company's organisation and management. This is done by ensuring that the guidelines for the company's management are properly formulated. This includes a responsibility for developing and following up the company's strategies and goals, and for adopting the business plan and annual financial statements. Other responsibilities include deciding on the

Cont. on page 68

BOARD OF DIRECTORS

	Age	Elected	Dependent/independent	Board meetings	Attendance, out of total no. of meetings		
					Remuneration Committee	Audit Committee	Fees, SEK '000
Bob Persson, Chairman	68	2007	Dependent in relation to owners	11/12	1/1	3/3	200
Anders Bengtsson, member	55	2012	Dependent in relation to owners	12/12	-	3/3	150
Eva Nygren, member	63	2018	Independent	8/8	-	2/2	150
Ragnhild Backman, member	55	2012	Independent	12/12	1/1	3/3	150
Anders Nelson, Board Member	49	2,017	Dependent in relation to owners	12/12	-	3/3	150
Tomas Mellberg, employee representative	60	2012	Dependent in relation to company	12/12	-	-	-
Maud Olofsson, member ¹	63	2014	Independent	4/4	-	1/1	150

¹ Maud Olofsson relinquished his role in conjunction with the AGM of 26 April 2018.

Number of Board meetings for 2018 refers to eleven ordinary meetings and one inaugural meeting.



➤ Eva Nygren, Board member.

➤ THE BOARD'S ANNUAL SCHEDULE

BOARD MEETING NOVEMBER

- Adoption of budget
- Reporting by the auditor

BOARD MEETING OCTOBER

- Adoption of Q3 report
- Reporting by the auditor

BOARD MEETING AUGUST

- Strategies and goals
- Business model and organisation

BOARD MEETING JULY

- Adoption of Q2 report

BOARD MEETING FEBRUARY

- Review of full-year results
- Year-end report

BOARD MEETING MARCH

- Adoption of the annual accounts
- Stock market regulations
- Reporting by the auditor

BOARD MEETING APRIL

- Adoption of Q1 report
- Inaugural Board meeting
- Rules of procedure for the Board and authorised signatories
- Terms of reference for the CEO
- Adoption of financial and credit policies

ANNUAL GENERAL MEETING APRIL

BOARD MEETING JUNE

- Initial strategy meeting

acquisition and sale of operations, major investments or appointments and remuneration of executive management. The Chairman's responsibilities include ensuring that the Board of Directors fulfils its duties through well organised and effective work.

The work of the Board

The basis for the Board's work is the Chairman's dialogue with the CEO, along with documents provided to the members of the Board as a basis for discussion and resolutions. The Board's rules of procedure are drawn up annually at the inaugural Board meeting and are revised when necessary. The rules of procedure specify the responsibilities and duties of the Board, the duties of the Chairman and audit issues, and include the terms of reference for the CEO. They also specify which reports and financial information the Board should receive prior to each scheduled Board meeting. The most recent rules of procedure were adopted at the inaugural Board meeting on 24 April 2018 (and are available at dios.se). In 2018, 12 minutes Board meetings were held. Regular items of business at the Board meetings this year included company-wide policies, overall strategies, rules of procedure for the Board of Directors, capital structure and financing needs, transactions, raising of capital through share issues, sustainability, our business model and organisational issues. Forward-looking issues about market assessments, the focus of the company's commercial activities, gender equality and organisational issues were also discussed.

Evaluation of the work of the Board

In accordance with the company's rules of procedure, the Chairman has ensured that the work of the Board has been evaluated and that the Chairman of the Nomination Committee has been informed of the results of the evaluation prior to the nominating process of the Nomination Committee. The evaluation comprises a number of pre-defined and open questions, which each Board member answers individually.

Audit Committee

The Board of Directors has resolved that the Board as a whole should constitute the Audit Committee. The Committee's work is defined in the rules of procedure for the Board. The Audit Committee's duty includes quality-assuring the company's financial reporting as well as the effectiveness of the company's internal control and risk management. The Committee is also required to keep itself informed on the auditing of the Annual Report and consolidated financial

statements. The Audit Committee ensures that the auditor is impartial and independent, evaluates the audit work and reports the results of the evaluation to the company's Nomination Committee. The company's auditor attended three meetings during the year to report their audit findings and assessment of the company's internal control concerning financial reporting. In addition to this, the Audit Committee assists the Nomination Committee in the organisation of elections for auditors and remuneration for them, with the remit of ensuring that the auditors' mandate period does not violate applicable regulations, procuring an audit and providing a justified recommendation in accordance with article 16 of the EU Audit Regulation.

Remuneration Committee

The Remuneration Committee consists of two Board representatives, namely Bob Persson and Ragnhild Backman. Its duties include preparing a proposal for remuneration of the CEO subject to the guidelines adopted by the 2018 AGM. The Remuneration Committee held one meeting in 2018, at which guidelines for remuneration of senior executives were reviewed.

Finance Committee

Diös has established a Finance Committee with the task of monitoring developments in the credit market and drafting matters of a financial nature. The Finance Committee submits proposals to the Board of Directors on an ongoing basis but has no decision-making powers on financial matters. The Committee consists of the board representatives Bob Persson and Anders Bengtsson, as well as CEO Knut Rost, CFO Rolf Larsson and Finance Manager Andreas Statrin Berg.

AUDITORS

The Annual General Meeting appoints one or two auditors and, at most, two deputies to audit the company's Annual Report, its accounts and the Board of Directors' and CEO's management of the company. At the 2018 AGM, Deloitte AB was appointed with Richard Peters as chief auditor for the period until the 2019 AGM. Remuneration for auditors is specified in Note 6.

EXECUTIVE MANAGEMENT

Responsibilities of executive management and the CEO

In 2018, executive management consisted of CEO Knut Rust, CFO Rolf Larsson, Director of Business Support Kristina Grahn-Persson, Business Development Manager Lars-Göran Dahl, Property Director Henrik Lundmark and Director of Communications Mia Forsgren. The

team's work is led by the CEO in accordance with the applicable terms of reference. The executive management team's duties include presenting relevant information and decision guidance documents prior to Board meetings as well as the reasoning behind their proposed resolutions. The Chairman of the Board annually conducts a performance appraisal with the CEO in accordance with the applicable terms of reference and the current requirements specification. The executive management team holds meetings at least once a month at which strategic and operational issues are discussed. Additionally, the executive management produces a business plan each year. This is followed up through monthly reports where the review focuses on the earnings trends, sustainability, improvement, new investments and growth.

Principles of remuneration

The 2018 Annual General Meeting approved the following principles for remuneration to senior executives:

- Remuneration and benefits to the CEO decided by the Board of Directors.
- Remuneration to other senior executives is decided by the CEO in consultation with the Board of Directors.
- As of 2012, an incentive plan has been in place, under which the CEO and senior executives have the potential to earn variable remuneration. There is no share-based payment.
- The variable remuneration for the CEO and senior executives is capped at one month's salary.
- During their term of employment, the CEO and other members of the executive management team are entitled to a company car and receive insurance and retirement benefits in accordance with the applicable ITP plan. Individual investment options are available. Insurance and pension premiums are based on cash salary only.
- The retirement age for the CEO is 65 years. The period of notice given by the company to the CEO is twelve months. The period of notice given by the CEO to the company is four months.
- The contracts of other members of the executive management team may be terminated by either party with three to six months' notice.
- Diös has a profit-sharing foundation, Grunden, which covers all employees of the company. Provision for the profit-sharing foundation is based on a combination of Diös' profit, required return and dividend



► Diös tenant Tromb, Anders Hallberg, CEO, and Urban Olofsson, Property Manager at Råttan 17, Luleå.

for shareholders and shall be a maximum of SEK 30,000 per year per employee.

Remuneration for 2018

The CEO received fixed remuneration of SEK 2,755,000, other benefits worth SEK 368,000 and pension plan contributions of SEK 935,000. Other members of the executive management team received total fixed remuneration of SEK 6,644,000, SEK 401,000 in other benefits and pension plan contributions of SEK 1,641,000. Other members of executive management comprised a group of five persons. For more information, see Note 5.

THE BOARD ON INTERNAL CONTROL

The Board of Directors is responsible for ensuring that Diös has effective internal control procedures in place. The Board fulfils this quality assurance duty by reviewing critical accounting issues as well as the financial reports prepared by the company. This means that the Board assesses compliance with applicable laws and regulations, material uncertainties in the carrying amounts, any irregularities or errors which are not corrected, events after the balance sheet date, changes in estimates and judgements, any noted inconsistencies and inaccuracies, and other circumstances that affect the quality of the financial statements. The internal control complies with the regulatory guidance, Internal Control – Integrated Framework, COSO. The framework comprises the components: control environment, risk assessment, control activities, information and communication, and follow-up.

Control environment

Effective work by the Board of Directors is the basis for good internal control. The Board has therefore adopted rules of procedure along with defined work processes with the aim of creating clear guidelines for its work. The Board's responsibilities include formulating and adopting a number of fundamental policies, guidelines and frameworks relating to the company's financial reporting activities.

The Company's main policy documents are the terms of reference for the CEO, the financial policy and the credit policy. The terms of reference are monitored and reviewed on a regular basis and findings are communicated to all employees who are involved in the financial reporting process, all for the purpose of establishing a platform for good internal control. The Board conducts regular evaluations of the company's performance and results, using a reporting package, which includes an income statement, projected key ratios and other

material operational and financial information. In its role as Audit Committee, the Board has monitored the risk management and internal control systems during the year. This is to ensure that the company's operations are conducted in compliance with relevant legislation and regulations, that they are efficient and that financial reporting is reliable. The Board has familiarised itself with and assessed the procedures for accounting and financial reporting, and has followed up and assessed the work, qualifications and independence of the external auditors. In 2018, the Board conducted a review with, and received a written report from, the company's external auditors.

Risk assessment

Diös works continuously and pro-actively with risk assessment and risk management activities to ensure that identified risks are managed in an appropriate manner subject to the defined criteria.

Diös' executive management conducts an annual analysis which involves the analysis and assessment of the risks according to a risk scale. Risk assessment considers factors such as the company's administrative procedures for invoicing and contract management. Balance sheet and income statement items are also reviewed regularly wherever there is a risk of material misstatement.

Control activities

Control activities are performed at all stages of the accounting and reporting process in order to manage the risks that the Board considers may materially affect the internal control of financial reporting. Examples of control activities include reporting of processes and procedures for making critical decisions, such as decisions on major new tenants, major investments, financing agreements and current contracts. Reviewing submitted financial statements is another control activity. An organisation with a clear division of responsibilities and clearly defined procedures and roles constitute the basis for company's control structure.

Information and communication

The company's general governing documents, including policies, guidelines and manuals, are updated continually and can be accessed through the company's Intranet. The company has developed a new Intranet with the aim of promoting increased transparency and employee participation through an improved structure, search function and new communication functions. The company's external communications are formulated in accordance with Diös' communication policy, which sets

out guidelines aimed at ensuring that the company meets its disclosure obligations.

Long-term value creation

A prerequisite for creating value over the long term is that the business is operated based on a focus on sustainability. The sustainability work involves environmental considerations such as reduced use of resources and good management of properties, as well as corporate social responsibility by contributing to the development of the communities in which Diös operates. This work also entails providing our employees with a good working environment. The sustainability work is carried out in partnership with customers and other stakeholders, a feature which is a prerequisite for success. Diös reports this work in accordance with GRI G4 Standards. See page 114 for more information. Guidelines for how sustainability work to create value should take place appear, among other places, in the company's sustainability policy and Code of Conduct. Feedback on the work is given regularly to Diös' Board of Directors.

Monitoring

Internal control is monitored continuously at individual property, subsidiary company and Group level. The Board reviews the current situation with the company's auditor at least once a year. This is done without the presence of the CEO or any other member of executive management. The Board also ensures that the company's auditors conduct a general review of the third quarter interim report. The need to appoint a separate internal audit function is assessed each year. So far, the need has been deemed to be small. Diös' financing operations, as well as financial and rent administration, is run from its head office, which means that routines and processes are standardised. This also provides opportunities for different sections of the operations to review each other's processes to enhance and improve the company's internal control. The company's balance sheets and income statements are reviewed quarterly by accounts staff as well as by the executive management team and Board of Directors. The Board of Directors reviews interim reports and annual reports before publication. The Board of Directors is also continuously informed of risk management, internal control and financial reporting by the auditors. Diös has also introduced a whistleblower service, "Doing the right thing," which is accessible on the Group's website. The whistleblower service is an early warning system which enables employees as well as external stakeholders to report anonymously any deviations from Diös' values and code of business

► BOARD OF DIRECTORS



► **Bob Persson**

Chairman of the Board since 2011, Board member since 2007, born 1950.

Current function: Chairman of the Board and partner in AB Persson Invest.
Previous experience: CEO and other positions at Persson Invest.
Other directorships: Board member of NHP Ejendom AS and Bergvik Skog AB.
Education: Economics degree, Umeå University.
Shareholding in Diös Fastigheter: 200,000 directly owned shares.
Indirect ownership of 20,699,443 shares via AB Persson Invest.

► **Anders Bengtsson**

Board member since 2012, born 1963.

Current function: Board member and partner of Bengtssons Tidnings AB.
Previous experience: 20 years as CEO of SMEs and several years as a management consultant for Semcon, etc.
Other directorships: Board member of Scandinavian Biogas Fuels International, Nordic Iron Ore and of a number of property development projects.
Education: MBA from Monterey Institute of International Studies, USA.
Shareholding in Diös Fastigheter: Indirect part-ownership of 13,574,748 shares through Bengtssons Tidnings Aktiebolag.

► **Anders Nelson**

Board member since 2017, born 1969.

Current function: CEO of Backahill AB.
Other directorships: External CEO of Båstadtennis & Hotell AB and a majority directorship in the Backahill Group.
Education: BBA Management, University of Arkansas at Little Rock, USA.
Shareholding in Diös Fastigheter: Represents 14,095,354 shares for Backahill Inter AB.

► **Ragnhild Backman**

Board member since 2012, born 1963.

Current function: CEO Backmans Fastighets- och Företagsutveckling.
Previous experience: Property Management Director, Piren.
Other directorships: Chairman Almi Företagspartner Mitt AB, and Board member of AB Övikshem, Castanum Förvaltning AB, Malux AB and Fastighetsägarna Sverige.
Education: M.Sc. Engineering, KTH Royal Institute of Technology.
Shareholding in Diös Fastigheter: 22,140 directly owned shares.

► **Eva Nygren**

Board member since 2018, born 1955.

Current function: Professional board director.
Previous experience: Director of Investments at the Swedish Transport Administration, President and CEO of Rejlers, CEO of Sweco Sverige.
Other directorships: Chairman of Brandkonsulten AB, Director of Uponor OY, JM AB, Troax Group AB, Ballingslöv International AB, Nye Veier AS, Tyréns AB and Nobelhuset AB.
Former Board member of Norrporten.
Education: Architect, Chalmers University of Technology.
Shareholding in Diös Fastigheter: 350 directly owned shares. Indirect ownership of 1,150 shares through a company.

► **Tomas Mellberg**

Board member (employee representative) since 2012, born 1959.

Current function: Project Controller, Diös Fastigheter AB.
Previous experience: Internal Auditor and Accounts Manager, Skanska.
Accounts Officer at Hallström & Nisses Fastigheter and Norrvidden Fastigheter.
Other directorships: None.
Education: Economics degree, Umeå University.
Shareholding in Diös Fastigheter: 1,800 directly owned shares.

All shareholdings as at 31 December 2018.



➤ EXECUTIVE MANAGEMENT



➤ Knut Rost

CEO since 2014, born 1959.

Previous experience: Various positions at ICA Fastigheter in Västerås and at Castellum. Other posts: Member of the Board of Biathlon Events i Sverige AB and Destination Östersund AB. Education: Master of Science in Engineering with a degree from the Royal Institute of Technology. Shareholding in Diös: 15,540 directly owned shares.

➤ Rolf Larsson

CFO since 2005, born 1964.

Previous experience: Acting CEO of Inlandsbanan AB, Administrative Director of Haninge Bostäder and Director of Accounting at Haninge hem. Education: MBA and Executive MBA, Stockholm University. Shareholding in Diös: 7,774 directly owned shares.

➤ Kristina Grahn-Persson

Director of Business Support since 2016, HR and Sustainability Director since 2013 and employed since 2011, born 1973.

Previous experience: Manpower Experis and McKinsey & Company. Education: Degree in Human Resources and Labour Relations and Executive MBA, Lund University School of Economics and Management. Shareholding in Diös: 1,008 directly owned shares.

➤ Lars-Göran Dahl

Business Development Manager since 2016, formerly Property Director since 2014, born 1961.

Previous experience: Responsible for Riksbyggen's commercial activities in Sweden. Education: M.Sc. in Economics and Business. Shareholding in Diös: 2,805 directly owned shares.

➤ Henrik Lundmark

Property Director since 2016, formerly Business Area Manager, Jämtland since 2015, born 1973.

Previous experience: Various positions within Akelius Fastigheter, most recently Regional Manager Norrland. Education: University education in sociology, psychology and communications science. Shareholding in Diös: None.

➤ Mia Forsgren

Director of Communications since 2016, member of executive management since 2018, born 1969.

Previous experience: 25 years' experience of communication and marketing. 15 years in the music industry, most recently as Marketing Director at Universal Music. Managing Director of Tre Kronor Media, own consulting firm in PR and communication, and Managing Director of the Ogilvy Destination advertising agency. Education: Marketing, Institute of International Education, Stockholm University. Shareholding in Diös: None.

All shareholdings as at 31 December 2018.

A photograph of a modern, multi-story building with a glass facade. The building is partially obscured by the branches and leaves of a large tree in the foreground. The sun is shining through the leaves, creating a bright, lens flare effect. The overall composition is a blend of natural and architectural elements.

> FINANCIAL STATEMENTS

INCOME STATEMENT

THE GROUP

INCOME STATEMENT, SEKm	Note	2018	2017
Rental income	3	1,436	1,376
Service income	3	374	343
Total income		1,810	1,719
Property costs	4	-670	-639
Operating surplus		1,140	1,080
Central administration	5.6	-71	-73
Financial income	7	8	5
Financial costs	8	-183	-190
Property management income		894	822
Change in value, properties	9	687	412
Change in value of derivative instruments	8, 21	16	27
Profit before tax		1,597	1,261
Current tax	10	-90	-43
Deferred tax	10	-166	-189
PROFIT FOR THE YEAR		1,341	1,029
Profit attributable to shareholders of the parent company		1,338	1,027
Profit attributable to non-controlling interests		3	2
Total		1,341	1,029
STATEMENT OF COMPREHENSIVE INCOME, SEKm		2018	2017
Profit for the year		1,341	1,029
COMPREHENSIVE INCOME FOR THE YEAR		1,341	1,029
Comprehensive income attributable to shareholders of the parent company		1,338	1,027
Comprehensive income attributable to non-controlling interests		3	2
Total		1,341	1,029
DATA PER SHARE ¹		2018	2017
Earnings per share after tax, SEK		9.94	7.78
Average number of shares, thousands		134,512	132,041
Number of shares at end of period, thousands		134,512	134,512
Average number of treasury shares		-	-
Number of treasury shares at end of period		-	-
Dividend per share, SEK		3.00 ²	2.90

¹ Historical data for the number of shares has been restated to factor in the effect of bonus issues (i.e. the value of the subscription rights) in issues of new shares, and has been used in all key ratio calculations for SEK per share. The conversion factor is 1.28. There is no dilutive effect, as no potential shares (such as convertibles) exist.

² The Board's proposal.



➤ COMMENTS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RENTAL VALUE, RENTAL INCOME AND LEASING

The total rental value of the property portfolio amounted to SEK 1,936 million (1,875), while the estimated rental value of vacant premises was SEK 151 million (153). Total revenues were SEK 1,810 million (1,719) and for comparable properties contracted rental income increased by 3 per cent year on year. This represented an economic occupancy rate of 91 per cent (91). Vacancies declined, by 8 per cent (9) on an economic basis by 13 per cent (14) on a physical basis. Net leasing for the year was SEK 10 million (55).

SERVICE INCOME

Service income totalled SEK 374 million (343) and consisted of income from tariff-based services (excluding property tax) and care and upkeep of properties as well as pass-through of costs for works in rented premises to tenants.

PROPERTY COSTS

Total property costs were SEK 670 million (639). Of total property costs, SEK 13 million (9) refers to work in leased premises for which the costs are passed on to tenants. Bad debts remained low and totalled SEK 8 million (6), representing 0.4 per cent (0.4) of total revenues.

OPERATING SURPLUS AND SURPLUS RATIO

The operating surplus was SEK 1,140 million (1 080), representing a surplus ratio of 64 per cent (64). The main explanation for the improved operating surplus is an improvement in the occupancy rate, completed transactions and good cost control. For comparable properties, our operating surplus increased by 3.1 per cent compared with the previous year.

CENTRAL ADMINISTRATION AND NET FINANCIAL ITEMS

The central administration expense was SEK 71 million (73). For 2017, this includes a non-recurring item of SEK 4 million, which refers to restructuring costs incurred in connection with acquisitions. Net financial items for the year totalled SEK -175 million (-185). The financial costs fell to SEK -183 million (-190) despite a higher volume of interest-bearing liabilities once the average interest rate fell to 1.6 per cent (1.9). Financial income was SEK 8 million (5).

PROPERTY MANAGEMENT INCOME

Property management income for the year was SEK 894 million (822), which is an increase of 9 per cent. For comparable properties, property management income grew by 3.8 per cent.

CHANGES IN VALUE, PROPERTIES

The positive change in value of SEK 687 million (412) consisted of unrealised changes in value of SEK 678 million (402) and realised changes in value of SEK 9 million (10). The positive unrealised change in value is explained mainly by an improvement in net operating income. The average valuation yield at year-end was 5.97 per cent (6.08). The change in value represented 3.3 per cent (2.1

of market value. Last year's unrealised change in the value of the property portfolio was affected by a one-off effect of a discount on deferred tax in connection with property transactions. During the year, 11 properties (40) were acquired, while 20 properties (15) were disposed of.

CHANGES IN VALUE, DERIVATIVES

The portfolio of financial instruments has been measured at fair value. Unrealised changes in value for financial instruments were positive, at SEK 16 million (27), and have been fully recognised in the income statement. The change in the market values is primarily attributable to the time effect.

PROFIT BEFORE TAX

The profit before tax was SEK 1,597 million (1,261). The improvement in earnings is mainly due to higher property values and increased revenue.

TAX

The current tax expense is SEK -90 million (-43) and is mainly attributable to tax in subsidiaries, which in 2018 were not permitted to offset losses against Group profits, and to tax arising from property transactions in trading partnerships and limited partnerships. Deferred tax was SEK -166 million (-189) after a positive effect of SEK 75 million from restatement of deferred tax after the corporate tax rate was changed from 22 per cent to 20.6 per cent.

PROFIT AFTER TAX

The profit after tax was SEK 1,341 million (1,029).

BALANCE SHEET

THE GROUP

ASSETS, SEKm	Note	2018	2017
Non-current assets			
Property, plant and equipment and intangible assets			
Investment properties	11	20,802	19,457
Intangible assets	12	1	2
Other property, plant and equipment	13	3	4
Total property, plant and equipment and intangible assets		20,806	19,463
Non-current financial assets			
Interests in associates	15	6	6
Other non-current securities	16	5	4
Promissory notes		39	30
Total non-current financial assets		50	40
Total non-current assets		20,856	19,503
Current assets			
Current receivables			
Trade receivables	18	37	34
Other receivables		134	99
Prepaid expenses and accrued income	30	40	
Total current receivables		201	173
Cash and bank balances		-	32
Total current assets		201	205
TOTAL ASSETS		21,057	19,708

EQUITY AND LIABILITIES, SEKm	Note	2018	2017
Equity			
Share capital			
		269	269
Capital contributed		3,513	3,513
Retained earnings		4,008	3,059
Total attributable to shareholders of the parent company		7,790	6,841
Non-controlling interests	19	49	45
Total equity		7,839	6,887
Non-current liabilities			
Deferred tax liability	17	1,353	1,197
Other provisions	20	9	9
Liabilities to credit institutions	21	8,681	9,038
Total non-current liabilities		10,043	10,244
Current liabilities			
Current portion of non-current liabilities	21	2,418	2,066
Overdraft facilities	21	198	-
Trade payables		55	35
Derivative instruments	21	0	16
Other liabilities		127	64
Accrued expenses and deferred income	22	377	396
Total current liabilities		3,175	2,577
TOTAL EQUITY AND LIABILITIES		21,057	19,708

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

INVESTMENT PROPERTIES

As at 31 December 2018, the property portfolio consisted of 330 properties (339) with a total leasable area of 1,464,000 sq.m (1,553,000). The market value was SEK 20,802 million (19,457). At the end of the year, the holding consisted of 94 per cent (94) commercial properties with the total property value broken down by type of premises as follows: 54 per cent (53) offices, 29 per cent (30) retail, 2 per cent (4) warehouse/industry

and 9 per cent (7) other. Residential properties comprised 6 per cent (6) of holdings.

Change in value of properties

The market value of the property portfolio increased by SEK 1,345 million (5,774). Investments in new builds, conversions and extensions totalled SEK 677 million (505). Properties with a combined value of SEK 420 million (5,094) were acquired and properties with a combined value of SEK 441 million (227) were sold, resulting in corresponding changes in the value of portfolio. Changes in value totalled SEK 687 million (412), of which SEK 9 million (-10) was realised and SEK 678 million (402) was unrealised.

CHANGE IN PROPERTY PORTFOLIO

SEKm	2018	2017
Opening carrying amount	19,457	13,683
Acquisitions	420	5,094
Investment in existing properties	677	505
Sales	-441	-227
Change in value	678	402
Reclassifications	10	-
CLOSING CARRYING AMOUNT	20,802	19,457



VALUATION METHOD

All properties are valued at fair value at each closing date. The aim is to determine the properties' individual values in a sale executed through an orderly transaction between market players. Any portfolio effects are thus not taken into account.

Project properties that will be managed in-house and for which there are contracted tenants are recognised at fair value, taking account of the project risk and after deducting the remaining investment. Valuations are based on estimates of future cash flows and the price that is expected to be obtained in a transaction between knowledgeable parties on market terms.

Diös' property portfolio is divided into a main portfolio and a subsidiary portfolio. The main portfolio comprises around 75 per cent of the property value, which represents SEK 15,124 million and includes the 115 largest properties with a representative spread based on the property type and geographical location. The subsidiary portfolio covers the rest of the property portfolio.

External valuation

The valuation method entails an annual external valuation of the entire main portfolio, which sees the valuation consultant Savills assess 25 per cent of the properties in the main portfolio each quarter. Savills also carry out a physical inspection of all properties within the framework of a three-year period, as well as regular inspections after major alterations. The properties in the secondary portfolio and those portions of the main portfolio which are not valued externally are valued internally on a quarterly basis with the assistance of Savills. A uniform valuation methodology and model are used for both external and internal valuations.

Valuation model

A five-year cash flow model is applied to determine the value of the property portfolio. This means that the operating surpluses for the properties for the next five years are forecast based on leases, information about vacant premises, actual and budgeted operating and maintenance costs, property tax and property management, as well as information about ongoing and planned investments. The results of property inspections conducted regularly of the property portfolio for each area are taken

into consideration here. A present value of each year's operating surplus, less the value of remaining investments for ongoing projects, and the present value of the properties' residual value in year 6 constitute the basis for the value of the properties. The yield requirement for determining the residual value is set for each property on the basis of several factors, including the property's technical status, estimated earnings, property type and geographic market. The information on these factors is taken from property-specific data from the administration organisation and market-related information from Savills. In the valuation model, the long-term vacancy has been estimated at between 1.7 and 14.3 per cent depending on the type of property, location, quality, etc. Inflation has been estimated at 2 per cent, which is in line with the Riksbank's long-term target.

Uncertainty range

All property valuations are based on a number of assumptions about the future and the market, which entail a degree of uncertainty. Savills therefore indicate an uncertainty range of +/- 7.5 per cent, which results in a value range of SEK 19,241–22,362 million.

VALUATION ASSUMPTIONS

	31 Dec 2018					31 Dec 2017				
	Offices	Retail	Residential	Industrial/warehouse	Other	Office	Retail	Residential	Industrial/warehouse	Other
Yield for assessing residual value ¹ , %	6.8-5.6	6.8-5.9	5.3-4.7	8.3-7.0	7.0-6.1	7.0-5.7	6.8-6.0	5.3-4.7	8.1-7.0	7.0-6.0
Cost of capital for discounting to present value, %	8.0	8.1	7.2	9.9	8.7	8.1	8.2	7.4	9.8	8.6
Long-term vacancy, %	5.0	3.7	1.7	14.3	6.1	5.0	3.7	1.8	12.0	5.5

¹ From lower to upper quartiles in the portfolio.

CHANGES IN VALUE OF PROPERTIES BY BUSINESS AREA

BUSINESS AREA	Market value 31 Dec 2018, SEKm	Market value 31 Dec 2017, SEKm	Change, %	Change, SEKm	Of which investments/acquisitions, SEKm	Of which sales, SEKm	Of which unrealised change in value, SEKm	Average cost of capital, %	Average yield requirement valuation, %
Dalarna	2,805	2,647	6.0	158	135	-15	34	8.9	6.8
Gävle	1,971	2,046	-3.7	-75	282	-418	61	8.1	6.0
Sundsvall	3,424	3,234	5.9	190	93	-	95	8.1	5.9
Åre/Östersund	3,554	3,258	9.1	296	211	-8	93	8.2	6.1
Skellefteå/ Umeå	4,994	4,494	11.1	500	234	-	264	7.8	5.7
Luleå	4,053	3,777	7.3	276	143	-	132	7.8	5.7
TOTAL	20,802	19,457	6.9	1,345	1,097	-441	678	8.2	6.0



CURRENT ASSETS

Cash and bank balances were SEK 0 million (32). Other current assets comprised trade receivables, other receivables, and prepaid expenses and accrued income.

EQUITY

Equity and total assets amounted to SEK 7,839 million (6,887) and SEK 21,057 million (19,708) respectively, giving an equity ratio of 37.2 per cent (34.9).

The target for return on equity in 2018 was a return in excess of 12 per cent. Yield on equity amounted to 18.2 per cent (18.3), thereby exceeding the yield target of 12 per cent (5.9). After adjustments were made for unrealised changes in value for property and derivatives as well as deferred tax, the yield on equity amounted to 11.6 per cent (14.7) for 2018.

DEFERRED TAX LIABILITY

Deferred tax in the income statement amounted to SEK 1,353 million (1,197). The remaining tax loss carry-forwards are estimated at SEK 0 million (21). The Group also has untaxed reserves of SEK 245 million (123). The fair value of the properties exceeds their tax base by SEK 6,288 million (5,339), less SEK 3,502 million (3,263) in deferred tax relating to asset acquisitions. The tax liability has been calculated based on the tax rate applying at the time when the tax consequence is expected to arise.

LIABILITIES TO CREDIT INSTITUTIONS

Liabilities to credit institutions totalled SEK 11,099 million (11,104) and consisted of interest-bearing liabilities in the form of bank loans, bonds and commercial paper.

The Group's interest-bearing liabilities had an average annual interest rate of 1.2 per cent (1.5), including loan commitments at 31 December. The actual average annual interest rate for 2018, including the cost of derivatives and loan commitments, was 1.6 per cent (1.9). Portions of the loan portfolio were expanded, renegotiated and extended during the year, which resulted in a reduced interest expense.

The loans had an average fixed-rate term, including derivatives, of 1.4 years (1.4). The average loan maturity was 2.0 years (2.4).

DERIVATIVES

The derivatives had a market value of SEK 0.5 million (-16), with the change being due to the time effect.





➤ Anders Hedström, Property Manager Gävle.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders of the parent company

Amounts in SEKm	Number of outstanding shares, thousands	Share capital	Capital contributed	Retained earnings	Proportion of equity held by non-controlling interests	Total equity
EQUITY 31 DECEMBER 2016	74,729	149	1,820	2,301	43	4,313
Comprehensive income for the year after tax				1,027	2	1,029
Issue of new shares	59,783	120	1,733			1,853
Issue costs			-51			-51
Tax effect of issue costs			11			11
Cash dividend				-269		-269
EQUITY 31 DECEMBER 2017	134,512	269	3,513	3,059	45	6,887
Comprehensive income for the year after tax				1,338	3	1,341
Cash dividend				-390		-390
EQUITY 31 DECEMBER 2018	134,512	269	3,513	4,007	49	7,839

CONSOLIDATED CASH FLOW STATEMENT

SEKm	Note	2018	2017
Operating activities			
Operating surplus		1,140	1,080
Central administration		-71	-73
Reversal of depreciation, amortisation and impairment		2	2
Interest received		8	4
Interest paid		-185	-219
Tax paid		-90	-43
Cash flow from operating activities before changes in working capital		804	751
Changes in working capital			
Decrease (+)/increase (-) in receivables		-35	82
Decrease (-)/increase (+) in current liabilities		31	-142
Total changes in working capital		-4	-60
Cash flow from operating activities		800	691
Investing activities			
Investments in new builds, conversions and extensions		-557	-502
Acquisition of properties		-371	-2,581
Sale of properties		443	240
Other non-current financial assets		-10	-
Cash flow from investing activities		-495	-2,843
Financing activities			
Dividend		-390	-269
Issue of new shares		-	1,802
New borrowing, interest-bearing liabilities		312	3,168
Repayment and redemption of interest-bearing liabilities		-457	-2,502
Change in overdraft facility		198	-15
Cash flow from financing activities	23	-337	2,184
CASH FLOW FOR THE YEAR		-32	32
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR ¹		32	0
CASH AND CASH EQUIVALENTS AT END OF YEAR ¹		0	32

¹ Cash and cash equivalents comprise cash and bank balances.



► Diös tenant Stadium, Micke Jonsson Store Manager, with Emelie Kjellner, City Centre Manager, Katten 14, Luleå.

► COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY

SHARES, SHARE CAPITAL AND ISSUE

The share capital at 31 December 2018 was SEK 269,024,276 (269,024,276), represented by 134,512,438 shares (134,512,438). This equates to a quotient value per share of SEK 2. No changes to the shares or share capital were made in 2018. In January 2017, a rights issue of SEK 1,853 million was carried out to part-finance the acquisition of properties in Umeå, Luleå and Sundsvall. The issue ended at the beginning of February 2017. As a result of the rights issue, historical share-related key ratios and the share price have been adjusted for the purpose of enabling comparisons between years and periods.

► COMMENTS TO THE CASH FLOW STATEMENT

Cash flow from operating activities for the year increased by 16 per cent to SEK 800 million (691). The changes are mainly due to increased property management income.

INVESTING ACTIVITIES

During the year, investments were made in projects in the form of new builds, conversions and extensions, mainly in connection with tenant adaptations, which reduced cash flow by SEK 557 million (502). The investments were spread across 799 projects, of which 377 were concluded in 2018. In addition to project investments, 11 properties (40) were acquired, which reduced cash flow by SEK 371 million (2,581). 20 properties (15) were sold, which increased cash flow by SEK 443 million (240).

FINANCING ACTIVITIES

In 2018, Diös' shareholders received dividends totalling SEK 390 million (269), which reduced cash flow. The net change in interest-bearing liabilities was SEK -145 million (666), which is explained by ongoing debt repayments. The change in 2017 is affected by the acquisition of 32 properties in Umeå, Luleå and Sundsvall, which was part-funded by interest-bearing liabilities. Repayment and redemption of interest-bearing liabilities totalled SEK -457 million (-2,502) and the change in overdraft facilities increased cash flow by SEK 198 million (-15).

CHANGE IN CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents decreased in 2018 due to a negative cash flow. At 31 December 2018, cash and cash equivalents stood at SEK 0 million (32).

INCOME STATEMENT PARENT COMPANY

INCOME STATEMENT, SEKm	Note	2018	2017
Net revenue	3	164	170
Gross profit		164	170
Central administration	5.6	-204	-214
Operating profit		-40	-44
Financial income	7	864	672
Financial costs	8	-222	-192
Current tax	10	-	-
PROFIT FOR THE YEAR AFTER TAX		602	436
<hr/>			
STATEMENT OF COMPREHENSIVE INCOME		2018	2,017
Profit after tax		602	436
COMPREHENSIVE INCOME FOR THE YEAR		602	436



BALANCE SHEET

PARENT COMPANY

ASSETS, SEKm	Note	2018	2017
Non-current assets			
Property, plant and equipment and intangible assets			
Intangible non-current assets	12	1	2
Other property, plant and equipment	13	0	1
Total property, plant and equipment and intangible assets		1	3
Non-current financial assets			
Interests in Group companies	14	2,124	2,124
Receivables from Group companies		9,398	9,350
Total non-current financial assets		11,522	11,474
Total non-current assets		11,523	11,477
Current assets			
Current receivables			
Receivables from Group companies		1,816	2,089
Other receivables	12	12	
Prepaid expenses and accrued income	8	11	
Total current receivables		1,836	2,112
Cash and bank balances	-	29	
Total current assets		1,836	2,141
TOTAL ASSETS		13,359	13,618

EQUITY AND LIABILITIES, SEKm	Note	2018	2017
Equity			
Restricted equity			
Share capital	19	269	269
Statutory reserve		285	285
Total restricted equity		554	554
Non-restricted equity			
Share premium reserve		3,173	3,173
Retained earnings		-1,022	-1,068
Profit for the year		602	436
Total non-restricted equity		2,753	2,541
Total equity		3,307	3,095
Non-current liabilities			
Liabilities to Group companies		5,470	5,173
Liabilities to credit institutions	21	1,260	1,803
Total non-current liabilities		6,730	6,978
Current liabilities			
Current portion of non-current liabilities	21	978	1,403
Liabilities to Group companies		2,109	2,104
Overdraft facilities	21	201	-
Trade payables		2	2
Other liabilities		12	11
Accrued expenses and deferred income	22	20	25
Total current liabilities		3,322	3,545
TOTAL EQUITY AND LIABILITIES		13,359	13,618



PARENT COMPANY STATEMENT OF CHANGES IN EQUITY AND CASH FLOW STATEMENT

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEKm	Number of outstanding shares, thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Total equity
EQUITY 31 DECEMBER 2016	74,729	149	285	1,492	-799	1,127
Comprehensive income for the year after tax					436	436
	59,783	120		1,661		1,801
Cash dividend					-269	-269
EQUITY 31 DECEMBER 2017	134,512	269	285	3,173	-632	3,095
Comprehensive income for the year after tax					602	602
Cash dividend					-390	-390
EQUITY 31 DECEMBER 2018	134,512	269	285	3,173	-420	3,307

PARENT COMPANY CASH FLOW STATEMENT

SEKm	Note	2018	2017
Operating activities			
Operating profit		-40	-44
Reversal of amortisation of intangible assets and depreciation of property, plant and equipment		1	1
Interest received		253	218
Interest paid		-222	-192
Cash flow from operating activities before changes in working capital		-8	-17
Changes in working capital			
Decrease (+)/increase (-) in receivables		288	-662
Decrease (-)/increase (+) in liabilities		-1	47
Total changes in working capital		287	-615
Cash flow from operating activities		279	-632
Investing activities			
Change in long-term receivables		552	-1,603
Acquisition of non-current financial assets		-	-1,854
Cash flow from investing activities		552	-3,457
Financing activities			
Dividend		-390	-269
Issue of new shares		-	1,802
Change in non-current liabilities, Group companies		297	1,539
New borrowing, interest-bearing liabilities		602	1,398
Repayment and redemption of interest-bearing liabilities		-1,570	-335
Change in overdraft facility		201	-17
CASH FLOW FROM FINANCING ACTIVITIES	23	-860	4,118
CASH FLOW FOR THE YEAR		-29	29
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR¹		29	0
CASH AND CASH EQUIVALENTS AT END OF YEAR¹		0	29

¹ Cash and cash equivalents consist of cash and bank balances.



➤ NOTES

➤ Kungsback 2:13, Gävle.

NOTE 1 >> ACCOUNTING POLICIES

GENERAL INFORMATION

The annual report and consolidated financial statements were approved by the Board of Directors for publication at www.diös.se v. 13, 2019. The consolidated and parent company income statements and balance sheets will be presented for approval at the Annual General Meeting on 23 April 2019. Diös Fastigheter AB (publ), corporate ID number 556501-1771, is a Swedish public limited company with its headquarters in Östersund. The company offers commercial and residential properties in central locations in cities in northern Sweden with considerable variation in terms of property type and floor space. The postal address of its head office is: PO Box 188, SE-831 22 Östersund, and the visiting address is Fritzhemsgatan 1A in Östersund.

OPERATIONS

The operations side of the business is conducted in the context of the Group's six geographically designed business areas: Dalarna, Gävle, Sundsvall, Åre/Östersund, Skellefteå/Umeå and Luleå. From 1 January 2018, the former Retail business unit has been presented on a geographic basis and is therefore included in the various business units. Each business area comprises an administrative district. The central administration, which includes general administration and Group-wide activities, are managed from the head office in Östersund.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS) and interpretations of these as they have been adopted by the European Union. Furthermore, the consolidated financial statements have been prepared in accordance with Swedish law and the Swedish Financial Reporting Board's recommendation RFR 1, "Supplementary Accounting Regulations for Groups". The accounts have been prepared under the historical cost convention, except for investment properties and derivative instruments, which are carried at fair value. The parent company's annual report has been prepared pursuant to Swedish law and Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities".

The recommendation states that a legal entity must apply IFRS, including interpretations from IFRIC/SIC, with exceptions for legislative provisions in the Swedish Annual Accounts Act, first and foremost, and taking into account the relationship between accounting and taxation. The parent company uses the same accounting and measurement policies as those used for the consolidated financial statements with the following exceptions. The parent company does not apply IFRS 9: Financial Instruments. A method based on the acquisition cost is applied for the parent company in accordance with the Swedish Annual Accounts Act. Derivative instruments are not measured at fair value for the parent company, but rather at lowest value principle. Property, plant and equipment is recognised at cost less accumulated depreciation and impairment. The carrying amount increases for these in the balance sheet provided that requirements for revaluation exist. Shares in subsidiaries are recognised using the acquisition cost method where the carrying amount is continually reviewed against the subsidiaries' consolidated equity. In cases where the carrying amount exceeds the consolidated value, the resulting impairment is charged to the income statement. Impairment loss is reversed when it is no longer justified. Acquisition costs for subsidiaries that are written off in the consolidated financial statements are included as part of the acquisition cost of interests in subsidiaries. Group contributions are recognised as balance sheet appropriations for both the recipient and the contributor. Any subsequent impact on tax is recognised as current tax. Shareholder contributions are recognised by the contributor as an increase in shares in subsidiaries and by the recipient as an increase in non-restricted equity.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS 2018

Group

From and including the financial year 2018, the Group has applied a number of new standards and interpretations. These new or amended standards and interpretations had no significant impact on the consolidated financial statements for 2018 other than as mentioned below.

IFRS 15 Revenue has been applied from 1 January 2018. In connection with the introduction of IFRS 15, a review was made of the Group's contracts, as a result of which Diös identified that some parts of the Group had revenue which is covered by IFRS 15. A breakdown has therefore been made between rental income and service income. Rental income refers to normal debited rent including indexation, additional charges for investments and property tax in accordance with IAS 17 Leases while service income refers to income from tariff-based services and care and upkeep of properties. Care and upkeep of properties includes technical management, snow removal, etc. Tariff-based services include heating, cooling, refuse collection, water, snow removal, etc. An analysis was done to assess whether we are the principal or agent for these services and it was concluded that the Group in its role as property owner mainly acts as principal. The Group has applied IFRS 15 from 1 January 2018. The transition method used is the retrospective method, which means that comparative figures have been restated and that the company's revenue is presented on two lines, Rental income and Service income.

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018. IFRS 9 introduces changes in respect of the classification and measurement of financial instruments and liabilities. The new standard contains changes to the principles for hedge accounting and introduces an impairment model that is based on expected credit losses instead of incurred losses. For Diös, the areas that have been affected by the introduction of IFRS 9 are impairment testing of trade receivables and assessment of future bad debts. Diös has applied the simplified approach under the new impairment testing model, which shows that the transition has an insignificant impact on the Group's financial statements. As the Group's credit losses are very small, the transition has not had a significant impact on our financial statements. No comparative figures will be restated.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In order to be able to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) and generally accepted accounting practice, it is necessary to make estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets, liabilities, income and expense in the next financial year. These estimates are based on historical experience and other factors that are believed to be reasonable under the circumstances. The actual results may differ from these estimates if other assumptions are made or other factors exist. Estimates and assumptions are reviewed regularly. Changes in estimates are recognised in the period in which the change is made. This is done if the change only

affects that period, or if the change affects both the present and future periods, it is made both in the period in which the change is made and future periods. The estimates of the value of investment properties have a significant risk of causing a material adjustment to Group revenue and financial position. The measurement requires an estimation of the future cash flow as well as the determination of appropriate discount rates (required rate of return). The estimates and assumptions that form the basis of the applicable measurement are described in Note 11 Investment Properties. Other areas where judgements are made are asset acquisition versus business combination, and deferred tax liability. More information about the assumptions and judgements that are made is presented under Asset acquisitions and business combinations below and in Note 17 Deferred tax.

DEFINITION OF SEGMENTS

Identification of reportable operating segments is done based on internal reporting to the chief operating decision maker, the CEO, and the Group CEO. The Group's management and financial structure is grouped into six segments, see the section Operations. Group operations are organised by business area according to a geographic breakdown. Internal reporting systems are designed in order to facilitate follow-up of the returns generated by the respective business area. A geographic breakdown constitutes the primary basis of division. The company's operations are also monitored based on property type. The accounting policies applied for segment reporting are consistent with those applied by the Group. Segment information is only provided for the Group.

CLASSIFICATION

Non-current assets and non-current liabilities consist, in all material respects, exclusively of amounts that are expected to be recovered or paid later than twelve months from the balance sheet date. Current assets and current liabilities consist, in all material respects, exclusively of amounts that are expected to be recovered or paid within twelve months of the balance sheet date.

CONSOLIDATED FINANCIAL STATEMENTS

The Group's financial reports include both the parent company and the subsidiaries in which the parent company has a controlling interest. A controlling interest exists when the parent company has control over a company, is exposed to, or has the right to, a variable return on its interest in the company and has the opportunity to exercise its influence and control over the company in order to affect its return. In order to achieve this control, the parent company must own, directly or indirectly, at least half of the voting power of the company. In addition to the parent company, the Group comprises the subsidiaries and associated sub-groups specified in Note 14. The financial statements are based on accounting records that have been prepared for all Group companies as at 31 December 2018. Profit/loss for a subsidiary acquired during the year is included in the consolidated income statement from the effective date of acquisition. Profit/loss from subsidiaries disposed of during the year is included in the consolidated income statement up to the date of disposal. All intercompany transactions with regard to assets, liabilities, income and expense are eliminated entirely on consolidation. Corporate acquisitions are recognised using the acquisition method. The acquisition method means that assets acquired and liabilities assumed are recognised at their fair value on the acquisition date, which is the date on which the acquirer assumes control of the acquired entity. The difference between the acquisition cost and the value of any non-controlling interest as well as the fair value of any previous interest and the fair value of the identifiable assets acquired, liabilities assumed and contingent liabilities is recognised as goodwill. Negative difference is recognised directly in the income statement. Non-controlling interests are recognised either as a proportional share of the net assets acquired or at fair value, which is estimated per acquisition. Additional consideration is recognised at estimated fair value with subsequent changes recognised in the income statement. Business combination achieved in stages (step acquisition) is measured at fair value on the date when control is obtained. Gain or loss resulting from remeasurement of previously held equity interest, before control was obtained, is recognised in the income statement. Increases or decreases in ownership interest are treated as changes in equity if control of the subsidiary is maintained. Non-controlling interests are recognised in the consolidated financial statements under equity, separate from the equity of the parent company. Non-controlling interests are included in the consolidated income statement and comprehensive income statement and are recognised separate from the parent company's income statement and comprehensive income statement as an allocation of the profit for the period.

ASSET PURCHASES VERSUS BUSINESS COMBINATIONS

Acquisitions may be classified either as business combinations or asset purchases. Acquisitions whose primary purpose is to acquire the company's property and in which the company's management organisation and administration, if any, is of secondary importance to the acquisition, are classified as asset purchases. Other acquisitions are classified as business combinations. On asset acquisition, no deferred tax attributable to the property acquisition is recognised; instead, any discount reduces the property's acquisition cost. This means that the changes in value will be affected by discounts and transaction costs during initial measurement and recognised as an unrealised change in value.

JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement is classified as either a joint venture or a joint operation. Diös has assessed its joint arrangements and determined that its interest in Svensk Fastighetsfinansiering AB constitutes a joint operation. In respect of its interest in the joint operations, Diös has recognised its assets and liabilities, including its share of all joint assets and liabilities, as well as its income and expenses, including its share of all joint income and expenses. The Group's other joint arrangements constitute joint ventures and are accounted for in accordance with the equity method. Under the equity method, interests in joint ventures are recognised at cost in the balance sheet after adjusting for the Group's share of the profit or loss of joint ventures after the acquisition date. Dividends received reduce the carrying amount of the interest.

REVENUE

Diös' revenue consists substantially of rental income from the lease of commercial and residential premises and other leases including indexation as well as pass-through of investments and property tax. These are classified and accounted for as operating leases in accordance with IAS 17 Leases. The rental income is recognised on a straight-line basis over the term of the lease. This means that only the portion of the rental income relevant to the current period is recognised. Rentals invoiced in advance are thus recognised as deferred rental

CONT. NOTE 1 >>> ACCOUNTING POLICIES

income. Any payment in connection with premature termination of a lease is recognised immediately as income provided there are no remaining obligations towards the lessee. Discounts on leases are recognised on a straight-line basis over the term of the lease. Turnover leases are used to a minor extent. In preparing the annual accounts, turnover rent is estimated based on the reported sales data. Any difference between the actual and estimated annual rent is accounted for as a changed estimate in the period in which the annual rent is determined.

Other income refers to service income, which consists of additional charges such as tariff-based income and income from the care and upkeep of properties. Care and upkeep of properties includes technical management of the properties, such as heating, cooling, refuse collection, water, snow removal, etc. The Group also has income from property transactions as well as financial income, which largely consists of interest income. In Diös' case, revenue is recognised in the income statement when control of the good or service has been passed to the counterparty. Revenue is recognised at an amount that reflects the compensation we are expected to be entitled to in exchange for the goods or services based on the applicable contract. Our assessment is that we in our capacity as property owner are essentially acting as principal and not as agent in respect of service income. For further information, see Note 2 Segment reporting and Note 3 Revenue.

Income from property transactions is recognised on the completion date unless control has already been transferred to the buyer. If control associated with the asset has been transferred on a previous occasion, the property transaction is recognised as income at this earlier date. Income from the sale of property is recognised as the difference between the sale price received, less any costs directly related to the sale, and the latest carrying amount, plus any improvements made since the last valuation.

Interest income is calculated on the basis of the number of days outstanding, current asset balance and the interest rate prevailing at the time. Income is reported for the period in which it is earned. Financial income also includes dividends received. Dividends are recognised as revenue when the right to receive payment is established.

PROPERTY COSTS

Property costs include both direct and indirect costs incurred in the management of a property. Direct costs refer to tariff-based costs, maintenance costs, ground rent and property tax. Tariff-based costs include electricity, heating, cooling, water and snow removal, etc. Indirect costs refer to costs for letting activities, rent administration and accounting.

CENTRAL ADMINISTRATION

Central administration covers costs for general administration and group-wide activities. Parent company costs for executive management, human resources, IT, marketing activities, IR, audit fees, financial statements and the expense of maintaining a stock exchange listing are included in central administration.

FINANCIAL COSTS

Financial costs relate to interest and other costs incurred in connection with borrowings. Costs for registration of mortgage deeds are not considered a financial cost, but are disclosed on the balance sheet as investment properties. Financial costs are recognised in the period to which they relate. Financial costs also include costs for interest rate derivative contracts. Flows of payments under these contracts are recognised in the period in which they are incurred.

FINANCIAL ASSETS AND LIABILITIES

Diös' financial assets essentially consist of rent receivables, other current receivables and cash and cash equivalents. The Group's financial liabilities essentially consist of interest-bearing liabilities, interest rate derivatives at fair value through profit or loss, trade payables, other current liabilities and borrowings. The accounting treatment of these instruments has not changed materially as a result of the changed principles in IFRS 9 for classification and recognition of financial assets and liabilities.

Financial assets are initially measured at fair value and subsequently at amortised cost or fair value depending on their initial classification. For financial assets and liabilities recognised at amortised cost, transaction costs are included at fair value. The company should recognise a financial asset or financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. The company should derecognise a financial asset from its balance sheet when it realises the rights to benefits specified in the contract, the rights expire or when the company loses control of the contractual rights. The company should derecognise a financial liability from its balance sheet when the obligation specified in the contract is discharged, cancelled or otherwise expires. Unless otherwise stated in a note, the carrying amount of all financial assets and liabilities is considered to be a good approximation of their fair values.

Diös applies the simplified approach under the new model for impairment testing for trade receivables and assessment of future bad debts. Under the new IFRS 9 impairment model, provisions should be made for the risk of loss on all receivables irrespective of whether there is observable evidence indicating a risk of loss or not. Provisions should be made at the end of each accounting period on the basis of past experience of losses and expectations of future performance in relation to the amount of the receivables.

Derivative instruments are recognised on the trade date. Spot purchases and sales of financial assets are recognised on the settlement date. The fair values of derivative instruments are determined using discounted future cash flows, with quoted market rates for the term of each instrument. The future cash flows of the derivative portfolio are calculated as the difference between the fixed rate agreed by the respective derivative contracts and the implied STIBOR reference rate for each period. The present value of the consequential interest flows are determined using the implied STIBOR curve. The option component of the callable swaps in the portfolio has not been assigned a value. This is because cancellation does not have an impact on Group earnings. The issuer decides whether to cancel the swap or not. When determining the fair value of borrowings, future cash flows are discounted with the interest rates noted for each term.

Shares and participations are measured at fair value with changes in value recognised in equity and in other comprehensive income. These shares have been measured at cost as the Group was not able to reliably determine their market value.

Receivables are carried at amortised cost less any impairment using an impairment model.

Trade receivables are recognised in the balance sheet when the invoice is sent. They are measured at the lower of cost and net realisable value at their nominal amount and are not discounted as they are considered to have a short duration. The value of doubtful debts is calculated using the impairment model for receivables.

Cash and cash equivalents comprise cash on hand and deposits held with banks. These are classified as "Loans and receivables" and are subject to impairment testing in accordance with IFRS 9.

Trade payables and other liabilities are recognised when the counterparty has performed and there is a contractual obligation to pay. This is the case even if an invoice has not yet been received. Trade payables are recognised in the balance sheet when an invoice has been received and are valued at nominal value without discounting as they are considered to have a short duration.

Loans are carried at amortised cost less allowances for any debt reductions.

Interest, dividends, gains and losses relating to financial instruments are recognised as income or expenses in the income statement.

If the company distributes dividends to shareholders, these are recognised directly in equity, taking into account any income tax consequences.

Derivatives are recognised and measured in the balance sheet at fair value. Derivatives that have a positive market value are recognised as other current receivables if the term is less than one year. Derivatives that have a negative market value are recognised as other current liabilities if the term is less than one year.

Equity instruments that are issued by the company are recognised at the consideration received less transaction costs. Equity instruments are measured at fair value in the balance sheet.

ACQUISITIONS AND SALES

On acquisition and sale of properties, the transaction is recognised on the completion date unless control has already been transferred to the purchaser or the Group. This applies regardless of whether the sale is in the form of a company or not.

EQUITY

When the company repurchases its own shares, the company's equity is reduced by the amount of consideration paid for the shares plus any transaction costs.

Pursuant to the decision of the Annual General Meeting, dividends are recognised as a decrease in equity. The calculation of earnings per share is based on the Group's net earnings for the year attributable to the parent company's shareholders and on the average number of outstanding shares during the year.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

INVESTMENT PROPERTIES

Investment properties are properties that are held for the purpose of generating income from rent or lease, or from an increase in value, or a combination of the two. On the balance sheet date, the property portfolio consists solely of investment properties. These are recognised in the balance sheet at fair value on the balance sheet date based on the property valuation performed. Their fair values are subsequently remeasured during the year at quarterly intervals on the basis of external and internal valuations. The change in value is recognised in the income statement under change in value of properties. Fair values are based on market values. The market values are the estimated sale price of the properties as agreed upon between a willing and well-informed buyer and seller independent of each other with an interest in carrying out the transaction. Project properties that are intended to be managed in-house and for which there are contracted tenants are recognised at fair value, taking account of the project risk and after deducting the remaining investment. Valuations are based on estimates of future cash flows and the price that is expected to be obtained in a transaction between knowledgeable parties on market terms. For more information, see Note 11 Investment properties.

In each subsidiary of the Group that follows RFR 2, the cost comprises the purchase price and costs directly attributable to the acquisition. Other costs that add value are capitalised for properties undergoing major new construction, extension or redevelopment work. This means that repair and maintenance costs are recognised as expenses in the period in which they are incurred. Estimates are conducted continuously throughout the year to ascertain how far ongoing investment projects have progressed. Value-adding expenditure is carried forward, other expenditure is charged to the current year's profit and loss. Changes in value are recognised in the income statement. Transactions concerning the acquisition of properties or companies are normally reported on the completion date since that is the date on which control associated with ownership is usually passed on. For sales, see the sections Revenue and Acquisitions and sales.

OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured reliably. Other property, plant and equipment is recognised in the balance sheet at cost less accumulated depreciation and impairment. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Subsequent expenditure is added to the cost to the extent that it improves the performance of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Scheduled depreciation is based on the original cost of the asset and, where applicable, taking into account other costs that add value and write-ups and write-downs. Items are depreciated on a straight-line basis over the estimated useful life of the asset. The date on which the depreciation starts is the date of acquisition.

The following percentages are applied:

CONT. NOTE 1 >>> ACCOUNTING POLICIES

Parent company and Group

Equipment and vehicles	10–20%
Office equipment	20%
Computers	33%

INTANGIBLE ASSETS

Intangible assets currently comprise IT systems. IT systems are stated at cost less accumulated amortisation and impairment. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Items are depreciated on a straight-line basis over the estimated useful life of the asset.

The following percentages are applied:

Parent company and Group	
IT systems	20%

EMPLOYEE BENEFITS

Short-term employee benefits include salaries, paid annual leave, paid sick leave and social security contributions. These are recognised as the employees perform the work that entitles them to such benefits.

PENSIONS

Pensions and other post-employment benefits can be classified as defined contribution or defined benefit pension schemes. The Group only operates defined contribution pension schemes. This means that the legal or informal obligations are limited to the amount with which the company has agreed to participate. The scope of the employee's retirement benefits depends on the contributions that the Group pays to the scheme or to an insurance company compared to the return on capital that the contributions give. Hence, it is the employee who bears the actuarial risk and investment risk. The commitment to retirement and occupational pensions is covered by insurance with Alesta. In compliance with current regulations, these are classified as defined benefit ITP plans, which are covered by several employers.

A small number of people have defined benefit ITP plans, with continuous payments made to Alesta. These are recognised as a defined contribution plan as a result of Alesta not supplying the information required, thus leading to a lack of information required to recognise the plan as a defined benefit plan. However, there is nothing to indicate any significant commitments in excess of the amount paid to Alesta. Where there is insufficient information to recognise for them as defined benefit schemes, they are recognised as defined contribution schemes. Obligations in respect of contributions to defined contribution plans are recognised as an expense in the income statement as they arise. For more information, see Note 5.

TERMINATION BENEFITS

Termination benefits are recognised as a liability and an expense. This only applies if the Group is demonstrably obliged to either terminate employment before the usual retirement date or to provide compensation to encourage voluntary resignation. The benefits in connection with voluntary redundancy are calculated on the basis of the number of employees expected to accept the offer. This means that the compensation is written off on the basis of an obligation to work or directly if the employee is exempt from this.

RELATED PARTIES

IAS 24, Related Party Disclosures requires the disclosure of related-party transactions and outstanding balances. A party is related to a company if the party directly or indirectly through one or more intermediaries controls, is controlled by, or is under the same controlling interest as the company. A party is related to a company if the party has an interest in the company that gives it significant influence or joint control over the company. This includes parent companies, subsidiaries and affiliated companies.

A party is also related to a company if the party is an associate of the company, a joint venture in which the entity is a co-owner. The designation also includes key individuals in senior roles in the company or its parent company, close family members of anyone defined as an associate, companies under the controlling influence of, under a joint controlling influence of or significantly influenced by key individuals in senior roles in the company or close family members. A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Controlling interest is the power to govern the financial and operating policies of a company so as to obtain financial benefits. Joint control is the contractually agreed sharing of controlling interest over an economic activity. Significant influence is the power to participate in the financial and operating policy decisions of a company without controlling interest over those policies. Significant influence may be gained by share ownership, statute or agreement. Key individuals in senior positions are those persons with the powers and responsibility for directly or indirectly planning, managing and controlling the operations of a company. Close members of the family of a person are the person's children and spouse or cohabiting partner, the children of that person's spouse or cohabiting partner, and dependants of that person or that person's spouse or cohabiting partner.

TAX

The parent company and the Group apply IAS 12, Income Taxes. Aggregate tax is current and deferred tax. Tax is recognised in the income statement, unless it arises from transactions recognised in other comprehensive income or equity, in which case any related tax effect is also recognised directly in equity. Current tax is the amount of tax the company is liable to pay in respect of the taxable profit/loss for the year, including adjustments of any current tax pertaining to earlier periods. The parent company and Group calculate deferred tax according to the balance sheet method. This means that deferred tax is recognised on all temporary differences, except to the extent that the deferred tax is attributable to the initial recognition of goodwill or an asset or liability arising from a transaction that is not a business combination and at the time of acquisition affects neither recognised profit nor taxable profit. These amounts are calculated based on how the temporary differences are expected to be settled and using the tax rates and tax regulations that have been enacted or announced on the balance sheet date. Deferred taxes are measured using the tax rates and tax regulations enacted or substantively enacted on the balance sheet date.

Deferred tax assets are recognised for deductible temporary differences and tax loss carry-forwards only to the extent that it is probable that they will result in lower tax payments in the future. Deferred tax assets are reduced to the extent that it is no longer probable that a sufficient taxable benefit will arise. Deferred tax is reported net when we have made the assessment that the unutilised deficit can be offset against future earnings.

CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method. This means that net earnings have been adjusted for transactions not involving receipts and payments during the period, and for any income and expenses associated with cash flows for investing or financing activities.

PARENT COMPANY

The changes to RFR 2, which apply from and including the financial year 2018, have not had any impact on the parent company's financial statements.

NEW STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board (IASB) has issued a number of new and amended standards and interpretations which are effective from the beginning of the 2019 financial year. These have not been applied when preparing the 2018 consolidated financial statements.

IFRS 16 Leases

IFRS 16 Leases will be applied for financial years beginning on 1 January 2019. Diös will not be applying the standard retrospectively, i.e. application of the simplified approach under which the carrying amount of the right-of-use asset is based on the corresponding value of the lease liability at the transition date. The accounting treatment for lessors will remain essentially unchanged. For lessees, the standard will have the effect that most leases will be recognised in the balance sheet. For Diös, the main impact will be on the recognition of leasehold contracts and car leases, which will be recognised in the balance sheet and will thus have an impact on total assets. The lease payment will be accounted for as depreciation of the right-of-use asset and as an interest expense. The recognised right-of-use assets will be assigned the same value as the lease liability recognised at 1 January 2019. As Diös has a limited number of contracts, the impact on the financial statements is expected to be limited. As a lessee, Diös has reviewed and assessed the Group's leases, identifying leasehold contracts and car leases as being the most material. In addition to these, only minor leases have been identified, such as leases for office equipment and similar items. The lease liability for leasehold contracts at 1 January 2019 is estimated at SEK 35 million and includes a corresponding right-of-use asset. As a result of the transition to IFRS 16, all ground rent costs will be treated as a financial cost, which differs from the current principle, under which these costs are treated as an operating expense. Property management income will remain unchanged, however. The recognised expense for ground rent in 2018 was SEK 3 million. The lease liability for car leases at 1 January 2019 is estimated at SEK 14 million and includes a corresponding right-of-use asset. These will be recognised at the value of the right-of-use asset at the beginning of the period less depreciation and a finance charge, which differs from the current principle, under which this is treated as an operating expense. The recognised expense for leased vehicles in 2018 was SEK 4 million.

Other EU-adopted new and amended IFRS standards and interpretations of the IFRS Interpretations Committee that become effective in coming periods are currently not considered to have a material impact on the consolidated financial statements.

Changes to Swedish regulations in 2018 have not had a material impact on Diös' financial statements, but have mainly resulted in slightly increased disclosure requirements.

Parent company

The amendments to Recommendation RFR 2 Financial Reporting for Legal Entities of the Swedish Financial Reporting Board that become effective from 1 January 2019 or later are also not expected to have a material impact when they are applied for the first time.

NOTE 2 ➤ SEGMENT REPORTING 2018

By segment, SEKm	Dalarna	Gävle	Sundsvall	Åre/ Östersund	Skellefteå/ Umeå	Luleå	Group
Rental income	221	152	227	246	322	267	1,435
Service income							
Tariff-based services	39	20	36	50	44	30	219
Care and upkeep	23	15	29	33	27	29	156
Repair and maintenance	-13	-7	-13	-14	-16	-12	-75
Tariff-based costs	-39	-20	-36	-50	-44	-30	-219
Property tax	-12	-10	-14	-15	-20	-18	-89
Other property costs	-31	-24	-38	-41	-37	-40	-211
Property management	-13	-9	-12	-15	-14	-12	-75
Operating surplus	176	117	178	194	261	214	1,140
Undistributed items							
Central administration	-	-	-	-	-	-	-71
Net financial items	-	-	-	-	-	-	-175
Property management income							894
Changes in value							
Property, realised	0	9	-	0	-	-	9
Property, unrealised	34	61	95	93	263	132	678
Interest rate derivatives	-	-	-	-	-	-	16
Profit before tax	-	-	-	-	-	-	1,597
Current tax	-	-	-	-	-	-	-90
Deferred tax	-	-	-	-	-	-	-166
Non-controlling interests	-	-	-	-	-	-	-3
PROFIT FOR THE YEAR ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS							1,338
Leasable area, sq.m	263,901	146,523	233,490	304,513	309,955	205,440	1,463,822
Rental value, SEKm	304	207	325	356	414	330	1,936
Economic occupancy rate, %	91	90	88	92	93	95	91
Surplus ratio, %	63	63	62	60	68	69	64
Change in property portfolio							
Property portfolio, 1 January 2018	2,647	2,046	3,234	3,258	4,494	3,777	19,457
Acquisitions	-	196	-	86	138	-	420
Investments in new builds, extensions and conversions	135	86	93	124	96	143	677
Sales	-15	-418	-	-8	-	-	-441
Reclassifications	2	0	3	1	2	1	10
Unrealised changes in value	34	61	95	93	263	132	678
Property portfolio, 31 December 2018	2,805	1,971	3,424	3,554	4,994	4,053	20,802

CONT. NOTE 2 >>> SEGMENT REPORTING 2017

By segment, SEKm	Dalarna	Gävle	Sundsvall	Åre/ Östersund	Skellefteå/ Umeå	Luleå	Group
Rental income	224	152	209	242	296	251	1,375
Service income							
Tariff-based services	38	24	35	48	43	27	215
Care and upkeep	20	15	21	27	22	23	128
Repair and maintenance	-13	-10	-12	-16	-17	-10	-77
Tariff-based costs	-38	-24	-35	-48	-43	-27	-216
Property tax	-12	-11	-14	-15	-18	-17	-86
Other property costs	-28	-20	-30	-35	-32	-34	-180
Property management	-13	-10	-16	-14	-13	-13	-80
Operating surplus	172	129	166	185	227	201	1,080
Undistributed items							
Central administration	-	-	-	-	-	-	-73
Net financial items	-	-	-	-	-	-	-185
Property management income							822
CHANGES IN VALUE							
Property, realised	-	-1	1	-	10	-	10
Property, unrealised	-46	79	94	138	86	50	402
Interest rate derivatives	-	-	-	-	-	-	27
Profit before tax	-	-	-	-	-	-	1,261
CURRENT TAX	-	-	-	-	-	-	-43
DEFERRED TAX	-	-	-	-	-	-	-189
Non-controlling interests	-	-	-	-	-	-	-2
PROFIT FOR THE YEAR ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS							1,027
 Leasable area, sq.m	266,682	240,699	233,490	304,511	301,702	205,440	1,552,524
Rental value, SEKm	302	225	312	342	381	313	1,875
Economic occupancy rate, %	90	89	87	91	91	95	91
Surplus ratio, %	64	65	61	59	65	68	64
 Change in property portfolio							
Property portfolio, 1 January 2017	2,576	1,978	2,033	3,025	2,219	1,852	13,683
Acquisitions	1	-	1,047	-	2,240	1,806	5,094
Investments in new builds, extensions and conversions	116	44	92	95	89	69	505
Sales	-	-55	-32	-	-140	-	-227
Reclassifications	-	-	-	-	-	-	-
Unrealised changes in value	-46	79	94	138	86	50	402
Property portfolio, 31 December 2017	2,647	2,046	3,234	3,258	4,494	3,777	19,457

NOTE 3 >>> REVENUE

Consolidated revenue (rental and service income) was SEK 1,810 million (1,719), which represents an economic occupancy rate of 91 per cent (91). For comparable properties, contracted rental income increased by 3 per cent year on year. Revenue consists of the rental value less the value of vacant spaces during the year plus service income. Rental value refers to income received plus estimated market rent for unleased space. The rental value also includes additional charges that are passed on to the tenant, such as heating costs, property tax and indexation adjustments.

SEKm	2018	SEK/sq.m	2017	SEK/sq.m
GROUP				
Comparable properties	1,677		1,628	
Acquired properties	63		0	
Sold	31		72	-
Contracted income	1,771	1,210	1,700	1,095
Other property management income	39		19	
INCOME	1,810		1,719	

Intra-Group revenue in the parent company relates to invoiced administration and management fees. Contract maturity structure of the property portfolio is shown in the table below. Contracted rental income refers to annual value.

SEKm	2018	2017
PARENT COMPANY		
Intra-Group revenue	164	170
Other income	-	-
Total	164	170

Lease maturities at 31 December 2018

	Maturity year	Concluded contracts	Rented area, sq.m	Contracted rental income, SEKm	Share of value, %
Commercial leases	2019	919	227,065	279	16
	2020	824	256,343	339	19
	2021	655	267,740	357	20
	2022	348	136,164	196	11
	2023+	261	277,599	416	23
Total commercial leases		3,007	1,164,911	1,587	89
Residential leases		1,635	112,929	125	7
Other leases		4,128	-	63	4
TOTAL		8,770	1,277,840	1,775	100

NOTE 4 >>> PROPERTY COSTS

SEKm	2018	2017
GROUP		
Operating costs	-431	-397
Repair and maintenance costs	-75	-77
Property tax	-89	-86
Property management	-75	-79
TOTAL	-670	-639

Property costs amounted to SEK 670 million (639), corresponding to SEK 458/sq.m (411). The costs comprise direct property costs for operation, maintenance, property taxes, etc. and indirect property costs in the form of leasing and property management. The increase in costs consists mainly of an increase of SEK 25 million in winter-related costs compared with the same period in 2017, which was due to a cold and snowy winter. Costs for property management decreased as a result of more efficient management.

Operating costs include electricity, heating, water, care and upkeep of properties, cleaning, insurance and property-specific marketing costs. Some of the operating costs are charged to the tenants as rent supplements. Operating costs amounted to SEK 437 million (404), corresponding to SEK 298/sq.m (260). SEK 13 million (9) of the operating costs is for work carried out on leased premises which is charged to lessees. This corresponds to SEK 9/sq.m (6).

Repair and maintenance costs comprise periodic and ongoing measures necessary to maintain the standards of the properties and their technical systems. Costs in 2018 amounted to SEK 69 million (70) or SEK 47/sq.m (45).

Property tax is a state tax based on the assessed value of a property. A large proportion of the property tax is charged to the tenants and lessees. The tax rate in 2018 was 1 per cent (1) of the assessed value for office/retail space and 0.5 per cent (0.5) for warehouse/industrial space. Property tax for residential properties is calculated at SEK 1,315/apartment or 0.3 per cent of the assessed value for 2018, whichever is the lower. Property tax expenses amounted to SEK 89 million (86), corresponding to SEK 61/sq.m (55).

Property management costs are indirect costs for the ongoing management of the properties. These include costs for employees responsible for lease administration, lease negotiations, consumables and project administration. Consolidated expenses in 2018 amounted to SEK 75 million (79), corresponding to SEK 51/sq.m (51). SEK 18 million (20) of this sum relates to employee benefits.

NOTE 5 >>> EMPLOYEES, STAFF COSTS AND DIRECTORS' FEES

Average number of employees	2018	2017
	of whom men	of whom men
Parent company	172	59%
Other companies	-	-
GROUP TOTAL	172	59%
	172	58%

At the end of 2018, the Board of the parent company consisted of five members, two of which were women. The number of senior executives in the parent company was 6 (5), of whom 2 were women (1).

Salaries, other remuneration and social security contributions

SEK '000	Salaries and benefits	Social security contributions	Salaries and benefits	Social security contributions
Parent company	92,264	29,630	89,211	28,361
(of which pension costs) ¹	(11,062)	(2,621)	(10,650)	(2,530)
GROUP TOTAL	92,264	29,630	89,211	28,361
(of which pension costs) ²	(11,062)	(2,621)	(10,650)	(2,530)

¹ SEK 935,000 (905,000) of the parent company's pension costs relate to the CEO.

² SEK 935,000 (905,000) of the Group's pension costs relate to the CEO.

Diös has a profit-sharing foundation for all its employees. Provision for the profit-sharing foundation is based on a combination of Diös results, required return and dividend for shareholders and shall be a maximum of SEK 30,000 per year per employee. For 2018, this provision came to SEK 2,026,000.

CONT. NOTE 5 >>> EMPLOYEES, STAFF COSTS AND DIRECTORS' FEES

Salaries and other remuneration of the Board, the CEO and other employees

SEK '000	2018		2017	
	Board and CEO	Other employees	Board and CEO	Other employees
Parent company	4,858	87,406	4,474	84,738
(of which bonuses, etc.)	-	-	-	-
GROUP TOTAL	4,858	87,406	4,474	84,738
(of which bonuses, etc.)	-	-	-	-

Remuneration and other benefits in 2018

SEK '000	Base salary/ Directors' fees	Other benefits	Pension cost	Other remuneration	Total
Chairman of the Board	200	-	-	-	200
Other Board members	600	-	-	-	600
Chief Executive Officer	2,755	368	935	-	4,058
Other senior executives	6,644	401	1,641	-	8,686
TOTAL	10,200	769	2,575	-	13,544

Remuneration and other benefits during 2017

SEK '000	Base salary/ Directors' fees	Other benefits	Pension cost	Other remuneration	Total
Chairman of the Board	200	-	-	-	200
Other Board members	600	-	-	-	600
Chief Executive Officer	2,480	363	905	-	3,749
Other senior executives	4,973	379	1,462	-	6,814
TOTAL	8,253	742	2,367	-	11,363

Remuneration paid to the Board of Directors is decided at the Annual General Meeting. At the 2018 Annual General Meeting, it was decided that the Directors' fees would amount to SEK 800,000. SEK 200,000 to the Chairman of the Board. The other Board members have received SEK 150,000 each. No other remuneration or benefits have been paid to the Board of Directors.

Executive management refers to the CEO and other members of the management team. The group other senior executives consisted of 5 people. Remuneration and benefits to the CEO are decided by the company's Board of Directors and remuneration to other senior executives is decided by the CEO in consultation with the Board of Directors. Variable incentive remuneration plans were introduced in 2012 for the company's CEO and senior executives. For 2018, variable remuneration to executive management amounted to SEK 291,000 (0). There is no share-based payment. For 2018 the company's CEO has received variable remuneration of SEK 0 (0). The CEO is entitled to a company car and insurance and retirement benefits in accordance with the ITP plan applicable during the period of employment. Individual investment options are available. Insurance and pension premiums are based on cash salary only. The retirement age for the CEO is 65 years. The period of notice given by the company to the CEO is 12 months. The period of notice given by the CEO to the company is 4 months. Remuneration during a period of notice is deducted from income from another employer. Other senior executives are entitled to a company car. During the period of employment with the company, other executives are entitled to insurance and pension benefits in accordance with the ITP plan applicable at the time. Individual investment options are available. Insurance and pension premiums are based on cash salary only. The retirement age for other senior executives is 65 years and the mutual notice period between the company and the employee is three to six months.

NOTE 6 >>> CENTRAL ADMINISTRATION

Central administration includes costs for Group-wide functions such as executive management, IT, annual reports, auditors' fees, legal advice and so on. Central administration costs amounted to SEK 71 million (73), corresponding to SEK 49/sq.m (47). Of these costs, SEK 30 million (36) relates to employee benefits and SEK 2 million (2) relates to the amortisation/depreciation of intangible assets and property, plant and equipment. Other items of SEK 39 million (35) are costs for IT and consulting fees, among other things.

Auditors' fees and expenses

SEK '000	FOR THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Deloitte				
Audit services	1,550	1,510	1,550	1,510
Audit activities in addition to audit engagement	9	54	9	54
Fiscal advice	167	68	167	68
Other services	131	185	131	185
TOTAL	1,857	1,817	1,857	1,817

Auditing refers to the examination of the Annual Report and accounting records and the administration of the Board of Directors and CEO. Audit activities other than the audit engagement involve other quality assurance services that must be performed according to statutes, Articles of Association or agreements, as well as consultation or other assistance resulting from observations made during an audit. Fiscal advice refers to consultations and quality assurance reviews relating to the area of taxation. All costs relating to audits and audit-related assignments are recognised in the parent company. Costs are then distributed among the subsidiaries through management fees.

NOTE 7 >>> FINANCIAL INCOME

SEKm	2018	2017
FOR THE GROUP		
Interest income, other	8	5
TOTAL	8	5
PARENT COMPANY		
Interest income, Group companies	253	218
Dividends from Group companies	600	300
Group contributions	11	154
TOTAL	864	672

All interest income relates to financial instruments recognised at amortised cost.

NOTE 8 >>> FINANCIAL COSTS

SEKm	2018	2017
GROUP		
Interest expenses	-157	-169
Other financial costs	-26	-21
TOTAL	-183	-190
PARENT COMPANY		
Interest expenses, Group companies	-158	-117
Interest expenses	-51	-66
Other financial costs	-14	-9
TOTAL	-222	-192

Of the Group's interest expense, SEK 140 million (141) is interest attributable to liabilities measured at amortised cost. The corresponding expense for the parent company is SEK 195 million (157). The remaining interest expense is ongoing interest attributable to interest rate derivatives.

INTEREST EXPENSE FOR 2018 INCLUDING WEIGHTED AVERAGE INTEREST

In 2018, average interest-bearing liabilities amounted to SEK 11,102 million (9,558). The actual interest expense, including cost of unused credit facilities and outcome regarding financial instruments, amounted to SEK 165 million (175), corresponding to an average annual interest rate of 1.5 per cent (1.8). During the year, unrealised changes in value for held derivative instruments totalled SEK 16 million (27), which have been fully recognised in the income statement.

GROUP, SEKm	Amount	Annual expense	Weighted average interest rate, %
Interest-bearing liabilities	11,102	140	1.3
Undrawn credit facilities ¹	2,117	8	0.1
Financial instruments	4,300	17	0.1
TOTAL	165	1.5	

¹ The cost of unused credit facilities affects the average annual interest rate by 0.07 percentage points.

NOTE 9 >>> CHANGES IN PROPERTY VALUES

SEKm	2018	2017
GROUP		
Realised changes in value	9	10
Unrealised changes in value	678	402
TOTAL	687	412

In 2018, 20 properties were sold (15). The sales price for these exceeded the latest valuation by SEK 9 million (10), resulting in a realised change in value. During the year, 11 properties (40) were acquired. A valuation of all properties was carried out at year-end in line with annual business plans and based on a 5-year cash flow model with a valuation of future earnings capacity and required rate of return for each individual property. See Note 11. Diös' property portfolio is divided into a main portfolio and a subsidiary portfolio. The main portfolio comprises around 75 per cent of the property value, or SEK 15,124 million, and 115 properties. The valuation method requires that an external valuation of the entire main portfolio be made each year. The external valuation is made by valuation consultants Savills, who assess 25 per cent of the main portfolio each quarter. All properties in the main portfolio are also physically inspected by Savills within a three-year period. In addition to the regular inspections, physical visits are also made after major changes. Properties in the secondary portfolio are valued with the help of Savills. These valuations have resulted in unrealised changes in value of SEK 678 million (402) to the properties' market values.

NOTE 10 ➤ TAX ON PROFIT FOR THE YEAR

Tax is reported in the income statement in two line items, current tax and deferred tax. Current tax has been calculated based on a nominal tax rate of 22 per cent while deferred tax is calculated based on the lower tax rates that will apply for Sweden from 2019 (21.4 per cent) and 2021 (20.6 per cent).

Current tax expense is attributable to tax in subsidiaries which were prevented from offsetting losses against profits through Group contributions during the year. It is thought that accumulated remaining tax loss carry-forwards could be set against future taxable profits and offset against deferred tax liabilities; see also Note 17. Current tax is based on the taxable profit (loss) for the year, which is lower than the recognised profit. This is largely due to the opportunity to utilise tax depreciation on properties, tax deductions for certain conversions carried out on properties which have been capitalised for accounting purposes, tax-free sales of properties and existing tax loss carry-forwards. The remaining tax loss carry-forwards were utilised during the year.

Deferred tax is a provision for the tax that will be paid on a direct sale of the properties when a reversal of tax depreciation and deducted investments is carried out.

Swedish accounting legislation does not allow properties to be recognised at fair value in the legal entity, meaning that changes in the value of properties only take place at Group level and thus do not affect taxation. As shown in the table below, the taxable profit for 2018 is lower than the accounting profit, which is due to Diös Fastigheter being able to utilise the above mentioned tax depreciation and tax-deductible investments, while completed sales mainly occurred in the form of tax-free share transfers. Paid tax arises when a number of subsidiaries do not have the option of taxable group contributions.

	GROUP		PARENT COMPANY	
SEKm	2018	2017	2018	2017
CURRENT TAX	-90	-43	-	-
DEFERRED TAX	-166	-189	-	-
Total tax	-256	-232	-	-

	2018	2018	2017	2017
GROUP, SEKm	Basis for current tax	Basis for deferred tax	Basis for current tax	Basis for deferred tax
Property management income	894		822	
Conversion projects	-72	72	-56	56
Tax-deductible depreciation	-228	228	-227	227
Other tax adjustments	-246	277	-140	-41
Taxable property management income	348	577	399	242
Sale of properties	61	-158	3	-3
Change in value, properties	0	678	0	412
Issue costs	0	0	-51	51
Taxable profit before tax loss carry-forwards	409	1,097	351	702
Tax loss carry-forwards, opening balance	-21	21	-177	177
Tax loss carry-forwards, closing balance	21	-21	21	-21
Taxable profit	409	1,097	195	858
Taxable profit	409	1,097	195	858
Tax 22%	-90	-241	-43	-189
Restatement of deferred tax	0	75	-	-
Tax for the period as per income statement	-90	-166	-43	-189

Tax loss carry-forwards comprise the previous year's tax losses. The losses, which are not limited in time, roll onto the next year and are utilised by being offset against future taxable gains. The remaining tax loss carry-forwards were utilised during the year and have been calculated at SEK 0 million (21). Total tax may differ from nominal tax in cases where non-taxable or non-deductible income or expenses have been recognised or as a result of other types of tax adjustments. Diös' reported tax is lower than the nominal tax. The effective tax rate on the property management income for the year is 17 per cent (22).

TAX EXPENSE	GROUP		PARENT COMPANY		
	SEKm	2018	2017	2018	2017
Pre-tax profit for the year		1,597	1,261	602	436
Tax at the applicable rate of 22%		-351	-277	-132	-96
Tax related to changed tax rate		1	0	-	-
<i>Tax effect of adjustments:</i>					
Issue costs		0	11	0	0
Sale of properties		35	18	0	0
Other business		-14	-19	133	76
TAX ON PROFIT FOR THE YEAR					
BEFORE TAX LOSS CARRY-FORWARDS		-331	-267	0	-20
Tax loss carry-forwards, opening balance		21	177	2	91
Tax loss carry-forwards, closing balance		-21	-21	-2	-2
Tax effect of tax loss carry-forwards		0	34	0	20
Tax on profit for the year after tax loss carry-forwards		-331	-232	0	0
Restatement of deferred tax		75	0	0	0
TAX ON PROFIT FOR THE YEAR		-256	-232	0	0

NOTE 11 ➤ INVESTMENT PROPERTIES

	FOR THE GROUP	
SEKm	2018	2017
OPENING CARRYING AMOUNT	19,457	13,683
Acquisitions	420	5,094
Investment in existing properties	677	505
Sales	-441	-227
Change in value	678	402
Reclassifications	10	-
CLOSING CARRYING AMOUNT	20,802	19,457

The closing carrying amount is consistent with the value in accordance with the property valuation as at 31 December 2018.

Investments amounting to SEK 677 million (505) have been made in new construction, extensions and conversions. During the year, 11 properties have been acquired (40) and 20 properties have been sold (15).

For information on pledged properties, see Note 25.

Major investments in progress

PROPERTY	Investment, SEKm	Uninvested, SEKm	Completed
Norr 11:4	124.7	91.0	2020
Holmen 8	101.5	7.0	2019
Porsön 1:423	38.5	4.6	2019
Strutsen 14	23.0	1.7	2019
Norr 31:9	20.2	7.9	2019
Loke 7	19.5	18.1	2019
G:a Bergskolan 15	14.8	14.5	2019
Hälsan 7	13.9	2.9	2019
Norr 29:5	12.9	2.1	2019
Cupido 7	11.4	10.9	2019
Stranden 19:5	11.2	10.7	2019
Biet 1	10.6	13.7	2019
Älvbacka 9,10	10.4	10.2	2019
Norr 31:9	10.3	6.9	2019
Badhuset 1	10.2	3.6	2019
Gösen 7	10.1	0.7	2019
Odin 12	9.8	9.5	2019
Lekatten 9	8.8	5.5	2019
Venus 3	8.1	7.1	2019
Siken 7	8.0	2.5	2019
Norr malm 1:24	7.3	7.2	2019
Skönsberg 1:73	6.6	6.5	2019
Norr 29:5	6.2	4.4	2019
G:a Bergskolan 15	5.8	2.7	2019
Norr 31:9	5.7	2.1	2019
Norr 31:9	5.3	4.9	2019
Boktryckaren 1	5.1	3.5	2019
Norr 29:5	4.3	2.6	2019

CONT. NOTE 11>>> INVESTMENT PROPERTIES

Valuation

The value of an asset is the discounted present value of the expected cash flows that the asset is expected to generate. The value of the property portfolio is calculated as the sum of the present value of the operating surplus, less the value of remaining investments for ongoing projects over the next five years, and the present value of the estimated residual value in year 6. The residual value in year 6 is the sum of the present value of the operating surplus over the remaining economic life. The estimated market value of undeveloped land is added to this. The measurement is thus made according to level 3 of the measurement hierarchy in IFRS 13.

The required rate of return and the assumption regarding future real growth are crucial to the calculated value of the property portfolio. These are the most important value-driving factors in the valuation model. The required rate of return is the weighted cost of borrowed capital and equity. The cost of borrowed capital is based on the market interest rate for loans. The cost of equity is based on a risk-free interest rate equivalent to a long-term government bond rate with the addition of a risk premium. Each investment has a unique risk premium which depends on the investor's perception of future risks and potential.

The investment properties are recognised at fair value. A valuation of all properties was conducted in the year. The fair market value is the most probable price for which a property will sell in a competitive and open market. However, a property's fair value does not become a reality until it is sold. The valuation was carried out in a uniform manner and was based on a five-year cash flow model. The valuation was based on an individual assessment of future earnings capacity and the required rate of return for each individual property. The assessment of a property's future earnings capacity takes into account an assumed inflation of 2 per cent and any changes in rental levels based on each contract's rent and expiry date compared with the estimated current market rent, as well as changes in occupancy rate and property costs. The property costs comprise costs for operation, maintenance, property taxes, ground rent fees and property management.

According to Savills, the total transaction volume in 2018 was SEK 161 billion, which is an increase of nearly five per cent on the previous year. The transaction market in northern Sweden has remained liquid, with properties worth nearly SEK 11 billion changing hands in 2018. The market continues to benefit from robust economic growth and especially by the continued low interest rate environment, which has increased interest in property investments and which has led to historically very low required rates of return in most segments and geographic sub-markets.

The fact that Sweden has an efficient property transaction market is important in many respects, not only for the actual property owners but also for the buyers and sellers so that they feel confident about what they are buying and selling. All property transactions offer valuable information that leads to improvements and provides important guidelines when determining the required rates of return that form the basis of the valuations carried out.

The required rate of return on equity is unique for each property and is based on assumptions about real interest rates, inflation and risk premiums. The risk premium is unique for each property and can be divided into general and individual risk. The general risk makes up for the fact that a property investment is not as liquid as a bond and that the asset is affected by the general economic situation. The individual risk is specific to each property and comprises the market's overall assessment of the property's category, the city in which it is located, its location within the city with regard to the property's category, whether it is properly designed, appropriate and makes efficient use of space, its technical standard in respect of materials, quality of general installations, furnishing, equipment, etc. in premises and apartments, and the nature of lease contracts, taking length, size, number and other aspects of the contracts into account. The length, size and number of contracts are taken into account.

The average required rate of return on comparable properties has been lowered by 0.11 percentage points (0.32). This reflects the market trends during the year. Projects in progress have been measured at cost. Sites with development rights and land have been valued on the basis of an estimated market value per square metre.

Value of property portfolio

An estimation of the market value of all properties has been performed. The date of valuation is 31 December 2018. The valuation model means that the 100 largest properties in terms of value are valued externally over the course of the year, with around 25 per cent being valued in each quarter. For the remaining 75 per cent and for the other properties in the portfolio, a breakdown is made between properties in which material changes have taken place, such as the signing or termination of leases or major projects, and properties where no material changes have taken place. The former are valued internally with the help of the external valuation firm while the latter are valued internally without external assistance.

The details on which the valuations are based are all lease contracts, information about premises to let, actual operations and maintenance costs, property taxes and property management as well as information about ongoing and planned investments. Physical inspections were also carried out on the properties upon completion of major investment projects or in conjunction with other changes that would probably have an effect on the value. These valuations showed a fair value of SEK 20,802 million (19,457) and resulted in unrealised changes in value of SEK 678 million (402) on the market values of the properties, an increase of 3.3 per cent (2.1). The table below presents the breakdown of fair value by property category and business area.

Property value, SEKm 31 Dec 2018	Office	Retail	Residential	Industrial/warehouse	Other	Total
Dalarna	1,345	935	242	82	202	2,805
Gävle	945	605	133	12	275	1,971
Sundsvall	2,089	826	157	47	306	3,424
Åre/Östersund	1,113	1,090	509	153	691	3,554
Skellefteå/Umeå	3,482	940	133	67	371	4,994
Luleå	2,166	1,724	129	33	-	4,053
TOTAL	11,140	6,120	1,303	394	1,845	20,802

Property value, SEKm 31 Dec 2017	Office	Retail	Residential	Industrial/warehouse	Other	Total
Dalarna	1,304	850	233	80	182	2,649
Gävle	844	587	105	383	127	2,046
Sundsvall	1,970	793	147	47	276	3,233
Åre/Östersund	1,057	997	495	113	595	3,257
Skellefteå/Umeå	3,135	889	125	68	277	4,494
Luleå	1,958	1,665	113	42	-	3,778
TOTAL	10,268	5,781	1,218	733	1,457	19,457

Uncertainty range

A property's market value can only be determined when it is sold. Property values are calculated according to accepted principles based on certain assumptions. The value range specified in property valuations is often within ±5–10 per cent and should be seen as a measure of the uncertainty in the assumptions and calculations. Savills has estimated the current uncertainty range at ±7.5 per cent. This results in a value range of SEK 19,241–22,362 million.

	2018	2017	
Sensitivity analysis, property valuations	Change	Change in fair value, SEKm	Change in fair value, SEKm
Rental value	± SEK 50/sq.m	+1,157/-1,159	+1,211/-1,212
Operating costs	±SEK 25/sq.m	+562/-561	+587/-589
Yield	±0.5 percentage points	+1,231/-1,455	+1,326/-1,125
Cost of capital	±0.5 percentage points	+411/-421	+391/-382
Vacancy rate	±1 percentage points	+/-237	±225

Valuation assumptions	2018					2017				
	Office	Retail	Residential	Industrial/warehouse	Other	Office	Retail	Residential	Industrial/warehouse	Other
Analysis period	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Yield for assessing residual value ¹ . %	6.8-5.6	6.8-5.9	5.3-4.7	8.3-7.0	7.0-6.1	7.0-5.7	6.8-6.0	5.3-4.7	8.1-7.0	7.0-6.0
Cost of capital for discounting to present value, %	8.0	8.1	7.2	9.9	8.7	8.1	8.2	7.4	9.8	8.6
Long-term vacancy, %	5.0	3.7	1.7	14.3	6.1	5.0	3.7	1.8	12.0	5.5
Inflation, %	2	2	2	2	2	2	2	2	2	2

¹ From lower to upper quartiles in the portfolio.



NOTE 12 >>> INTANGIBLE ASSETS

SEKm	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	4	4	4	4
Closing cost	4	4	4	4
Opening amortisation	-2	-2	-2	-2
Amortisation for the year	-1	0	-1	0
Closing accumulated amortisation	-3	-2	-3	-2
CLOSING RESIDUAL VALUE	1	2	1	2

NOTE 13 >>> OTHER PROPERTY, PLANT AND EQUIPMENT

SEKm	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	45	43	7	7
Acquisition for the year	0	2	0	0
Sales/disposals	-2	-	-	-
Closing cost	43	45	7	7
Opening depreciation	-41	-40	-6	-5
Sales/disposals	2	-	-	-
Depreciation for the year	-1	-1	-1	-1
Closing accumulated depreciation	-40	-41	-7	-6
CLOSING RESIDUAL VALUE	3	4	0	1

NOTE 14 >>> INTERESTS IN GROUP COMPANIES

SEKm	2018	2017
PARENT COMPANY		
Accumulated cost	2,124	270
Impairment	-	-
Purchases/sales	0	1,854
CARRYING AMOUNT AT END OF PERIOD	2,124	2,124

A specification of the parent company's directly owned subsidiaries is given below. Other Group companies can be found in the annual reports of each subsidiary. The policy for consolidation of Group companies is presented in the accounting policies in Note 1.

SUBSIDIARIES

Name	CRN	Reg. office	Share of equity in %	Carrying amount, SEKm
Diös Fastigheter I AB	556544-4998	Östersund	100	16
Diös Fastigheter II AB	556610-9111	Östersund	100	13
Diös Fastigheter V AB	556571-9969	Östersund	100	0
Diös Fastigheter VI AB	556561-0861	Östersund	100	3
Diös Fastigheter VII AB	556589-8433	Östersund	100	11
Are Centrum AB	556624-4678	Are	72	88
Fastighets AB Uprum	556711-2619	Östersund	100	40
Diös Obligation Holding AB	556912-4471	Östersund	100	99
Diös Åre AB	559000-9279	Östersund	100	0
Diös Old Bergsskolan AB	559041-8355	Östersund	100	934
Diös Struktur 1 AB	559067-1912	Östersund	100	920
TOTAL CARRYING AMOUNT				2,124

Subsidiaries with non-controlling interests

The Group has a small number of non-wholly owned subsidiaries, of which one is deemed to have a significant non-controlling interest representing 28.2 per cent of the shares and votes of the company. During the financial year, the profit attributable to the non-controlling interest amounts to SEK 3 million (2). The accumulated non-controlling interest in Åre Centrum AB as at 31 December 2018 was SEK 49 million (45). Condensed financial information for Åre Centrum AB (the Group) is presented below.

SEKm	2018	2017
Condensed income statement		
Net revenue	41	40
Operating profit	13	15
Profit for the period	9	10
Comprehensive income for the period	9	10
Condensed balance sheet		
Non-current assets	418	414
Current assets	24	29
TOTAL ASSETS	442	443
Non-current liabilities	293	295
Current liabilities	11	19
TOTAL LIABILITIES	304	314
Equity attributable to parent company shareholders	89	84
Non-controlling interest	49	45

NOTE 15 >>> INTERESTS IN ASSOCIATES AND JOINT OPERATIONS

SEKm	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	6	1	-	-
ACQUISITIONS	-	-	-	-
Reclassifications	-	5	-	-
SALES	-	-	-	-
Closing cost	6	6	-	-
Carrying amount	6	6	-	-

Name/Company reg. no	Reg. office	Equity interest, %	Carrying amount
Fastighetsaktiebolaget Norkom, 556483-5337 ¹	Härjedalen	50.0	0.5
Kabin Väst Holding AB, 559004-6313 ²	Östersund	50.0	0.5
Idun Samfällighetsförening, 716415-4358 ³	Skellefteå	25.0	5.0
TOTAL			6

¹ Diös' interest in Fastighetsaktiebolaget Norkom is owned indirectly through Diös Norrland AB.

² Diös' interest in Kabin Väst Holding AB is owned indirectly through Diös Are AB.

³ Diös' interest in Idun Samfällighetsförening is owned indirectly through Diös Skellefteå AB.

Joint operations

The group has significant joint operations. Diös has significant joint operations in an associate company, Svensk FastighetsFinansiering AB, which was formed in 2015. The company is jointly owned by Catena AB, Diös Fastigheter AB, Fabege AB, Platzer Fastigheter Holding AB and Whilborgs Fastigheter AB, all of which own 20 per cent. The intention is to broaden the company's funding base. Diös Fastigheter's interest in Nya Svensk FastighetsFinansiering AB is owned indirectly through Diös Obligation AB. Operations comprise deposit-taking activities in the form of raising loans in the capital market through issuing bonds (Medium-Term Notes, MTN), as well as lending activities in the form of the provision of cash loans.

In the second quarter, two series of bonds were issued through Svensk FastighetsFinansiering AB (SFF): SEK 255 million of bonds with a fixed interest rate of 0.47 per cent that mature on 31 May 2021 and SEK 220 million of bonds with a variable interest rate of 0.80 per cent plus Stibor 90 that mature on 31 May 2021. As at 31 December 2018, the bonds had an effective rate of 0.68 per cent.

CONT. NOTE 15 >>> INTERESTS IN ASSOCIATES AND JOINT OPERATIONS

Condensed income statement and balance sheet for associates, SEKm (100%)

SEKm	2018	2017
Group		
Income statement		
Rental income	4	4
Operating surplus	1	2
Profit for the year	1	1
balance sheet		
Non-current assets	10	10
Current assets	6	6
TOTAL ASSETS	16	16
Equity	10	9
Non-current liabilities	5	6
Other liabilities	1	2
TOTAL EQUITY AND LIABILITIES	16	16

NOTE 16 >>> OTHER SECURITIES HELD AS NON-CURRENT ASSETS

	GROUP		PARENT COMPANY	
SEKm	2018	2017	2018	2017
Opening cost	4	10	0	0
ACQUISITIONS	-	-	-	-
Impairment	-	-1	-	-
Reclassifications	-	-5	-	-
SALES	-	-	-	-
Closing cost	4	4	0	0
Carrying amount	4	4	0	0

Name/Company reg. no	Reg. office	Equity interest, %	Carrying amount
Destination Östersund AB, 556798-5592	Östersund	4.4	0
Investa Företagskapital AB, 556651-6471	Sundsvall	4.6	3
Offerdalsvind ekonomisk förening, 769606-0719	Krokom	16.2	1
Äre Destination AB, 556171-5961	Äre	2.4	0
TOTAL		4	

NOTE 17 >>> DEFERRED TAX ASSET/TAX LIABILITY

SEKm	2018	2017
GROUP		
Deferred tax assets relating to tax loss carry-forward	0	5
Deferred tax liability relating to temporary differences in properties	-1,299	-1,175
Deferred tax liability relating to other items	-54	-27
TOTAL DEFERRED TAX ASSETS/LIABILITIES	-1,353	-1,197

The reported deferred tax liability was SEK -1,353 million (-1,197) as at 31 December 2018. The value of any deferred tax asset/liability will be assessed at the end of each accounting period and, if necessary, re-valuation will be carried out.

The tax loss carry-forward is estimated at SEK 0 million (21). At a 22 per cent tax rate, the deferred tax asset on tax loss carry-forwards was SEK 0 million (5).

Recognised temporary differences, i.e. differences between the fair values and tax bases of the properties, were SEK 6,288 million (5,339) less deferred tax relating to asset acquisitions of SEK 3,502 million (3,263). Deferred tax has been restated based on the new tax rules which take effect on 1 January 2019. The deferred tax liability has been calculated based on the tax rate applying at the time when the deferred tax liability is expected to be settled. The deferred tax liability for temporary differences was SEK 1,299 million (1,175) at 31 December. This includes a positive one-off effect of SEK 75 million. In the financial statements, deferred tax assets have been offset against deferred tax liabilities. Other deferred taxes are reported at SEK 54 million (27). Other deferred taxes are calculated on untaxed reserves.

NOTE 18 >>> TRADE RECEIVABLES

SEKm	2018	2017
GROUP		
Age structure of trade receivables		
Trade receivables not past due and up to 30 days past due		
	22	17
Trade receivables between 31–60 days past due		
	1	3
Trade receivables more than 61 days past due		
	28	25
Doubtful trade receivables		
	-14	-11
TOTAL	37	34
Doubtful trade receivables		
Doubtful debts at the beginning of the year	11	8
Reserves for the year	11	7
Reversal of reserves	-2	-1
Actual credit losses	-7	-3
CLOSING BALANCE	14	11

NOTE 19 >> EQUITY

As at 31 December 2018, Diös Fastigheter AB (publ) had a share capital of SEK 269,024,276. The total number of shares at year-end was 134,512,438 with a face value of SEK 2 per share. Each share entitles the holder to one vote. There are no potential shares (e.g. convertible bonds), nor any preferential rights to cumulative dividends (preference shares).

Change in share capital

Date	Event	Increase in number of shares	Total number of shares	Increase in share capital, SEK	Total share capital, SEK	Face value, SEK
1 Jan 2005	At the start of the period	-	10,000	-	100,000	10.00
21 Jun 2005	Share split	990,000	1,000,000	-	100,000	0.10
21 Jun 2005	Issue of new shares	1,489,903	2,489,903	148,990	248,990	0.10
14 Sep 2005	Non-cash issue	1,503,760	3,993,663	150,376	399,366	0.10
2 Jan 2006	Bonus issue	-	3,993,663	39,537,264	39,936,630	10.00
2 Jan 2006	Share split	15,974,652	19,968,315	-	39,936,630	2.00
18 May 2006	Issue of new shares	8,333,400	28,301,715	16,666,800	56,603,430	2.00
11 Jul 2006	Non-cash issue	5,000,000	33,301,715	10,000,000	66,603,430	2.00
19 Apr 2007	Non-cash issue	666,250	33,967,965	1,332,500	67,935,930	2.00
29 Oct 2010	Non-cash issue	99,729	34,067,694	199,458	68,135,388	2.00
14 Dec 2010	Issue of new shares	3,285,466	37,353,160	6,570,332	74,705,720	2.00
17 Dec 2010	Issue of new shares	11,407	37,364,567	22,814	74,728,534	2.00
5 Dec 2011	Issue of new shares	22,854,136	60,218,703	45,708,272	120,436,806	2.00
14 Dec 2011	Issue of new shares	14,510,431	74,729,134	29,020,862	149,457,668	2.00
27 Jan 2017	Issue of new shares	59,629,748	134,358,882	119,259,496	268,717,164	2.00
31 Jan 2017	Issue of new shares	153,556	134,512,438	307,112	269,024,276	2.00
31 DEC 2018	AT YEAR-END		134,512,438		269,024,276	2.00

Diös Fastigheter did not hold any of its own shares at the end of 2018. A dividend payout is proposed by the Board of Directors in conformity with the provisions of the Swedish Companies Act and is adopted by the Annual General Meeting. The Diös Fastigheter Board of Directors proposes that a dividend for the 2018 financial year of SEK 3.00 (2.90) per share be paid out, split into two payments of SEK 1.50 each, representing a total payout of SEK 404 million (390). The proposal means that 49.7 per cent (49.5) of consolidated earnings, excluding unrealised changes in value and deferred taxes, will be paid out to shareholders. The amount is recognised as a liability when the Annual General Meeting has decided on the dividend.

The following profits in the parent company are at the disposal of the Annual General Meeting:

Retained earnings	SEK 2,151,197,184
Profit for the year	SEK 601,469,315
Total	SEK 2,752,666,499

The Board of Directors proposes that the profits be allocated as follows:

Distributed to ordinary shareholders	SEK 403,537,314
Carried forward	SEK 2,349,129,185
Total	SEK 2,752,666,499

NOTE 20 >> OTHER PROVISIONS

Provisions relate to deferred stamp duty in connection with inter-company sales of properties.

SEKm	2018	2017
GROUP		
At beginning of year	9	9
Provision for pensions	-	-
Change in tax	-	-
CARRYING AMOUNT AT END OF PERIOD	9	9

NOTE 21 >> LIABILITIES TO CREDIT INSTITUTIONS**Interest rate and debt maturity structure at 31 December 2018**

Maturity, year	Interest rate and margin expiration		Loan maturity	
	Loan amount, SEKm	Average annual interest rate, %	Credit agreements, SEKm	Drawn, SEKm
2019	3,508	0.9	2,418	2,418
2020	7,371	1.3	6,109	5,609
2021	220	0.4	220	220
2022	-	-	3,135	2,155
2027	-	-	697	697
TOTAL	11,099	1.1	12,579	11,099

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Interest-bearing liabilities, SEKm				
Maturity date from the balance sheet date:				
< 1 year	2,418	2,066	978	1,403
1–2 years	5,609	2,224	200	988
2–3 years	220	5,292	-	-
3–4 years	2,155	-	1,060	-
> 4 year	697	1,521	-	816
TOTAL	11,099	11,104	2,038	3,208

CONT. NOTE 21 >>>

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Overdraft facility, SEKm				
Credit limit granted	600	600	600	600
Undrawn	402	600	402	600
Drawn	198	0	198	0

All borrowings have mortgage collateral in the form of mortgage deeds. The parent company maintains promissory notes with its subsidiaries with the mortgage collateral pledged therein. In addition to mortgages, there are financial covenants which require the loan-to-value, equity and interest coverage ratios to be maintained. All forms of loan agreement include the usual cancellation terms and conditions for renegotiation if there is a change in business focus and this exposes the lender to an unacceptable level of risk. The credit utilisation may increase or decrease at short notice during the term of the loan agreements. The agreements with lenders contain limits for various financial key ratios, known as covenants, which are designed to limit the counterparty risk for the company's lenders. Financial key ratios with limit values are equity, loan-to-value and interest coverage ratios. The minimum equity ratio is 35 per cent, the loan-to-value ratio must not exceed 55 per cent, while the interest coverage ratio must be greater than 1.8 times. At year-end, the equity ratio was 34.9 per cent, the loan-to-value ratio amounted to 57.1 per cent and the interest coverage ratio was 5.3 times, meaning that all the limits were achieved.

LIABILITIES TO CREDIT INSTITUTIONS

As a net borrower, Diös is exposed to financial risks, primarily interest rate risk, refinancing risk and credit risk. As at 31 December 2018, there was no foreign currency exposure risk. Diös' funding and financial risk management is conducted in accordance with the Board's established financial policy. For a more detailed description of our financial policy, see Note 23.

INTEREST RATE RISK

Interest rate risk is the risk associated with changes in interest rates that affect the cost of borrowing for the Group and the value of interest-rate derivatives. Interest expense is one of the major cost items. The Group's interest-bearing liabilities totalled SEK 11,099 million (11,104) with an average annual interest rate of 1.2 per cent (1.3), including loan commitments. The loans had an average fixed-rate term of 0.8 years (1.4). The average fixed-rate term was 1.4 years (2.5) when the impact of the derivative portfolio is included. The average loan maturity was 2.0 years (2.4). Of the Group's total interest-bearing liabilities, SEK 4,000 million (4,600) is hedged through derivative instruments. The average remaining term is 1.8 years (2.6). Of the Group's outstanding loans, SEK 7,327 million (7,965) is subject to fixed interest rates. The average annual interest rate, including costs related to derivative instruments, amounted to 1.2 per cent (1.5), including loan commitments.

Financial instruments and fixed interest rates limit the impact of a change in interest rates on the average interest expense. If interest rates had been increased by 1 percentage point on 31 December 2018, the interest expense, excluding effects of derivatives, would have increased by SEK 38 million annually. The effect of the derivatives would not lead to a reduction of interest expenses in that scenario, as the ceiling is not reached. This would cause interest expenses to increase by SEK 38 million on an annual basis, including the effect of derivative instruments. If interest rates had been increased by 1 percentage point on 31 December 2018, the average interest rate would have risen by 0.3 percentage points and the value of derivative instruments would have increased by SEK 1 million. Unrealised changes in the value of derivatives held amounted to SEK 16 million (27) for the period, which has been fully recognised in the income statement.

FINANCING AND LIQUIDITY RISKS

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. Borrowing risk is the risk that it will be costly or difficult to refinance

borrowings outstanding. The financial policy states that cash and cash equivalents and undrawn credit facilities must be available to ensure sufficient liquidity levels. The Group's cash and cash equivalents are managed through instruments with good liquidity or short-term maturity. At the end of the year, the Group had undrawn credit facilities of SEK 792 million, of which SEK 390 million referred to undrawn loan commitments, as the outstanding volume of commercial paper is subtracted from the loan commitment, and an undrawn overdraft facility of SEK 402 million. Access to liquidity is deemed to be adequate to meet liquidity requirements over the coming 12 months. Future refinancing requirements will be managed in accordance with the applicable financial policy.

CREDIT RISK

Credit risk is the risk of financial loss to the Group due to the failure of a counterparty to meet its contractual obligations. In order to spread the credit risk, the financial policy limits with which counterparties, and to what volume, an agreement may be entered into. We only enter into agreements with well-known and transparent counterparties who have a high external credit rating. Normal credit checks should be carried out before a new tenant is accepted. The carrying amount of trade receivables and promissory notes represents the maximum credit exposure for the Group. The credit risk in financial counterparties corresponds to the carrying amount for cash and bank balances. At year-end, there were no concentrations of credit risk with respect to trade and other receivables. Impairment of trade receivables was SEK 14,000 (11). The 10 largest clients accounted for 16 per cent (16) of revenue.

Financial instruments measured at fair value

SEKm	31 Dec 2018	Level 2
FOR THE GROUP		
Derivative instruments	1	1
TOTAL	1	1

Financial instruments are measured at fair value on three different levels.

- 1: Measurement is based on quoted prices in an active market for identical assets and liabilities.
- 2: Measurement is primarily based on observable market data for the asset or liability.
- 3: Measurement is mainly based on the entity's own assumptions.

All financial instruments are measured in accordance with Level 2. The fair values of derivative instruments are determined using discounted future cash flows, with quoted market rates for the term of each instrument. The future cash flows of the derivative portfolio are calculated as the difference between the fixed rate agreed by the respective derivative contracts and the implied STIBOR reference rate for each period. The present value of the consequential interest flows are determined using the implied STIBOR curve. The option component of the callable swaps in the portfolio has not been assigned a value, as cancellation does not have an impact on earnings. The issuer decides whether to cancel the swap or not.

The fair value of a derivatives transaction can be described as the risk-free market value after adjusting for the value of counterparty risk. The value of the counterparty risk can be calculated by estimating the expected credit exposure at the date of default, the risk of default and the recovery rate for exposed credits. If a derivatives transaction is terminated prematurely due to the default of a counterparty, losses will be incurred on derivative instruments with positive market values. No loss is incurred on derivatives with negative market values.

To limit the counterparty risk, all of derivatives transactions are covered by framework agreements with netting provisions. This enables us to offset positive and negative market values so that the amount owed by or to the counterparty comprises the net market value of all outstanding derivatives transactions between the parties. In view of the net liability, the counterparty risk in the derivatives transactions is deemed to be negligible in relation to the outstanding market values. The Group has signed up to ISDA's 2013 EMIR Protocol, which describes the risk mitigation techniques prescribed in EMIR.

SEKm	31 Dec 2018			31 Dec 2017		
	Asset	Liability	Net	Asset	Liability	Net
Interest rate derivatives	1	-	1	1	-16	-16
Gross value derivatives	1	-	1	1	-16	-16
Covered by netting	-	-	-	-	-	-
NET VALUE DERIVATIVES	1	0	1	1	-16	-16

CONT. NOTE 21 >>

The various categories of financial instruments included in the consolidated balance sheet are presented below.

SEKm	Loans and receivables		Financial liabilities a measured at fair a value through profit or loss		Derivatives used in hedge accounting		Financial liabilities measured at amortised cost		Non-financial instruments	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS										
Rent receivables	37	34	-	-	-	-	-	-	-	-
Other receivables	120	73	-	-	-	-	-	-	-	-
Cash and bank balances	-	-	-	-	-	-	-	-	-	-
Other business	-	-	-	-	-	-	-	-	44	26
LIABILITIES										
Interest rate derivatives	-	-	-	16	-	-	-	-	-	-
Non-current liabilities	-	-	-	-	-	-	11,371	10,422	-	-
Trade payables	-	-	-	-	-	-	55	35	-	-
Other liabilities	-	-	-	-	-	-	1,302	699	-	-
Other business	-	-	-	-	-	-	-	-	112	46
TOTAL	157	107	0	16	0	0	12,728	11,156	156	72

The values indicated in the above table represent the total credit exposure.

Financial instruments, such as rent receivables, trade payables, etc. are reported at amortised cost with deductions for any impairments. Fair value is therefore deemed to be the same as the carrying amount. The Group's long-term interest-bearing liabilities mainly have short fixed-rate terms. This means that amortised cost is essentially the same as fair value.

Maturity analysis of financial assets

SEKm	2018				2017			
	0-1 month	1-3 months	3-12 months	1-3 years	0-1 month	1-3 months	3-12 months	1-3 years
FOR THE GROUP								
Promissory notes	-	4	11	7	-	-	-	26
Trade receivables	-	37	-	4	-	-	34	-
Other receivables	-	137	28	-	-	117	22	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
TOTAL	0	177	40	11	0	151	22	26

Maturity analysis of financial assets

SEKm	2018				2017			
	0-1 month	1-3 months	3-12 months	1-3 years	0-1 month	1-3 months	3-12 months	1-3 years
PARENT COMPANY								
Trade receivables	-	0	-	-	-	-	-	-
Receivables from Group companies	-	9	181	-	-	-	-	958
Other receivables	-	12	10	-	-	1,143	12	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
TOTAL	0	22	191	0	0	1,143	969	0

Maturity analysis of financial liabilities

SEKm	2018				2017			
	0-1 month	1-3 months	3-12 months	1-3 years	0-1 month	1-3 months	3-12 months	1-3 years
FOR THE GROUP								
Trade payables	-	55	-	-	-	-	35	-
Repayment of debt	-	1,833	586	5,995	-	222	1,844	7,681
Interest expenses	-	33	99	264	-	35	104	278
Derivative instruments	-	0	1	2	-	7	11	-
TOTAL	-	1,921	685	6,261	-	298	1,959	7,959

Maturity analysis of financial liabilities

SEKm	2018				2017			
	0-1 month	1-3 months	3-12 months	1-3 years	0-1 month	1-3 months	3-12 months	1-3 years
PARENT COMPANY								
Trade payables	-	2	-	-	-	-	2	-
Repayment of debt	-	980	8	1,215	-	2	1,401	1,008
Interest expenses	-	6	18	48	-	9	28	76
Derivative instruments	-	0	1	1	-	7	11	-
TOTAL	-	989	26	1,264	0	21	1,440	1,083

NOTE 22 >> ACCRUED EXPENSES AND DEFERRED INCOME

SEKm	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Prepaid rents	286	302	-	-
Accrued interest expenses	11	14	-	2
Other items	80	80	20	23
TOTAL	377	396	20	25

NOTE 23 >> CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES

SEKm	Carrying amount	Changes not affecting cash flow				Carrying amount
		2017	Cash flow	Unrealised changes in value	ACQUISITIONS	
GROUP						
Non-current liabilities to credit institutions	9,038	312	-	-	140	-809
Current portion of non-current liabilities	2,066	-457	-	-	-	809
Overdraft facilities	-	198	-	-	-	-
Derivative instruments	16	-	-	-16	-	-
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	11,120	53	-16	140	-	11,100

SEKm	Carrying amount	Changes not affecting cash flow			Carrying amount
		2017	Cash flow	Reclassifications	
PARENT COMPANY					
Non-current liabilities to Group companies	5,173	297	-	-	5,470
Non-current liabilities to credit institutions	1,803	602	-	-1,145	1,260
Current portion of non-current liabilities	1,403	-1,570	-	1,145	978
Overdraft facilities	-	201	-	-	201
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	8,379	-470	-	-	7,909

NOTE 24 >> ASSET MANAGEMENT

The operations are financed by equity and liabilities. The relationship between equity and liabilities is regulated on the basis of a selected financial risk level and the amount of equity required to meet the lenders' requirements for loans received. The cost of capital is set at a level to meet the required rate of return on equity, to make it possible to obtain necessary loan financing and to ensure room for investment. The target for capital structure is an equity ratio of at least 35 per cent. Diös has a covenant under our financial agreements that stipulates an interest coverage ratio of at least 1.8 times. As at 31 December 2018, the assets had a total value of SEK 21,057 million (19,708). These were financed partly through equity of SEK 7,839 million (6,887) and liabilities of SEK 13,218 million (12,821), of which SEK 11,099 million (11,104) were interest-bearing property credits. Diös' funding and financial risk management is conducted in accordance with the Board's established financial policy. The financial operations are centralised in the parent company. The finance department acts as the Group's internal bank, with responsibility for the Group's financing, financial risk management and cash management. The financial policy defines mandates and limits for managing the financial risks, as well as the general division of responsibility. The financial operations must be conducted so that the costs for financial risk management are minimised. This means that financial transactions are based on an estimate of the Group's requirements for funding, liquidity and interest rate risk. An inter-company transaction, such as an internal loan, does not therefore necessarily mean that an identical external loan transaction is also carried out. External loans are taken up once the Group's aggregate borrowing requirements have been assessed. A group accounts system enables net management of the Group's payment flows. The Group's interest rate risk is managed cost-effectively by assessing the interest rate risk that arises when an individual loan with a short fixed-rate term is raised. Interest-rate derivative transactions will subsequently be carried out as needed to achieve the desired fixed-rate term for the Group's overall loan portfolio.

Policy	Target	Outcome
Loan-to-value ratio	Capped at 60%	53.4%
Interest coverage ratio	At least 1.8 times	5.9 times
Currency risk	Not allowed	No exposure
Liquidity risk	Liquidity reserve to meet payment obligations	SEK 1,480 million in committed undrawn credit facilities
Equity ratio	At least 30%	37.2%

The Group's covenants are the equity ratio, loan-to-value ratio and interest coverage ratio. The minimum equity ratio is 25 per cent, the loan-to-value ratio must not exceed 65 per cent and the interest coverage ratio must be greater than 1.8 times.



➤ Hälsan 6, Sundsvall.

NOTE 25 ➢ PLEDGED ASSETS

SEKm	FOR THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Shares in subsidiaries	4,442	3,709	1,937	1,937
Floating charges	239	239	-	-
Property mortgages	12,107	12,101	-	-
Non-current receivables in Group companies	-	-	2,560	3,620
TOTAL	16,788	16,049	4,497	5,557

NOTE 26 ➢ CONTINGENT LIABILITIES

SEKm	FOR THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Guarantees to Group companies	-	-	8,861	7,964
Other contingencies	1	1	1	1
TOTAL	1	1	8,862	7,965

When borrowing takes place directly from property-owning companies, the parent company provides the guarantee.

NOTE 27 ➢ RELATED-PARTY TRANSACTIONS

There were no significant related party transactions in the period. Those related party transactions which did occur are deemed to have been concluded on market terms. None of the Board members, senior executives or auditors of Diös Fastigheter AB or its subsidiaries have themselves, via companies or related parties, had any involvement in business transactions which were or are unusual in nature or terms and which took place in 2018. Transactions with the company's largest owner, AB Persson Invest, represented 1 per cent (0.9) of the company's purchasing costs for the year and were concluded on market terms. Remuneration to the Board and senior executives is provided in Note 5.

NOTE 28 ➢ EVENTS AFTER THE END OF THE YEAR

TRANSACTIONS

On 15 January, Diös completed on the sale of four properties consisting mainly of industrial premises in the Torvalla and Odenskog industrial estates just outside Östersund. The sale was communicated in December 2018 and the underlying property value was SEK 80 million. On 15 February, Diös completed on the purchase of three properties in central Gävle, Borlänge and Mora. The acquisition was communicated in January and the underlying property value was SEK 282 million. On 4 March, Diös completed on the purchase of the Staben 10 property in central Östersund. The acquisition was communicated in February and the underlying property value was SEK 28 million.

In February, Diös acquired the remaining portion of the associated company Kabin Väst Holding AB, corp. ID no. 559004-6313, from Östersund Släpvagnen 10 AB.



► Barbro Wärell, Luleå Science Park service centre, with the tenant Gunilla Enquist, Aulis Konsult & Utveckling, Project Manager, Porsön 1:423, Luleå.

➤ APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND

DIVIDEND POLICY

Approx. 50 per cent of the company's annual profit after tax, excluding unrealised changes in value and deferred tax, will be distributed in the form of dividends.

PROPOSED APPROPRIATION OF RETAINED EARNINGS

The following profits in the parent company are at the disposal of the Annual General Meeting:

Retained earnings	SEK 2,151,197,184
Profit for the year	SEK 601,469,315
Total	SEK 2,752,666,499

The Board of Directors proposes that the profits be allocated as follows:

To be distributed to ordinary shareholders	SEK 403,537,314
Carried forward	SEK 2,349,129,185
Total	SEK 2,752,666,499

As at 31 December 2018, the number of registered shares in Diös was 134,512,438.

PROPOSED DIVIDEND

The Board of Directors proposes that the 2019 Annual General Meeting approve a dividend of SEK 3.00 per share, to be distributed in two separate payments of SEK 1.50 each. The proposal would mean that 49.7 per cent of the year's profit after tax, excluding unrealised changes in value and deferred taxes, is paid out to shareholders.

THE BOARD OF DIRECTORS' STATEMENT ON THE PROPOSED DIVIDEND

The Group's equity has been calculated according to IFRS standards as adopted by the EU and in accordance with Swedish law by the application of the Swedish Financial Reporting Board's recommendation RFR 1. The parent company's equity has been calculated according to IFRS standards as adopted by the EU and in accordance with the laws of Sweden by the application of the Swedish Financial Reporting Board's recommendation RFR 2.

With reference to the calculation methods mentioned above and other disclosures, the Board deems the proposed dividend to be justifiable with regard to the requirements given in chapter 17, section 3, paragraphs 2 and 3 of the Swedish Companies Act. The nature and scope of the operations do not entail risks to a greater extent than what is normal in the industry. Based on the Board's assessment of the parent company's and the Group's financial position, the dividend is justifiable in view of the parent company and consolidated equity requirements arising from the nature, scope and risk of the operations and the consolidation needs, liquidity and position of the parent company and the Group.

The Board does not expect the proposed dividend to affect the company's ability to meet its short-term and long-term obligations or to make necessary investments. The proposed dividend constitutes 49.7 per cent of the consolidated profit after tax, excluding unrealised changes in value and deferred tax, which is in line with the stated objective. The Board finds there to be full coverage for the restricted equity after the proposed dividend. The parent company and the Group maintain sufficient reserves of cash and cash equivalents in the form of both short-term and long-term lines of credit. The lines of credit can be used at short notice. This means that the company and the Group are well prepared for fluctuations in liquidity and unexpected events. The Board has taken into account all other known circumstances that may have an impact on the financial position of the parent company and the Group and that have not been taken into account within the framework of the above considerations. In this respect, no circumstances have been found to indicate that the proposed distribution is not justified.

Östersund, 20 March 2019
 The Board of Directors of Diös Fastigheter AB (publ)
 Company registration number 556501-1771



➤ Porsön 1:423, Luleå.

ANNUAL REPORT SIGNATURE

The Board of Directors and Chief Executive Officer of Diös Fastigheter AB (publ) hereby certify that the annual report has been prepared in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 of the Swedish Financial Reporting Board. The annual accounts give a true and fair view of the company's financial position and results. The Directors' Report gives a true and fair overview of the performance, financial position and results of the company, and describes significant risks and uncertainties faced by the company.

The Board of Directors and Chief Executive Officer hereby certify that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements give a true and fair view of the Group's financial position and results. The Directors' Report gives a true and fair overview of the performance, financial position and results of the Group, and describes significant risks and uncertainties faced by the Group companies.

Östersund, 20 March 2019

Bob Persson
Chairman

Eva Nygren
Board member

Ragnhild Backman
Board member

Anders Nelson
Board member

Anders Bengtsson
Board member

Tomas Mellberg
Board member
Employee representative

Knut Rost
Chief Executive Officer

Our auditor's report was submitted on 21 March 2019

Deloitte AB

Richard Peters
Authorised Public Accountant

>AUDITOR'S REPORT

THE BOARD OF DIRECTORS OF DIÖS FASTIGHETER AB (PUBL)
COMPANY REGISTRATION NUMBER 556501-1771

STATEMENT ON THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have conducted an audit of the annual financial statements and consolidated financial statements of Diös Fastigheter AB (publ) for the financial year 1 January to 31 December 2018, with the exception of the Corporate Governance Report on pages 65–72. The company's annual financial statements and consolidated financial statements can be found on pages 55–104 of this document.

In our opinion, the annual financial statements have been prepared as required pursuant to the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company on 31 December 2018, and its financial performance and its cash flows for the year, in accordance with the Swedish Annual Accounts Act. The consolidated financial statements have been prepared as required by the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the Group on 31 December 2018, and its financial performance and cash flows for the year, in accordance with the International Financial Reporting Standards (IFRS), as approved by the European Union and the Swedish Annual Accounts Act. Our opinion does not cover the Corporate Governance Report on pages 65–72. The Directors' Report is consistent with the other sections of the annual report and the consolidated financial statements.

We therefore recommend that the Annual General Meeting adopts the income statement and the balance sheet of the parent company and the Group.

Our statements in this report on the annual financial statements and consolidated financial statements are consistent with the contents of the supplementary report that has been delivered to the Board of the parent company in accordance with article 11 of the EU Audit Regulation (537/2014).

BASIS FOR THE OPINION

We have conducted our audit in compliance with the requirements of the International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility to these standards are described in greater detail in the section Auditor's responsibility. We are independent in relation to the parent company and Group in accordance with good auditing practices in Sweden and have completed our ethical responsibility in accordance with these requirements. This includes, to the best of our knowledge and conviction, that no prohibited services as per article 5.1 of the EU Audit Regulation (537/2014) have been provided by the audited company or, where applicable, the parent company or companies under its control within the EU.

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

KEY AUDIT MATTERS

Key audit matters for the audit were the areas that, according to our professional assessment, were most important for the audit of the annual financial statements and consolidated financial statements for the relevant period. These areas were processed within the framework of our audit of and position on the annual financial statements and consolidated financial statements as a whole, but we make no separate opinions on these areas.

Valuation of properties

Diös Fastigheter AB recognises its investment property at fair value and the property portfolio was valued at SEK 20,802 million as at 31 December 2018. The properties have been valued internally and as quality control and for comparative purposes the 100 properties with the greatest value broken down as 25 per cent per quarter have been valued externally. The starting point for the valuation consists of an individual assessment for each property of future earning capacity and the market's required rate of return. The assessment is based on estimates and assumptions that can significantly impact on the Group's earnings and financial position.

Our audit included the following audit procedures but were not limited to these:

- Review of Diös' internal valuation procedures and evaluation of assumptions made and their application in the internal valuation model.
- Review of input data and calculations in the internal valuation model at property level for a selection of properties to assess completeness and valuation.
- We have considered the external valuations and assessed whether the differences compared to the internal values are within the normal range of uncertainty.
- For a selection of acquired and sold properties, a review found that these should be reported in accordance with the underlying agreements, applicable tax regulations and accounting policies.
- Review to confirm that appropriate accounting policies are being applied and the necessary disclosures are being made in the relevant notes accompanying the financial statements.

For further information, please see the section on property valuation on page 77, the section on risks and risk management on pages 60–64, the Group's accounting policies and critical assessment areas on pages 86–88, and Note 11 in the annual report.

Recognition of income tax

Diös Fastigheter AB's calculation of current and deferred taxes is complex and contains a high degree of estimates. The possibility of tax losses, tax depreciation, tax deductible conversions, sale of properties and changes in the value of property and derivatives must be taken into consideration. Incorrect estimates and assumptions may have a significant impact on the Group's earnings and financial position.

Our audit included the following audit procedures but were not limited to these:

- Review and assessment of Diös' procedures for calculating current and deferred tax.
- Review of the calculations of current and deferred taxes against documentation for legal companies in the Group, and evaluation of the calculations against applicable tax legislation.
- Review and assessment of concluded property transactions in tax calculations.
- Review to confirm that appropriate accounting policies are being applied and the necessary disclosures are being made in the relevant notes accompanying the financial statements.

»» AUDITOR'S REPORT CONT.

For further information, see the section on taxes on page 75, the section on risks and risk management on pages 60–64, the Group's accounting policies on pages 86–88 and Notes 10 and 17 in the annual report.

Financing and credit qualifications

Diös' business model means there is a high requirement for access to funding as the operation is capital intensive. As at 31 December 2018, liabilities to credit institutions amounted to SEK 11,099 million and the loan-to-value ratio was 53,4 per cent. When taking out loans, Diös Fastigheter AB has a number commitments in the form of credit qualifications. Violations of these covenants may result in higher interest rate margins or financing being stopped. Over the next financial year, Diös Fastigheter AB will need to refinance 22 per cent of its interest-bearing liabilities in its total loan portfolio.

Our audit included the following audit procedures but were not limited to these:

- Review and assessment of the procedure for financing and follow-up of key ratios and terms and conditions for loans, as well as a review of compliance with the Group's loan terms and conditions and financial policy.
- For all external loans, the carrying amounts have been reconciled with external statements of assets and liabilities obtained directly from the bank.
- All new loans raised during the financial year have been reconciled with loan agreements.
- Review to confirm that appropriate accounting policies are being applied and the necessary disclosures are being made in the relevant notes accompanying the financial statements.

For further information, please see the section on financing on pages 58–59, the section on risks and risk management on pages 60–64, the Group's accounting policies on pages 86–88 and Note 21 in the annual report.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

This document also contains other information than that found in the financial statements and consolidated financial statements, which can be found on pages 1–54 and 108–130. The Board of Directors and the CEO are responsible for this other information.

Our opinion on the financial statements and consolidated financial statements does not include this information and we will not express an opinion verifying this other information.

In connection with our audit of the financial statements and consolidated financial statements, it is our responsibility to read the information identified above and assess whether the information is materially inconsistent with the financial statements and consolidated financial statements. In this review, we also take into account the other information we have obtained in the audit and identify whether the information otherwise appears to contain material misstatement.

If, based on the work carried out with respect to this information, we conclude that there is material misstatement in the other information, we are required to report this. We have nothing to report in this respect.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

The Board of Directors and CEO are responsible for the preparation and fair presentation of financial statements and consolidated financial statements in accordance with the Swedish Annual Accounts Act and, with regard to the consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Board of Directors and CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In their preparation of the financial statements and consolidated financial statements, the Board of Directors and CEO are responsible for the assessment of the company's and the Group's ability to continue as a going concern. They disclose, where appropriate, information on conditions that may affect the ability to continue as a going concern and to use the going concern basis of accounting. However, the going concern basis of accounting is not used if the Board of Directors and CEO intend to liquidate the company, discontinue operations or do not have a realistic alternative to either of these actions.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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 financial statements and consolidated financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the financial statements and consolidated financial statements, 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the part of the company's internal control relevant to our audit in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 CEO.
- come to a conclusion on the appropriateness of the Board of Directors' and CEO's use of the going concern basis of accounting when preparing the financial statements and consolidated financial statements. We will also conclude, based on the audit evidence obtained, whether a 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 the auditor's report to the relevant disclosures in the financial statements and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion on the financial statements and consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the company and the Group to be unable to continue as a going concern.
- we evaluate the overall presentation, structure and content of the financial statements and consolidated financial statements, including the disclosures, and whether the financial statements and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to



express an opinion on the consolidated financial statements. 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, among other matters, the planned scope and timing of the audit. We also need to inform the Board of significant audit findings, including any significant deficiencies in internal control that we have identified.

We also need to provide the Board with a statement that we have complied with relevant ethical requirements regarding independence and communicate 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, we determine those matters that were of most significance in the audit of the financial statements and consolidated financial statements, including the most significant assessed risks of material misstatement and which therefore constitute the key audit matters. We describe these matters in the auditor's report unless laws or legal and regulatory requirements prevent disclosure on the matter.

STATEMENT ON OTHER LEGAL AND STATUTORY REQUIREMENTS

OPINION

In addition to our audit of the financial statements and consolidated financial statements, we have also conducted an audit of the management of Diös Fastigheter AB (publ) by the Board of Directors and the Chief Executive Officer for the financial year 1 January 2018 to 31 December 2018, as well as of the proposed appropriation of the company's profit or loss.

We recommend to the Annual General Meeting that the profit be appropriated as proposed in the Directors' Report and that the members of the Board and the Chief Executive Officer be discharged from liability for the financial year.

BASIS FOR THE OPINION

We have conducted our audit in compliance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in greater detail in the section Auditor's responsibilities. We are independent in relation to the parent company and Group in accordance with good auditing practices in Sweden and have completed our ethical responsibility in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. Dividend proposals include an assessment of whether the dividend is justifiable considering the demands that the nature, scope and risks of the operations place on the amount of equity and the parent company's and the Group consolidation requirements, liquidity and financial position in general.

The Board is responsible for the organisation of the company and the management of its affairs. Among other things, this includes continuously assessing the company's financial position and ensuring that the company's organisation is designed such that controls of accounting records, asset management and the company's financial circumstances in general are performed in a satisfactory manner. The CEO must take charge of the day-to-day management in accordance with the Board's guidelines and directives, including taking the necessary measures to ensure that the company's accounting records are complete according to law and that asset management is conducted satisfactorily.

AUDITOR'S RESPONSIBILITIES

Our objective for the management audit, and thereby our statement on discharge from liability, is to obtain audit evidence to enable us to determine with reasonable assurance whether any member of the Board or the CEO has, in any material respect:

- taken any action or been guilty of any negligence that may result in a claim for compensation being brought against the company, or
- in any other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association.

Our objective for the audit of the proposed appropriation of the company's profit or loss, and thereby our opinion on this matter, is to determine with reasonable assurance whether the proposal is consistent with the Swedish 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 which may result in a claim for compensation being brought against the company, or that a proposal for appropriation of the company's profit or loss is inconsistent with the Swedish Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The review of the management and the proposed appropriation of the company's profit or loss is largely based on the audit of the accounts. Any additional audit procedures performed are based on our professional assessment, with risk and materiality as the starting point. This means that our review focuses on such procedures, matters and conditions that are material to the business and where deviation and infringement would have special significance for the company's situation. We go through and examine decisions taken, documentation supporting decisions, actions taken and other conditions that are relevant to our statement on discharge from liability. As a basis for our opinion on the Board's proposed appropriation of the company's profit or loss, we examined the Board's statement of reasons and a selection of supporting evidence in order to assess whether the proposal is consistent with the Swedish Companies Act.

AUDITOR'S REVIEW OF THE CORPORATE GOVERNANCE REPORT

The Board of Directors is responsible for the Corporate Governance Report on pages 65–72 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

Our review has been carried out in accordance with FAR's statement RevU 16 Auditors' review of the corporate governance report. This means that our review of the Corporate Governance Report has a different aim and is of significantly smaller scope than the aim and scope of an audit compliant with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides sufficient grounds for our opinions.

A corporate governance report has been prepared. Disclosures as per chapter 6, section 6, paragraph 2–6, points 2–7 of the Swedish Annual Accounts Act, and chapter 7, section 31, paragraph 2 of the same act are consistent with the other sections of the annual financial statements and consolidated financial statements and conform to the Swedish Annual Accounts Act.

Deloitte AB, SE-113 79 Stockholm was appointed Diös Fastigheter AB's auditor by the Annual General Meeting of 24 April 2018 and has been the company's auditor since 30 May 2005.

Östersund, 21 March 2019

Deloitte AB

Richard Peters, Authorised Public Accountant





➤ KEY RATIOS AND DEFINITIONS

FINANCIAL KEY RATIOS

The company presents certain financial measures in the annual report that have not been defined in accordance with IFRS. We consider that these measures provide valuable additional information for investors, analysts and the company's management, as they enable the evaluation of relevant trends and the company's performance. As not all companies calculate

financial measures in the same way, these are not always comparable with the measures used by other companies. These financial measures should therefore not be viewed as substitutes for IFRS-defined measures. The following table presents non-IFRS measures unless otherwise stated. Definitions of these measures are found on p. 117.

Figures refer to SEK million unless otherwise indicated.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Number of shares at end of period, thousands (balance sheet key ratios) ¹	134,512	134,512
Average number of shares, thousands (income statement-related key ratios) ¹	134,512	132,041

¹Historical data for the number of shares has been restated to factor in the effect of bonus issues (i.e. the value of the subscription rights) in issues of new shares, and has been used in all key ratio calculations for SEK per share. The conversion factor is 1.28. There is no dilutive effect, as no potential shares (such as convertibles) exist.

OPERATING RESULTS

The operations are governed based partly on the objective of generating capital growth by increasing the surplus ratio and thereby the cash flow from operating activities, i.e. increased income from property management. We also report the alternative performance indicators property management income and EPRA earnings, as these are deemed to be relevant for investors and analysts, and provide additional information on the company's operating results. The indicators provide a picture which excludes factors that are partly beyond the control of the company, such as changes in the value of properties and derivatives.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Property management income		
Profit before tax	1,597	1,261
Reversal		
Change in value, properties	-687	-412
Change in value, derivatives	-16	-27
Property management income	894	822
EPRA earnings (property management income after tax)		
Property management income	894	822
Reversal, current tax property management income	-77	-88
Minority share of earnings	-3	-2
EPRA earnings	814	732
EPRA earnings per share, SEK	6.05	5.54

FINANCIAL RISK

Our strategy is urban development. Diös seeks to run its business in a sustainable manner with a stable financial risk. This is expressed in the ambition to ensure that the loan-to-value ratio does not exceed 60 per cent over extended periods and to maintain an equity ratio in excess of 30 per cent. The loan-to-value ratio and equity ratio show the company's financial stability while the interest coverage ratio shows the company's ability to pay interest. Net debt to EBITDA shows our ability to generate cash flow in relation to our liabilities. These key ratios are deemed to be relevant for investors and analysts from a financial risk perspective. Our loan-to-value ratio, equity ratio and interest coverage ratio also constitute covenants from the company's lenders and the Board has defined targets for these key ratios, which are used to govern the company's activities.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Loan-to-value ratio		
Interest-bearing liabilities	11,099	11,104
Investment properties	20,802	19,457
Loan-to-value ratio, %	53.4	57.1
Equity ratio		
Equity	7,839	6,887
Total assets	21,057	19,708
Equity ratio, %	37.2	34.9
Interest coverage ratio		
Property management income	894	822
Reversal		
Net financial items	183	191
Total	1,077	1,013
Financial costs	183	191
Interest coverage ratio, times	5.9	5.3



»»» FINANCIAL KEY RATIOS CONT.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Net debt to EBITDA		
Interest-bearing liabilities as per balance sheet	11,099	11,104
Cash and cash equivalents	0	-32
Overdraft facilities	198	0
Net debt	11,297	11,072
Operating surplus as per income statement	1,140	1,080
Central administration as per income statement	-71	-73
Reversal		
Depreciation and amortisation	2	2
EBITDA	1,071	1,009
Net debt to EBITDA	10.5	11.0

NET ASSET VALUE

Net asset value is the total capital which the company manages on behalf of its owners. Based on this capital, we aim to generate returns and growth while maintaining a low risk. Net asset value can also be calculated on a long-term and short-term basis. Long-term NAV is based on the balance sheet after adjusting for items which involve no near-term outgoing payments, which refers, for example, to the fair value of financial instruments (derivatives) and deferred tax on temporary differences. The current net asset value consists of equity according to the balance sheet after adjusting for the market value of the deferred tax liability. EPRA NAV and EPRA NNNAV are designed to show the size of the company's equity in case of a liquidation in the short and long term. These performance indicators can be compared with the company's share price to obtain a picture of how the shares are valued in relation to equity.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Net asset value		
Equity as per balance sheet	7,839	6,887
Minority share of equity	-49	-45
Reversal		
Fair value of financial instruments	-1	16
Deferred tax on temporary differences	1,299	1,175
EPRA NAV (long-term net asset value)	9,088	8,033
EPRA NAV (long-term net asset value) per share, SEK	67.6	59.7
Deductions		
Fair value of financial instruments	1	-16
Estimated actual deferred tax on temporary differences, approx. 4% ¹	-242	-209
EPRA NNNAV (short-term net asset value)	8,847	7,808
EPRA NNNAV (short-term net asset value) per share, SEK	65.8	58.0

¹ Estimated actual deferred tax has been calculated at approx. four per cent based on a discount rate of three per cent. The calculation is based on the assumption that the property portfolio will be realised over a period of 50 years, with ten per cent of the portfolio being sold directly subject to a nominal tax rate of 20.6 per cent, and the remaining 90 per cent being sold indirectly through companies subject to a nominal tax rate of six per cent.





»» FINANCIAL KEY RATIOS CONT.

OTHER KEY RATIOS

Other key ratios refer to a number of measures of return which are used to describe various aspects of the statement of financial position and to give investors and analysts further information about the operations. We report return on equity, equity per share and cash flow per share, as these performance indicators show the company's results and profitability, equity on a per share basis, and the company's ability to fulfil its obligations and pay dividends to the shareholders. These alternative performance indicators supplement the picture given of Diös' financial performance and enable investors and analysts to gain a better understanding of the company's return and results. Yield is a measure of the results generated by the properties in relation to their market value. It shows the profitability of the properties and is considered to provide supplementary information for investors and analysts concerning the risk in the portfolio. The debt/equity ratio is presented in order to supplement the picture of the company's financial situation. It shows the ratio of interest-bearing liabilities to equity. The measure is considered to enhance investors' and analysts' ability to assess the company's financial stability.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Return on equity, %	18.2	18.3
Equity per share, SEK	58.3	51.2
Cash flow per share, SEK		
Profit before tax	1,597	1,261
Reversal		
Unrealised change in value, properties	-678	-402
Unrealised change in value, derivatives	-16	-27
Depreciation and amortisation	2	2
CURRENT TAX		
	-90	-43
Total	815	791
Average number of shares ('000)	134,512	132,041
Cash flow per share, SEK	6.05	6.00
Earnings per share, SEK	9.94	7.78
Debt/equity ratio, times	1.4	1.6

OTHER INFORMATION

We also report data for economic occupancy, surplus ratio and vacancy rate, as these performance indicators provide a more in-depth picture of the company's financial performance with regard to revenues in the properties and thus also in the company. These performance indicators are widely used in the industry, and enable investors and analysts to make comparisons between different property companies.

	2018 12 mths Jan-Dec	2017 12 mths Jan-Dec
Contracted rental income, SEKm	1,771	1,700
Economic occupancy rate, %	91	91
Surplus ratio, %	64	64

EPRA vacancy rate

Estimated market rent for vacant space	151	153
Annualised rental value for the whole portfolio	1,936	1,875
EPRA vacancy rate, %	7.8	8.2

»» EPRA KEY FIGURES

EPRA key figures	2018	2017
EPRA earnings, SEKm	814	732
EPRA earnings per share, SEK	6.05	5.54
EPRA NAV, SEKm	9,088	8,033
EPRA NAV per share, SEK	67.6	59.7
EPRA NNNAV, SEKm	8,847	7,808
EPRA NNNAV per share, SEK	65.8	58.0
EPRA vacancy rate, % ¹	7.8	8.2
Rental growth for comparable portfolio, %	3.0	3.7

The EPRA key figure for sustainability can be found on our website, www.dios.se.

¹See comment on page 20.



► The tenant House Be, Totten 1:68, Åre.



»»» GENERAL STANDARD DISCLOSURES

GRI STANDARD		PAGE	COMMENTS
ORGANISATIONAL PROFILE			
102-1	Name	123	
102-2	Type of business	32-33,55-57	
102-3	Location of headquarters	123	
102-4	Active in which countries	55	
102-5	Nature of ownership	56	
102-6	Market	32-53	
102-7	Size	28, 29, 58	
102-8	Employees	29	
102-9	Supply chain	17	
102-10	Changes to the organisation and its supply chain	4, 17, 29, 80	
102-11	Precautionary principle	60-64	
102-12	External declarations and principles	18	Diös has signed the UN Global Compact
102-13	Memberships	114	Diös is a member of the Sweden Green Building Council
STRATEGY			
102-14	Chief Executive's review	6	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	16-19	See additional sustainability appendix at dios.se/investerare
GOVERNANCE			
102-18	Governance structure	65-68	
102-22	Composition of the highest governance body	66	
102-24	Nominating and selecting the highest governance body	66	
102-25	Conflicts of interest	65	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	17	See additional sustainability appendix at dios.se/investerare
102-41	Collective bargaining agreement	114	All employees except the CEO are covered by collective bargaining agreements
102-42	Identifying and selecting stakeholders	114	See additional sustainability appendix at dios.se/investerare
102-43	Approach to stakeholder engagement	17, 114	See additional sustainability appendix at dios.se/investerare
102-44	Key topics and concerns raised	17, 114	See additional sustainability appendix at dios.se/investerare
102-45	Entities in the organisation	114	The Sustainability Report covers the entire Diös organisation.
REPORTING PRACTICE			
102-46	Report content and topic boundaries	16-17	See additional sustainability appendix at dios.se/investerare
102-47	Material aspects	114	See additional sustainability appendix at dios.se/investerare
102-48	New definitions	114	
102-49	Changes in reporting	114	
102-50	Reporting period	86	
102-51	Date of most recent previous report (if any)	114	Week 14, 2018
102-52	Reporting cycle	86	
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102-54	GRI Standard	18	
102-55	GRI index	114	
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»»» TOPIC-SPECIFIC DISCLOSURES

GRI STANDARD	PAGE	COMMENTS
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205-2	Communication and training	18
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302-1	ENERGY	22
CRE 1	Energy intensity	22
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303-5	Water consumption	22
CRE 2	Water intensity	22
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305-1	Direct (Scope 1) GHG emissions	114
305-2	Energy indirect (Scope 2) GHG emissions	22
305-3	Other indirect (Scope 3) GHG emissions	114
305-4	Emissions intensity, buildings	22
CRE 4	Emissions intensity, new build and conversion projects	114
At the time of writing, we do not have access to this information		
HEALTH AND SAFETY		
403-1	Work environment group	29
403-2	Sick leave	29
403-4	Management system for health and safety	29
TRAINING AND EDUCATION		
404-1	Hours of training delivered	29
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405-1	Composition of the company	71-72
PRODUCT LIABILITY		
CRE 8	Certifications	20, 114
See additional sustainability appendix at dios.se/investerare		

AUDITOR'S STATEMENT ON THE STATUTORY SUSTAINABILITY REPORT

The Board of Directors of Diös Fastigheter AB, CRN 556501-1771

Assignment and allocation of responsibility

The Board of Directors is responsible for the Sustainability Report for the financial year 1 January 2018 to 31 December 2018 on pages 8–11, 16–24, 29 and 60–64 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

Focus and scope of the review

Our audit has been carried out in accordance with FAR recommendation RevR 12, "Auditor's statement on the statutory Sustainability Report". This means that our review of the Sustainability Report has a different aim

and is of significantly smaller scope than the aim and scope of an audit compliant with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides sufficient grounds for our opinions.

Opinion

A Sustainability Report has been drawn up.

Östersund, 21 March 2019

Deloitte AB, Richard Peters
Authorised Public Accountant

SHARE INFORMATION AND SHAREHOLDERS

The Board of Directors proposes a dividend of SEK 3.00, which represents one of the highest dividend yields in the industry. The total return on the shares in 2018 was 6.5 per cent.

SHARE PRICE PERFORMANCE

Diös' share price increased by 1.1 per cent (18.5) in 2018. It can be compared with the Nasdaq OMX Stockholm 30 which declined 10.3 per cent (3.9) and the Stockholm Stock Exchange's property index, expressed as Nasdaq OMX Real Estate PI, which rose by 9.7 per cent (6.7). The total yield for the year amounted to 6.5 per cent (23.9). The share price volatility for the past 12 months was 16.1 per cent. The market value amounted to SEK 7,580 million (7,499) on 31 December.

DIVIDEND AND DIVIDEND POLICY

The Board proposes a dividend for the 2018 financial year of SEK 3.00 per share (2.90), distributed at two issues at SEK 1.50 each issue. This equates to a yield of 5.3 per cent, in relation to the share price on 31 December. According to the dividend policy, approx. 50 per cent of the profit for the year after tax, excluding unrealised changes in value and deferred tax, should be passed onto the shareholders as a dividend. The proposed dividend means a dividend of 49.7 per cent (49.5). The decision on the distribution and payment of dividends will be made by the Annual General Meeting on

23 April 2019. The proposed dividend record date for the first dividend payment is 25 April and the second on 30 October. If the decision is made at the annual general meeting according to the proposal, the first dividend payment will take place on 30 April 2019 and the second payment on 4 November 2019.

SHARES AND SHARE CAPITAL

The share capital at 31 December was 269,024,276 (269,024,276) and the number of shares was 134,512,438 (134,512,438). The shares have a quotient value of SEK 2 per share and all shares have equal voting rights and entitle the holder to the same share of the company's capital.

SHAREHOLDERS

At year-end 2018, Diös had 13,921 shareholders (14,513). The number of shareholders registered abroad accounted for 20.6 per cent (21.5). The largest single shareholder was AB Person Invest with a 15.4 per cent (15.4) shareholding. The 10 largest shareholders accounted for 54.1 per cent (57.4) of the shares and votes.

LONG-TERM AND CURRENT NET ASSET VALUE, EPRA

For the purpose of giving a long-term fair value of the company's net assets, we recognise a long-term net asset value, expressed pursuant to EPRA NAV. EPRA NAV amounted at the end of the year to SEK 9,088 million (8,033) which corresponds to SEK 67.6 per share (59.7) where the share price as at 31 December amounted to 83 per cent (93) of the long-term net asset value. The current net asset value according to EPRA

NNNAV amounted to SEK 65.8 per share (58.0) at 31 December, which means that the share price was 86 per cent (96) of the current net asset value. Equity amounted to SEK 7,839 million (6,887) as at 31 December 2018, which gives SEK 58.3 per share (51.2).

Earnings per share amounted to SEK 9.94 (7.78), while the long-term earning capacity per share, expressed according to EPRA EPS, amounted to SEK 6.05 (5.54). Read more about EPRA performance indicators on page 112.

SHARE BUY-BACKS

The 2018 AGM authorised the company to buy back its own shares, subject to a limit of 10 per cent of all outstanding shares in the company. Share buy-back is a method used to adapt and improve the effectiveness of the capital structure. No buy-backs took place during the financial year. The Board will propose a buy-back authorisation on the same terms as before to the next Annual General Meeting.

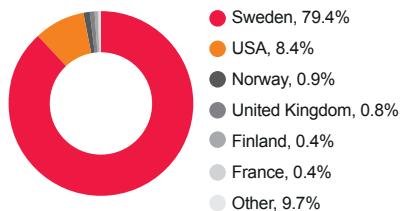
FLAGGING

During the year, Nordstjernan AB flagged a holding exceeding 10 per cent (call option included) of the total number of shares while Bengtssons Tidnings AB flagged a holding of less than 10 per cent.

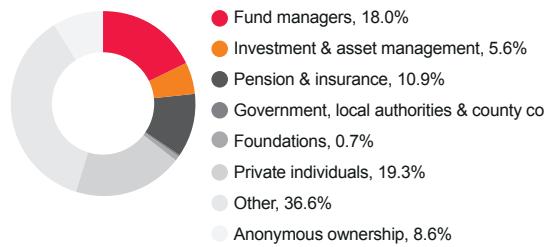
TRANSPARENCY AND ACCESSIBILITY

We seek to be transparent and accessible to our stakeholders without compromising external and internal regulations. All shareholder information such as financial reports and press releases are available on our website.

SHAREHOLDERS BY COUNTRY



SHAREHOLDERS BY TYPE



THREE REASONS TO INVEST IN DIÖS



A DIVERSIFIED PORTFOLIO

➤ A comprehensive and diversified property portfolio ensures risk distribution between different markets, tenants and industries. The profit equalises over time. Our wide offering also provides us with great opportunities to offer our tenants new premises whenever their needs or business change.



AN ATTRACTIVE YIELD

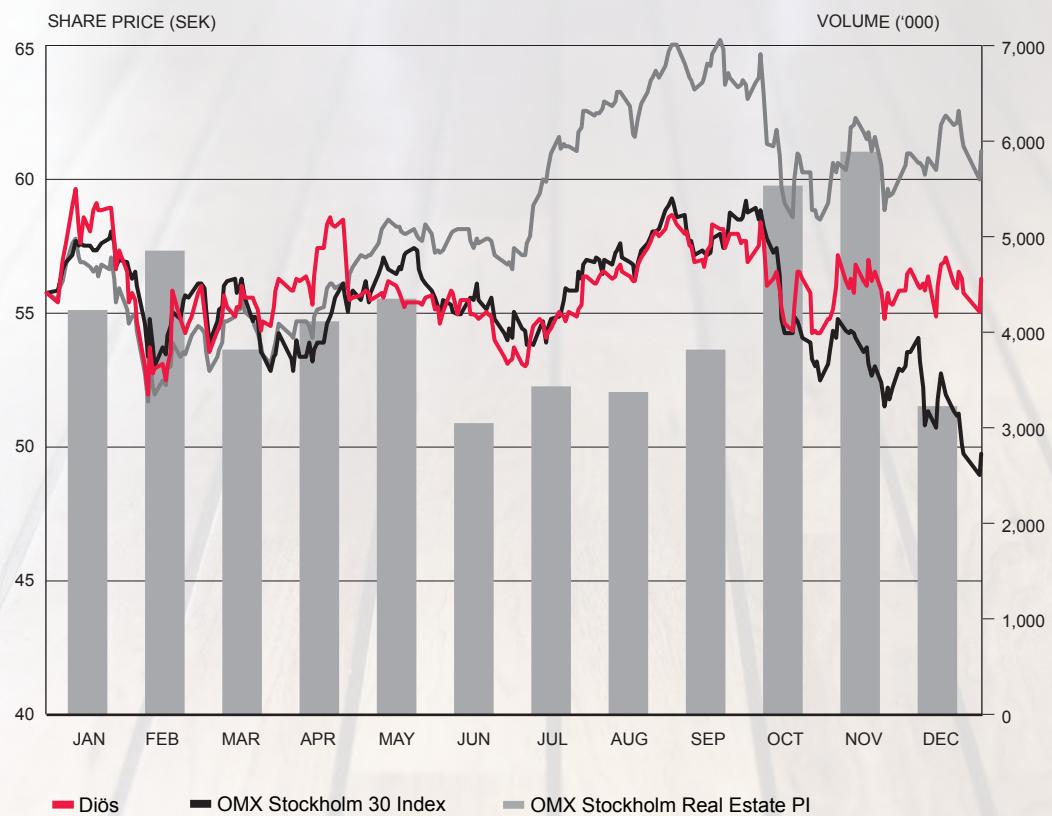
➤ Since 2013, the yield has amounted to 4.8 per cent on average, which is among the highest in the industry. According to the dividend policy, approx. 50 per cent of the profit for the year after tax, excluding unrealised changes in value and deferred tax, should be passed onto the shareholders as a dividend.



VALUE GROWTH THROUGH INCREASED CASH FLOW

➤ Since 2013, the cash flow per share has increased by 69 per cent. This is the result of effective management, energy-saving measures, profitable investments and a tenant-focused organisation.

DIÖS SHARE PRICE PERFORMANCE 2018





LARGEST SHAREHOLDERS

Shareholder	No. of shares	Capital and votes, %	Change 12 mths, % points
AB Persson Invest	20,699,443	15.4	0.0
Backahill Inter AB	14,095,354	10.5	0.0
Pensionskassan SHB Försäkringsförening	8,096,827	6.0	0.0
Nordstjernan AB	6,787,374	5.0	5.0
Bengtssons Tidnings AB	6,787,374	5.0	-5.0
Handelsbankens Fonder	5,150,000	3.8	0.3
Avanza Pension	3,668,020	2.7	-1.0
SEB Fonder	2,974,759	2.2	-0.9
Staffan Rasjö	2,355,852	1.8	0.3
Thompson, Siegel & Walmsley LLC	2,324,079	1.7	0.1
Total, largest shareholders	72,939,082	54.1	-3.2
Other shareholders	61,573,356	45.9	3.2
TOTAL	134,512,438	100.0	

DATA PER SHARE

	2018	2017	2016	2015	2014
Share price at 31 Dec, SEK	56.4	55.8	47.1	48.0	45.7
Market value of outstanding shares, SEKm	7,580	7,499	4,484	4,577	4,316
Property management income per share, SEK	6.64	6.23	5.66	5.33	4.42
Dividend per share, SEK	3.00 ¹	2.90	2.00	2.24	2.24
Payout ratio ² , %	49.7	49.5	53.0	54.0	50.0
Dividend yield, %	5.3	5.2	4.3	4.7	4.9
Total return, %	6.5	23.9	2.8	12.1	32.2

¹ The Board of Directors' proposal.² Profit after tax, excluding unrealised changes in value and deferred tax.

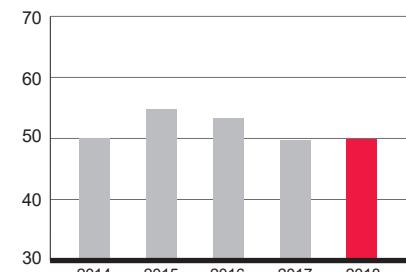
OWNERSHIP STRUCTURE

Number of shares, shareholding	No. of shareholders	No. of shares	Capital and votes, %	Market value, SEKm
1–500	8,436	1,243,763	0.9	70
501–1,000	2,000	1,620,601	1.2	91
1,001–5,000	2,646	6,124,130	4.6	345
5,001–10,000	428	3,084,774	2.3	174
10,001–20,000	184	2,721,994	2.0	153
20,001–50,000	119	3,876,982	2.9	218
50,001–	108	115,840,194	86.1	6,528
TOTAL	13,921	134,512,438	100	7,580

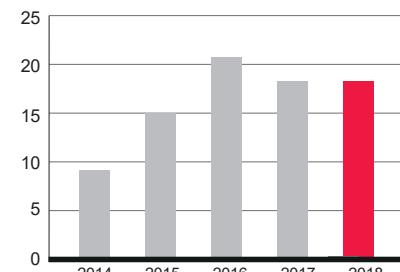
LIQUIDITY 1 JAN–31 DEC

	2018	2017
Highest share price, SEK	59.00	57.50
Lowest share price, SEK	50.55	42.20
Total number of shares traded	45,578,084	63,175,065
Average per day, number of shares traded	199,031	273,485
Total number of trades	138,040	134,438
Average trade value, SEK	18,397	22,609
Average daily turnover, SEK	11,089,859	13,158,060

DIVIDEND DIVIDED BY PROFIT, %



RETURN ON EQUITY, %



LONG-TERM DISCOUNT TO NET ASSET VALUE AND SHARE PRICE PERFORMANCE, %





➤ Malin Borres, Building Maintenance Technician Falun.

DEFINITIONS

The definitions have been updated since the previous report.

»» FINANCIAL

NUMBER OF SHARES AT END OF PERIOD

Actual number of shares outstanding at the end of the period.

RETURN ON EQUITY

Profit for the period divided by average equity. Average equity is calculated as the sum of the opening and closing balance divided by two.

RETURN ON TOTAL ASSETS

Profit before tax plus financial costs divided by average assets. Average assets are calculated by adding the opening and closing balances and dividing by two.

RETURN ON CAPITAL EMPLOYED

Profit before tax plus financial costs in relation to average capital employed.

LOAN-TO-VALUE RATIO, PROPERTIES

Interest-bearing and other liabilities relating to properties divided by the properties' carrying amount at the end of the period.

INTEREST COVERAGE RATIO

Profit after financial items, excluding unrealised changes in value, plus financial costs, in relation to financial costs during the period.

SERVICE INCOME

Income relating to tariff-based services and income from the care and upkeep of properties.

DEBT/EQUITY RATIO

Interest-bearing liabilities divided by shareholders' equity at the end of the period.

EQUITY RATIO

Equity divided by total assets at the end of the period.

CAPITAL EMPLOYED

Total assets at the end of the period minus non-interest bearing liabilities and provisions. Average capital employed is calculated by adding the opening and closing balances and dividing by two.

»» SHARE RELATED

EQUITY PER SHARE

Equity at the end of the period divided by the number of shares outstanding at the end of the period.

EBITDA

Operating surplus less central administration after reversal of scheduled depreciation and amortisation. The calculation is made on 12-month rolling basis, unless otherwise stated.

EPRA EPS

Property management income less nominal tax attributable to property management income, divided by average number of shares. Taxable property management income refers to property management income less, *inter alia*, tax-deductible depreciation and amortisation and redevelopments.

EPRA NAV/LONG-TERM NET ASSET VALUE PER SHARE

Equity at the end of the period after reversal of interest rate derivatives and deferred tax attributable to temporary differences in properties and minority share of equity, divided by the number of outstanding shares at the end of the period.

EPRA NNAV/CURRENT NET ASSET VALUE PER SHARE

Equity at the end of the period adjusted for actual deferred tax instead of nominal deferred tax and minority share of equity, divided by the number of shares outstanding at the end of the period.

AVERAGE NUMBER OF OUTSTANDING SHARES

Number of shares outstanding at the beginning of the period, adjusted by the number of shares issued or withdrawn during the period weighted by the number of days that the shares were outstanding in relation to the total number of days in the period.

CASH FLOW PER SHARE

Profit before tax, adjusted for unrealised changes in value, plus depreciation and amortisation less current tax divided by the average number of outstanding shares.

NET DEBT TO EBITDA

Net debt is calculated as interest-bearing liabilities less cash and cash equivalents plus overdraft facilities. Net debt is then divided by EBITDA.

EARNINGS PER SHARE

The profit for the period after taxation, attributable to shareholders, divided by the average number of outstanding shares.

DIVIDEND PER SHARE

Approved or proposed dividend divided by the number of shares outstanding at the end of the period.

»» PROPERTY-RELATED AND OTHER

YIELD

Operating surplus divided by the market value of the properties at the end of the period.

OPERATING COSTS

Costs of electricity, heating, water, care and upkeep of properties, cleaning, insurance and regular maintenance.

OPERATING SURPLUS

The rental income less building operating and maintenance costs, ground rent fees, property taxes and property management.

ECONOMIC OCCUPANCY RATE

Contracted rental income for the period divided by rental value at the end of the period.

ECONOMIC VACANCY RATE

Estimated market rent for unused premises divided by total rental value.

EPRA VACANCY RATE

Estimated market rent for vacant space divided by the annual rental value of the whole property portfolio.

PROPERTY CATEGORY

The main use of the properties is based on the distribution of their areas. Properties are defined according to the purpose and use of the largest proportion of the property's total area.

MARKET VALUE OF PROPERTIES

Estimated market value from the most recent valuation.

PROPERTY MANAGEMENT INCOME

Revenue less property costs, costs for central administration and net financial items.

CONTRACTED RENTAL INCOME

Rents invoiced for the period less rent losses and rent discounts including service income.

RENTAL VALUE

Rent invoiced for the period plus estimated market rent for unoccupied floor space.

COMPARABLE PROPERTIES

Comparable properties refer to properties which have been owned throughout the period and the whole comparative period. The term is used to highlight growth in rental income, excluding one-off effects resulting from early vacating of properties, and property costs as well as acquired and sold properties.

NET LEASING

Net annual rent, excluding discounts and supplements, for newly signed, terminated and renegotiated contracts. The lease term is not taken into account.

PROJECT PROPERTY

Refers to a property that is intended to be redeveloped or improved. Divided into the following sub-categories:

New builds - land and properties with ongoing new builds or that are undergoing complete redevelopment.

Improvement property - properties with ongoing or planned conversion or extension work that materially affects the property's operating surplus or standard or changes the use of the premises.

Tenant improvements - properties undergoing conversion or minor improvements to premises.

PHYSICAL OCCUPANCY RATE

Rented area in relation to total leasable area.

SURPLUS RATIO

Operating surplus for the period divided by contracted rental income for the period.

FIVE-YEAR SUMMARY

INCOME STATEMENT

SEKm	2018	2017	2016	2015	2014
Income	1,810	1,719	1,340	1,315	1,312
Property costs	-670	-639	-534	-539	-550
Operating surplus	1,140	1,080	806	776	762
Central administration	-71	-73	-63	-58	-58
Profit from financial items	-175	-185	-204	-210	-283
Property management income	894	822	539	508	421
Unrealised changes in value on interest-rate derivatives	16	27	91	64	-91
Change in value of properties, realised	9	10	-10	11	15
Change in value of properties, unrealised	678	402	337	262	47
Profit before tax	1,597	1,261	957	845	392
CURRENT TAX	-90	-43	11 ¹	-163 ¹	-10
DEFERRED TAX	-166	-189	-136	-140	-80
Less non-controlling interests' share	3	2	7	12	5
PROFIT FOR THE YEAR ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	1,338	1,027	825	530	297

¹ Current tax for 2015 includes a provision of SEK 137 million relating to a tax case. In the second quarter of 2016, SEK 37 million of the provision was reversed.

BALANCE SHEET

SEKm	2018	2017	2016	2015	2014
Investment properties	20,802	19,457	13,683	13,381	12,200
Other non-current assets	54	46	41	20	18
Current receivables	201	173	196	104	43
Cash and cash equivalents	-	32	-	-	79
ASSETS	21,057	19,708	13,920	13,505	12,340
Equity	7,839	6,887	4,313	3,694	3,365
Deferred tax liability	1,353	1,197	1,009	875	735
Provisions	9	9	9	9	9
Interest-bearing liabilities	11,099	11,104	8,013	8,112	7,664
Overdraft facilities	198	-	15	227	-
Current liabilities	559	511	561	588	567
LIABILITIES AND EQUITY	21,057	19,708	13,920	13,505	12,340

CASH FLOW STATEMENT

SEKm	2018	2017	2016	2015	2014
Cash flow from operating activities	800	691	482	347	422
Cash flow from investing activities	-495	-2,843	27	-888	-299
Cash flow from financing activities	-337	2,184	-509	462	-165
Cash flow for the year	-32	32	0	-79	-42
CASH AND CASH EQUIVALENTS AT END OF YEAR	0	32	0	0	79

FINANCIAL KEY RATIOS

	2018	2017	2016	2015	2014
Return on equity, %	18.2	18.3	20.6	15.0	9.0
Return on total assets, %	8.7	8.6	8.5	8.2	5.5
Return on capital employed, %	9.0	8.9	8.9	8.6	5.8
Equity ratio, %	37.2	34.9	31.0	27.4	27.3
Property loan-to-value ratio, %	53.4	57.1	58.6	60.7	62.9
Interest coverage ratio, times	5.9	5.3	3.6	3.4	2.5
Debt/equity ratio, times	1.4	1.6	1.9	2.2	2.3

DATA PER SHARE¹

	2018	2017	2016	2015	2014
Earnings per share, SEK	9.94	7.78	8.66	5.56	3.12
Equity per share, SEK	58.3	51.2	45.3	38.8	35.3
Cash flow per share, SEK	6.05	6.00	5.29	3.70	4.30
EPRA earnings per share, SEK	6.05	5.54	5.14	4.53	4.12
EPRA NAV per share, SEK	67.6	59.7	56.0	49.4	45.4
Average number of shares outstanding at year-end, thousands	134,512	132,041	95,289	95,289	95,289
Number of shares outstanding at end of period, thousands	134,512	134,512	95,289	95,289	95,289
Dividend	3.00 ²	2.90	2.00	2.24	2.24

¹ Historical data for the number of shares has been restated to factor in the effect of bonus issues (i.e. the value of the subscription rights) in issues of new shares, and has been used in all key ratios calculations for SEK per share. The conversion factor is 1.28.

² The Board's proposal.

PROPERTY-RELATED KEY RATIOS AT YEAR-END

	2018	2017	2016	2015	2014
No. of properties	330	339	314	351	354
Leasable area, sq.m	1,463,822	1,552,524	1,353,525	1,462,538	1,422,519
Market value of properties, SEKm	20,802	19,457	13,683	13,381	12,200
Rental value, SEKm	1,936	1,875	1,478	1,466	1,448
Economic occupancy rate, %	91	91	90	88	89
Surplus ratio, %	64	64	61	60	59



ANNUAL GENERAL MEETING 2019

The Annual General Meeting for Diös Fastigheter AB (publ) will take place on Wednesday 23 April 2019 at 1 p.m. at Verket, Prästgatan 50, Östersund. We will offer a light lunch from noon and registration will take place between 12.00 pm and 12.55 pm.

Shareholders wishing to attend the Annual General Meeting must:

- be registered in the shareholders register kept by Euroclear Sweden AB by Monday 15 April 2019, and
- give notice of their intention to participate in the Annual General Meeting no later than 15 April 2019 at noon.

For more information and to register, visit Diös' website: www.dios.se

BEFORE THE ANNUAL GENERAL MEETING 2019

The Board proposes a dividend of SEK 3.00 per share, divided into two payments of SEK 1.50 per

share on each date. The record dates for dividends, meaning the right to receive a dividend, are Thursday 25 April and Wednesday 30 October 2019. If the AGM approves the proposed dividend, payments will be made on Tuesday 30 April and Monday 4 November.

The Nomination Committee's proposals in brief:

- The Nomination Committee proposes to re-elect board members Bob Persson, Ragnhild Backman, Anders Nelson and Eva Nygren, and to elect Peter Strand. Anders Bengtsson has declined re-election.
- The Nomination Committee proposes the re-election of Bob Persson as the Chairman of the Board.
- The nomination committee proposes that Bob Persson be appointed to chair the AGM.
- The Nomination Committee proposes that auditor Deloitte AB be reappointed. Deloitte has announced that Richard Peters will be the chief auditor.



Diös' annual report was prepared by Diös Fastigheter in collaboration with Strand Kommunikation.

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