



2018 Annual Report and Sustainability Report

Market leader in
secure facilities



Contents

2018 Annual Report and Sustainability Report

The report integrates financial, sustainability and corporate governance-related information to provide a comprehensive description of Specialfastigheter's operations.

Administration Report

The Administration Report can be found on this page and pages 6–109.

Sustainability Report

The Sustainability Report follows the 2016 GRI Standards: Core option and has been the subject of a limited assurance report by an external auditor. The scope of the Sustainability Report is detailed in the GRI list of contents on page 54.

● = Sustainability Report

The Statutory Sustainability Report pursuant to the Annual Accounts Act.

Specialfastigheter Sverige AB (publ)
Company registration number
556537-5945

While every care has been taken in the translation of this annual report, readers are reminded that the original annual report, signed by the Board of Directors, is in Swedish.

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Best at secure facilities

Specialfastigheter owns and manages properties including correctional facilities, juvenile care homes, courts of law and police properties. These are all special operations that have stringent requirements, particularly in terms of security. We are a safe, secure and proactive property owner that focuses on long-term relationships, and we define both current and future requirements in close collaboration with our customers.

Our business idea

Based on sustainable business practices and long-term, commercial ownership, Specialfastigheter develops and manages properties in Sweden for customers whose operations demand high security standards.

Our mission

Specialfastigheter's mission is to own, develop and manage properties with stringent security requirements in Sweden on a long-term commercial basis, wherever there is a national security interest. The guiding principle of our operations is to reduce the state's overall costs. In a competitive market, Specialfastigheter may also own, develop and manage properties in which there are other kinds of security interests and pursue other related business.

Professional and customer-centric

Specialfastigheter has a robust and sustainable business that creates value for its customers and other stakeholders. Read more about our business model on pages 8–9. Our core values – security, long-term planning, proximity and collaboration – always form part of our daily operations. Our Code of Conduct also supports us in our daily work and helps us conduct business in a way that reflects our values. It is important that our suppliers share these values, and as this is also a precondition for long-term collaboration, we use a Code of Conduct to which our suppliers must adhere. Our dedicated and skilled employees are given – and take – substantial personal responsibility and have considerable opportunities for development, not least within the area of security.

Security



Security issues are our highest priority. Our mission requires great responsibility and skill.

Long-term planning



We are a stable company that invests in the long term together with our customers.

Proximity

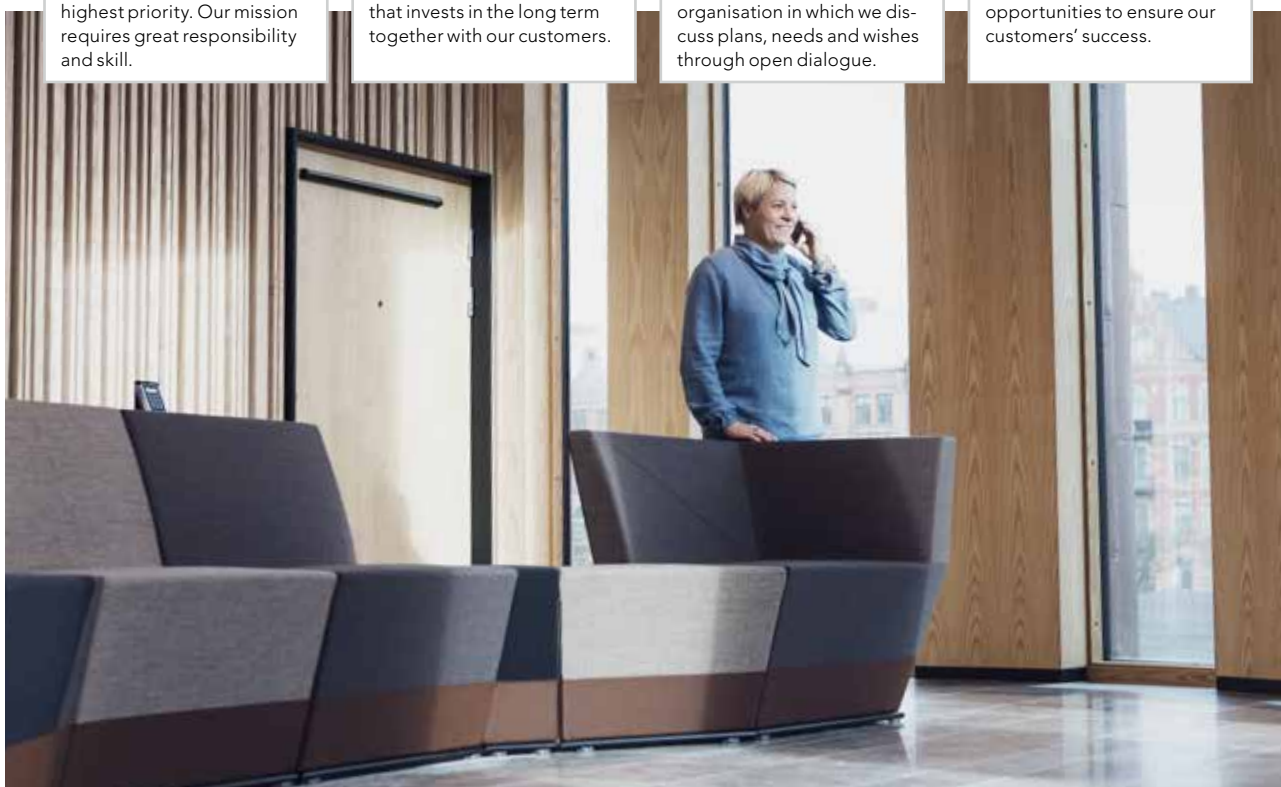


We have a customised organisation in which we discuss plans, needs and wishes through open dialogue.

Collaboration



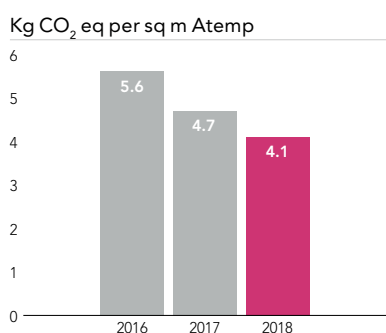
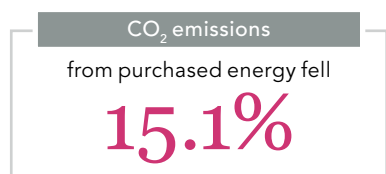
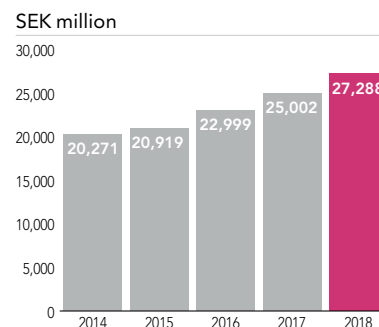
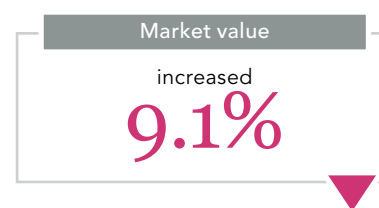
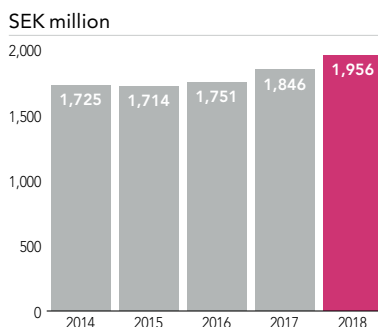
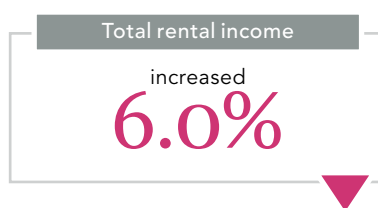
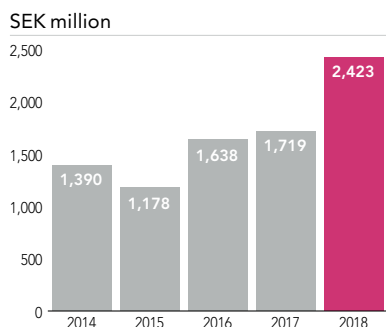
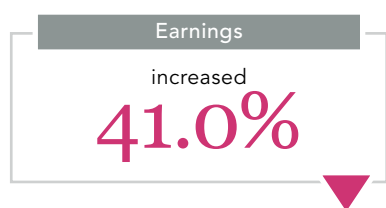
Together we can create opportunities to ensure our customers' success.



Specialfastigheter owns, manages and develops properties for customers with security requirements. Our property holdings comprise floor space of around 1.1 million square metres and a market value that amounts to SEK 27.3 billion. In 2018, we had sales of SEK 2,138 million and a net profit of SEK 2,423 million.

Our biggest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. Our customers

are located across the country – from Ystad to Haparanda – as are our 150 or so employees. Our registered office is in Linköping, with the head office divided between Linköping and Stockholm.



5 years in brief

	2014	2015	2016	2017	2018
Income from property management, SEK million	1,872	1,867	1,912	2,028	2,138
Net operating income, SEK million	1,452	1,400	1,409	1,495	1,574
EBT, SEK million	1,782	1,474	2,100	2,165	2,825
Net profit for the year, SEK million	1,390	1,178	1,638	1,719	2,423
Return on equity, %	17.3	15.6	22.6	20.3	24.2
Adjusted return on equity, %	10.8	11.8	13.7	12.8	13.0
Yield, %	7.3	6.8	6.5	6.2	6.0
Rental income, SEK/sq m	1,600	1,618	1,644	1,700	1,793
Occupancy rate, %	98.3	98.7	98.6	99.0	99.0
Surplus ratio, %	77.6	75.0	73.7	73.7	73.6
Floor space, sq m, thousand	1,066	1,058	1,088	1,079	1,094
Investments including property acquisitions, SEK million	371	419	1,288	1,398	882
Market value, investment properties, SEK million	20,271	20,919	22,999	25,002	27,288
Loan-to-value ratio, %	44.4	57.8	55.9	53.3	49.1
Equity/assets ratio, %	41.2	30.2	32.2	33.8	38.3

For definitions of key performance indicators, see page 117.

We are
100%
owned by the
Swedish state

No. of municipalities
where Specialfastigheter
is present, around
70
From Ystad in the south to
Haparanda in the north

Ongoing
investment volume
SEK **1.6** billion

Our rating is
AA+
Stable outlook
(Source: Standard & Poor's)

Three customer-centric business areas

Our three customer-centric business areas – the Prison and Probation Service, Defence and Judicial System, Institutional Care and Other Special Operations – enable us to provide both efficient comprehensive solutions and valuable detailed expertise. Each business area works closely

with its customers and acts in line with their own specific needs. Our focus is always on identifying optimal solutions together with customers for everything from the development of premises and environmental protection to security issues.

Prison and Probation Service business area

Our largest business area consists of just one customer, the Swedish Prison and Probation Service, which accounts for 39% of the company's income. We own Sweden's three high-security prisons Kumla, Hall and Saltvik along with other well-known prisons, such as Hinseberg, Tidaholm and Österåker within this business area.

Customers

The Swedish Prison and Probation Service

Major properties

Kumla high-security prison • Hall high-security prison • Saltvik high-security prison • Norrtälje prison • Skänninge prison



Defence and Judicial System business area

Within this business area, we mainly work with customers in the defence and judicial system who are responsible for national security. Our property management is highly important for the nation's central societal functions.

Customers

The Swedish Police
The Swedish Armed Forces
The Swedish National Courts Administration
The Swedish Defence Materiel Administration (FMV)
The Swedish Defence Research Agency (FOI)
The Swedish Enforcement Authority
The Swedish Prosecution Authority

Major properties

Kronoberg complex • Tre Vapen (FMV's headquarters) • Swedish Armed Forces' headquarters • FOI Kista



Institutional Care and Other Special Operations business area

With several facilities around the country, the Swedish National Board of Institutional Care (SiS) is the largest customer in this business area. Operations in this area involve the care and treatment of young people with psychosocial issues and adults with addiction problems.

Customers

The Swedish National Board of Institutional Care (SiS)
The National Swedish Museums of Military History (SFHM)
The Swedish Civil Contingencies Agency (MSB)
The National Board of Forensic Medicine
The Folke Bernadotte Academy
The Swedish Migration Agency

Major properties

Sandö • Revinge • Swedish Air Force Museum • Gudhem • Sundbo



Kriminalvården

Kronofogden



DOMSTOLSVERKET
SVERIGES DOMSTOLAR



ÅKLAGARMYNDIGHETEN



FÖRSVARSMAKTEN



Myndigheten för samhällsskydd och beredskap



RÄTTSMEDICINALVERKET

Ready to tackle new security challenges

During the year, Specialfastigheter continued to strengthen its organisation, develop bespoke solutions for secure facilities and secure long-term partnerships with contractors. We are ready to meet the major challenges posed by the new construction and renovation of secure facilities sought by our customers.

2018 was the year in which security issues were truly placed under the spotlight, right across Swedish society. The issue of security – and particularly circumstances and actions that threaten security – featured prominently throughout the year in the mass media, political debate and in public discourse. Demands for greater resources for the police, judicial system, prison and probation service, and defence arose on many fronts, as did demands for authorities and other key societal players to improve their security efforts in terms of preventing criminals, foreign powers and other unwarranted forces from obtaining secret or sensitive information. Demand for secure facilities is also growing. The clearest example of this is the Swedish Prison and Probation Service, which announced its need to extend its facilities in 13 different locations throughout Sweden – of which 12 are our properties – to create a total of some 900 new prison spaces and around 200 remand centre spaces.

New Protective Security Act

The new Protective Security Act and Protective Act regulation came into effect on 1 April 2019. These will expand the requirements placed on government agencies and other businesses that handle secret and sensitive information to ensure adequate protection of such assets. Many organisations and property owners currently have a “security deficit” that has arisen as a result of the fact that security-enhancing measures have not developed at the same rate as other areas. For us at Specialfastigheter, where security is always our main focus, greater emphasis on these issues is something we welcome. And we can say without hesitation: we are well-equipped to tackle the major challenges facing us.

Better project implementation

Over the past few years we have gradually strengthened our own organisation while simultaneously building long-term partnerships with different partners to meet the growing need that we have predicted for secure facilities in an efficient manner. Meanwhile, our project volume has been growing continuously and our plan is for it to exceed SEK 7 billion over the next five years. We are now planning for the extensions of the Prison and Probation Service's Hall, Tidaholm and Sagsjön high-security prisons while also working on a range of assignments for the Swedish National Board of Institutional Care, including the construction of new juvenile care homes and renovations of existing facilities.

Together with our customers, we have developed bespoke solutions for different types of buildings based on their needs and requirements in order to build more quickly,

efficiently and sustainably. Thanks to our close collaborations and continuous experience-based feedback, we now have access

to bespoke solutions that satisfy both the Prison and Probation Service and the Swedish National Board of Institutional Care's security requirements and enable us to meet the considerable need for extensions over the coming few years.

For several years we have focused on enhancing the maintenance of our properties, and we can now see that this trend is on the rise. However, we are aware that much maintenance work remains to be done.

Long-term supplier collaborations

It is equally important to have access to contractors with skills and experience relating to secure facilities. Thanks to our procurements carried out pursuant to the Defence and Security Procurement Act (LUF), which permits longer agreement periods, we have been able to guarantee very long-term collaborations. We note with satisfaction that there has been significant interest in Specialfastigheter's procurements, and many contractors see us as an attractive business partner.

Proactive IT security initiatives

Modern IT solutions are creating a range of new opportunities in terms of automating and monitoring different functions at a property – everything from ventilation, heating and lighting to fire safety, access systems and physical access protection. However, these innovations also entail entirely new risks whereby unauthorised people can gain access to connected systems and thus obtain secret or sensitive information. The Internet of Things is one area that represents a significant risk factor, with many players not having yet taken sufficient note of the related security aspects.

These issues are of the utmost importance to us at Specialfastigheter, and during the year we continued to increase the number of information security audits that we conduct at our properties. We currently conduct audits both before and during ongoing operations. We carry out penetration

Net profit for the year,

SEK
2,423
million

tests to enable us to identify and remedy potential weaknesses. These necessary and continuous improvement efforts have yielded results. We now receive a signal whenever our IT systems are threatened, while parallel and unconnected IT environments make it extremely difficult to gain access to our property systems via other environments.

Secure work environments for our customers

Another major challenge for us, as well as society, is that many of the buildings requiring a high level of security are often important, symbolic buildings in central locations in densely populated city centres, with many people moving in and around the properties. Our customers fulfil important societal functions and this needs to be manifested through the design of their buildings. For this reason, we have an important task in finding solutions that combine a far-reaching approach to security with strong aesthetic

“2018 was the year in which security issues were truly placed under the spotlight.”

values. One successful example that shows how security and aesthetics can be united even in buildings with highly complex operations is the district court in Lund, which was opened in August. At this new property, which has been nominated for the prestigious Årets Bygge 2019 (Building of the Year) award, Specialfastigheter succeeded in creating a harmonious and inviting environment without foregoing the particularly stringent requirements governing personal security.

Enhanced sustainability efforts

Alongside security, sustainability is Specialfastigheter's other most important focus area. We take the rapidly developing threat to the environment extremely seriously and therefore take all of our decisions with a view to sustainability. As a property company, our business – including the entire life cycle of the properties – leads to significant CO₂ emissions. In order to radically reduce our negative carbon footprint from purchased energy, we have formulated a tough but necessary target: our emissions from purchased energy are to decline 75% by 2030 compared with the base year 2012. The outcome for 2018 was 55%, which shows that we are making good progress. Moving forward, we need to place greater focus on reducing emissions in the production phase. This is a major challenge as we are dependent upon our suppliers in this regard. That said, there is great interest in collaboration among our suppliers which gives us hope that we can succeed. Our ambitious sustainability efforts are supported by our Board of Directors, which decided to reduce the return requirement for investments with a clear sustainability profile. Specialfastigheter continues to support the UN Global Compact and its ten principles for sustainable business. We participate actively in several sustainability initiatives and networks with other players to promote sustainable business.

An inclusive workplace

During the year we also continued to focus on our efforts to increase ethnic diversity within Specialfastigheter's organisation, and we took active steps to offer internships and workplace induction opportunities to students with a foreign background. Unfortunately, we did not reach our target of increasing the number of employees with a foreign background to 12%, despite dedicated efforts.



Åsa Hedenberg
CEO of Specialfastigheter

The actual figure is still 10% and we need to review our recruitment procedures and employer branding once again. Specialfastigheter is a value-driven company and we work continuously to foster commitment to sustainability issues and our established targets among our employees. We also take active steps to maintain a dialogue about our values with the contractors and other subcontractors we work with.

Improved profit from property management

Financially, 2018 proved to be another stable year in which we exceeded our targets for profitability and for capital structure. Our profit from property management increased 6.7% year-on-year. The market value of our properties also rose some SEK 2.3 billion. Rental income increased to SEK 1,956 million (1,846) and the net operating income to SEK 1,574 million (1,495). We also maintained our positive AA+ rating (S&P). This year's customer satisfaction survey resulted in an unchanged Customer Satisfaction Index of 65, while the underlying parameters of personal service, influence and receptiveness all improved.

An organisation that delivers

Specialfastigheter's operations, business and organisation all continued to develop throughout the year. The control unit created in 2017 has yielded positive effects and was expanded in 2018 to include more skills in the areas of sustainability and quality. All in all, our efforts mean we now stand even better prepared for the major challenges that await in 2019 and beyond.

Linköping, 18 March 2019

Åsa Hedenberg
CEO

Focus on sustainability and regrowth in the sector in 2018

Security forms that natural basis of our business, but 2018 was also characterised to a large extent by sustainability issues and ideas about how we can get more young people to choose the property sector. Below are some of the significant events that took place at the company during the year.

Håll nollan – secure construction sites

As part of our safety initiatives we joined the *Håll nollan* (Keep to Zero) project, an association of property developers, contractors, suppliers and stakeholder organisations that collaborates to ensure there are zero accidents within the construction industry. This collaboration is primarily focused on the work environment and safety at and around construction sites.

Emissions target – reduce CO₂ emissions from purchased energy by

75%

More ambitious emissions targets

The climate has become a global existential issue, and reducing CO₂ emissions to zero by 2050 will require drastic measures. As a state-owned company, Specialfastigheter should serve as an example within the area of sustainable business, which is why we decided in January to amend our climate target to aim for a reduction in our CO₂ emissions from purchased energy by 75% by 2030 compared to the base year 2012 (in contrast the previous target of 40%, which we have already achieved). This is a very ambitious target, but we are determined to achieve it.

Redevelopment and extension of juvenile care home in Hässleholm

In April, CEO of Specialfastigheter, Åsa Hedenberg, and the then General Director of the Swedish National Board of Institutional Care, or SiS, Kent Ehliasson, jointly broke ground on the extension to SiS's juvenile care home in Hässleholm. The current facility will be redeveloped and extended to around 8,500 sq. m. and the amount of places will increase from 18 today to 42. This construction project is expected to be completed in spring 2021.

"It is extremely exciting to be part of the development of this property for SiS. It is a building where the materials and design were selected with consideration for both people and the environment," Åsa Hedenberg said as ground was broken.



1st prize for attractive employer index

Specialfastigheter was awarded a prize in April by the Nyckeltalsinstitutet (Institute of Human Resource Indicators) for coming top of its Attractive Employer Index. The survey measures nine different social and financial key indicators that describe the working conditions of an organisation. We were ranked number 1 out of 235 participating organisations.



First green investor report

In April, we published our first investor report for the green bonds Specialfastigheter issued in November 2017. The report contained the approved projects that form the basis of our bonds. The green framework surrounding the bond issue requires financial figures to be published, but we also had our auditors review our environmental key performance indicators.

Successful environmental certification

Following extensive efforts over several years to structure and quality-assure our environment initiatives within the company's organisation, in January DNV GL carried out an environmental certification audit in accordance with ISO 14001. The audit was a great success and in May 2018 we had the certification in hand.

Equal treatment workshop

Almost all of our employees have now taken part in the workshop known as "Växthuset", which was designed by the Equality Ombudsman (DO). The workshop maps out the prevalence of discrimination and the risk of discrimination in our business based on the seven different grounds for discrimination: gender, gender identity or gender expression, ethnic affiliation, religion or other beliefs, physical impairment, sexual orientation and age.

Lund district court opened and nominated

The newly built district court in Lund was opened in late August. One of the speakers was Justice Minister Morgan Johansson, who described the district court as Sweden's most modern court and a contribution to safety and security. The entire project proved to be a positive collaboration between Specialfastigheter, the Swedish National Courts Administration, contractors and Lund Municipality. The district court obtained preliminary certification to Sweden Green Building Council's Gold level, won *Lund's urban construction prize for 2018* and was nominated as "Årets Bygge 2019" (*Building of the Year*) – the prestigious competition for the construction sector.



Important directional decision taken by the Prison and Probation Service

The Prison and Probation Service has a consistently acute need of more prison and remand spaces. Because of this, General Director of the Prison and Probation Service, Nils Öberg, took the directional decision to order the new construction and extension of high-security prisons and remand centres in 13 regions around the country. 12 of them are our properties or projects in which we are involved. In addition to that decision, another handful of regions may also be due for expansion; directional decisions were previously taken regarding extensions to the Hall, Sagsjön and Tidaholm high-security prisons.

Activities to promote future skills sourcing

On two occasions during the year, CEO Åsa Hedenberg held lectures for students at KTH Royal Institute of Technology in Stockholm. Among other things, she presented the varying work tasks involved in working at a property company today and promoted the important role of property manager. In 2018, Specialfastigheter welcomed a workplace induction student from the Rinkeby school's year 8 class and collaborated with the Swedish Property Federation on a project examining how we can get more young people to choose workplace inductions in the property sector. This collaboration resulted in a film, "Prao i fastighetsbranschen" (Workplace inductions in the property sector), which can be viewed on YouTube (in Swedish).



Roadmap for a fossil-free sector

In line with our aim to develop initiatives to reduce CO₂ emissions throughout our value chain, we decided in August to join the *Roadmap for fossil-free competitiveness initiative: Construction sector*. Following this, we took part in an initial workshop to flesh out the details.

Fantastic employees

Our employees' motivation is incredibly important to our success. During the year, Specialfastigheter produced the training programme "Den storartade medarbetaren" (Fantastic employees) together with Akademiska Hus and Jernhusen, whose aim is to develop selected employees into real agents for change who drive forward day-to-day initiatives for change.

Our business creates sustainable value

Our strengths and assets

A secure and sustainable business



Specialfastigheter is a market leader in secure facilities. Extensive experience and skills within the area of security and long-term approaches to business relationships are our main strengths and competitive advantages.

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Stable customer relationships



Collaboration, proximity and dialogue with our customers with security requirements are at the core of both our ongoing management, and our long-term planning and development of secure facilities. We have internally governed customer-centric management.

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Our property portfolio



We have a focused portfolio of sustainable and customer-adapted secure facilities spread over some 70 municipalities. We work proactively to develop our property holdings in line with customers' changing needs.

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Strong financial position

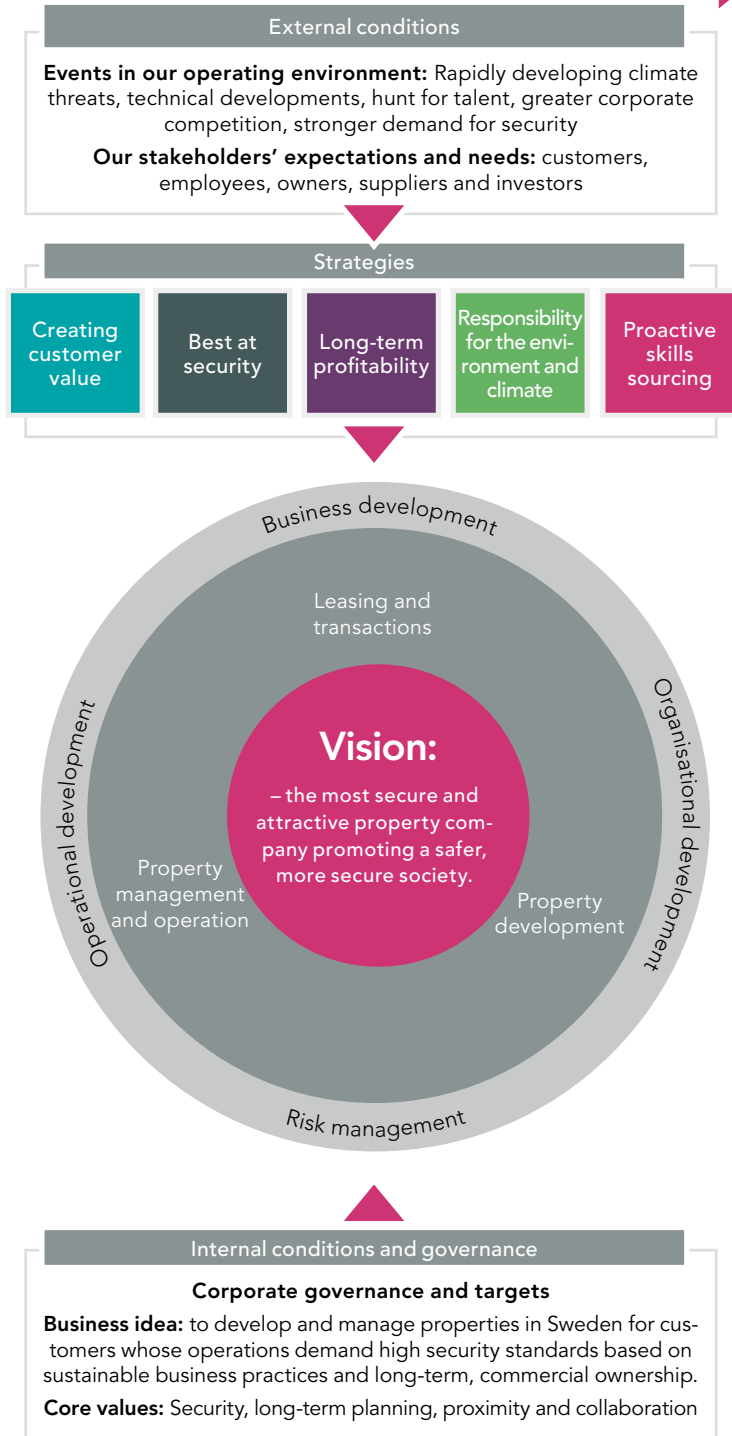


Our strong profitability is based on our long leases – which provide us with a stable cash flow – and the low interest rate level of recent years. We have surplus value in our properties, a high equity/assets ratio and a high credit rating, AA+.

Our strong profitability is based on our long leases – which provide us with a stable cash flow – and the low interest rate level of recent years. We have surplus value in our properties, a high equity/assets ratio and a high credit rating, AA+. Having the Swedish state as our owner ensures we have a stable foundation.

Read more about our strengths and assets on pages 12–15

Our business



Specialfastigheter helps create a safer Sweden by offering efficient and security-adapted properties to customers with security requirements. We hold a strong basic position that we continuously improve – always in partnership with our customers and suppliers.

Value created for stakeholders

Customers



- Continued delivery of customer-adapted, sustainable secure facilities in close to 70 municipalities, which help customers fulfil their socially important tasks
- Standard building solutions created
- Collaborations surrounding purchasing, procurement, energy enhancements and renewable energy
- Development of properties, investment volume in 2018 of SEK 882 million. Investigation projects looking at capacity increases for the Prison and Probation Service and the Swedish National Board of Institutional Care
- Sustainable properties throughout the life cycle
- Robust finances for long-term collaboration and investment
- Lund district court completed and awarded prizes

Investors



- Borrowing in corporate bonds and commercial paper at a value of around SEK 13 billion
- High credit rating (AA+) confirmed by Standard & Poor's
- Structured risk management
- Green bonds issued at a value of SEK 1,250 million
- The state as our owner along with an owner clause entitles investors to call in their securities early if state ownership falls below 100%

Shareholders



- Adjusted return on equity of 13.0%
- Property value of SEK 27.3 billion
- Equity/assets ratio of 38.3%
- Helped create a safer society
- Certified within the area of information security
- Reduced CO₂ emissions by 55% compared with base year 2012
- Ambitious sustainability initiatives
- Environmental certification carried out

Suppliers



- Developed purchasing organisation in which a central unit is responsible for strategic procurement and signing of all agreements
- "Entreprenadfabriken" (Contract factory) – strategic collaboration with contractors and consultants
- More in-depth dialogue with our suppliers about sustainability
- 46 off-site audits and 5 on-site audits conducted
- Rendered more efficient by reducing suppliers to around 1,200 (compared with 2,000 suppliers in 2008)
- Total purchasing value in 2018: SEK 1,444 million

Employees



- Ranked first in the attractive employer index survey – we are an attractive employer with excellent working conditions: salaries, benefits and career development
- Focused on becoming a more inclusive workplace characterised by diversity and equality
- Salaries and other remuneration in 2018 amounted to SEK 84,458,000, of which SEK 14,018,000 related to pension expenses. The number of hours spent on skills development totalled 4,306 during the year, or nearly 30 hours per person, per year.

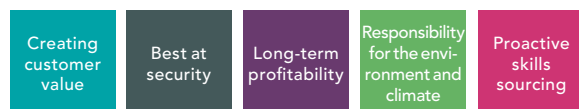
Long-term benchmarking

Starting points

Specialfastigheter's financial targets are decided by the owner, the Swedish state. The overall strategic targets are resolved by the Board. The aim of the targets is to ensure efficient use of resources to help maintain the company's strong position in a competitive market. The owner and company's management consider sustainable business to be a commercially strategic issue and the follow-up of our sustainability efforts is conducted through a dialogue with the owner, partially by following up on targets and partially by way of specific sustainability analyses.

Clear strategic areas to achieve established targets

To ensure we can govern, take decisions on targets and activities, prioritise and monitor operations more clearly, we manage operations based on five strategic areas:



Our prioritised development areas

To ensure we work on the right aspects in the right manner, we focus on the development of three areas: business, operational and organisational development. We have improved our management systems, environmentally certified our operations in line with ISO and renewed our certification in the area of information security. We introduced IT support for operational management in 2018, the aim of which is to offer operations better system support for planning, follow-up, analysis and reporting. In 2019, we will complete the implementation of a project management tool and begin work on a document and case management system. A new quality and sustainability unit was formed in early 2018.

17 UN Sustainable Development Goals

Out of the UN's 17 Sustainable Development Goals, we have chosen to focus on five in particular: Affordable and clean energy, Responsible production and consumption, Climate action, Life on land and Partnerships for the goals.



Overall strategic targets

Creating customer value

More satisfied customers via improved customer dialogue, CSI.

Target, 2018	Result, 2018	Target, 2019	Target, 2023
67	65	Not measured in 2019	75

Satisfied customers are a prerequisite for our long-term success. To ensure that customers are satisfied with our premises and our service, we carry out the customer satisfaction index (CSI) every other year.

Best at security

Continued zero-tolerance towards corruption.

Target, 2018	Result, 2018
No corruption	No corruption

Ensure effective compliance of new Protective Security legislation (processes, skills, resources).

Result, 2018	Target, 2019	Target, 2023
New target for 2019	Approved in-house audit	Approved in-house audit

The property sector has a history of corruption, which is why we have had a target of zero tolerance of corruption for many years now. We will continue to take active measures on this issue, but for 2019 we have opted for a new target linked to the new Protective Security Acts which are highly significant to our operations.

Balanced capital structure

The capital structure target is for the equity/assets ratio to be in the 25–35% range.

Target, 2018	Result, 2018	Target, 2019	Target, 2023
25–35%	38.3%	25–35%	25–35%

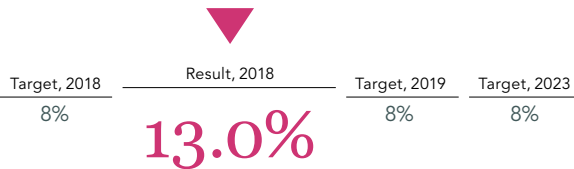
The owner has taken a decision on the capital structure target. The target equity/assets ratio determines how we finance our assets and is thus an important control instrument in terms of our level of risk.

Specialfastigheter’s vision – to be the most secure and attractive property company promoting a safer, more secure society – forms the basis for our long-term benchmarking and our overall strategies.

Ideal position

Healthy profitability

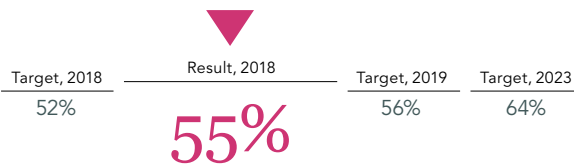
The profitability target is for a net profit, after including changes in value and associated deferred tax, of 8% of average equity.



The owner has taken a decision on the profitability target. The return requirement is established based on business principles and taking into account risk and sustainability.

Responsibility for the environment and climate

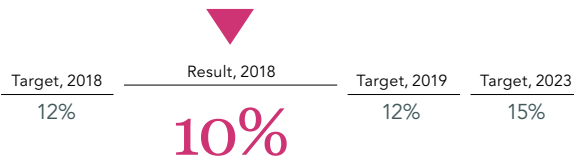
Reduce CO₂ emissions from purchased energy by 75% between 2012 and 2030 (2012: 9 kg CO₂/sq m Atemp).



Properties have a major impact on the climate, both in the building and occupancy stages. We have a science-based target for CO₂ emissions from purchased energy, and in future the target should include our entire value chain.

Attractive employer

Become a more inclusive employer by increasing the number of employees with a foreign background.



As an employer, we play an important role in society, including by being inclusive. Greater diversity at the company leads to improved competitiveness, stronger profitability and helps ensure a safe and secure society.

“ We are the first choice for every customer whose operations have security requirements.”

“ We ensure that our business is sustainable in the long term and does not jeopardise future generations’ chances to meet their needs.”

“ We and our customers have the same ambitious approach to sustainability and take strategic steps to achieve shared environmental goals within the framework of the green leases.”

“ We are at the forefront of developing sustainable indoor and outdoor environments.”

“ We are a professional purchaser, both internally and externally, and we are known for our strategic collaboration with customers and suppliers to find efficient and sustainable solutions. We grow by redeveloping, building new properties and through acquisitions.”

“ We are an attractive employer and have the right skills today and tomorrow. Our employees put security first, are engaged and curious, learn from each other, develop, perform strongly and have a lot of fun at work.”

A secure and sustainable business

We own, develop and manage properties in Sweden with security requirements. Specialfastigheter is to set exemplary security and sustainability standards. All employees have a shared responsibility to integrate their areas into our business as a whole.



Market leader in secure facilities

Specialfastigheter is a market leader in secure facilities. We have extensive experience and expertise in the area of security. Our customers place strict requirements on both properties and the handling of sensitive information, and we are specialists in fulfilling these requirements. Other important success factors in our security-related work include awareness, interest and commitment among our employees. We focus on four main areas of security – personal security, operational reliability, information security and physical security – and are helped in this by risk analyses, continuity planning, crisis management and incident reporting. Specialfastigheter has ISO-certified its entire operations in terms of information security.

Requirements placed on suppliers

We create cost-effective and sustainable supply chains by collaborating with suppliers and placing requirements on procurements. An obligatory Code of Conduct, self-assessment forms, on-site audits and evaluations together with a strong dialogue all form the basis of long-term, mutually beneficial partnerships. We measure contract compliance as it shows how effective our requirements are in terms of efficiency, security and quality when purchasing. As many employees act as purchasers, continuous training is carried out in areas such as business ethics and anti-corruption.

Deeply rooted sustainable values

Our four core values are: security, long-term planning, proximity and collaboration. Specialfastigheter is a signatory of the UN Global Compact and adheres to the conventions on which it is based. These also form the basis of our Code of Conduct, which guides employees in their day-to-day work. To contribute to the transition needed to reduce the rapidly developing environmental threat, we have adopted a proactive, science-based emissions target that involves a 75% reduction in our CO₂ emissions from purchased energy by 2030 (base year 2012). We have also signed up to the *Roadmap for fossil-free competitiveness initiative: Construction sector* within the framework of Fossil Free Sweden. We report our sustainability work in accordance with the GRI Standards: Core option and are environmentally certified in line with ISO 14001.

Active risk management and governance

We work proactively with risk management, including the areas of security, the work environment and anti-corruption. We prevent and minimise injuries by way of extensive risk analyses in which we systematically identify, analyse, evaluate and manage risks. This risk management is conducted throughout our operations, but particular focus is placed on the greatest risks that we collate in a risk register. Once a year the Board carries out a special follow-up of identified risks. A reporting tool helps us manage reported incidents as well as identify and implement both preventive and remedial measures. We also have a whistle-blowing system that enables people to anonymously report irregularities or unsatisfactory circumstances.

Stable customer relationships

One of Specialfastigheter’s strengths is its stable customer base – principally government agencies. It gives us an almost unique position in the market for secure facilities. We have large market shares with customers such as the Prison and Probation Service and the Swedish National Board of Institutional Care.

Standing strong in all economic conditions

Close, long-term customer relationships, long leases and customers with very high credit ratings result in a stable situation for us irrespective of economic conditions. As both we and our customers are impacted by external developments and political decisions, we closely monitor any event that could be significant. These customer dialogues ensure mutual awareness and understanding, which is a precondition for strong, long-term partnerships. Our focus is always on identifying optimal solutions together with customers for everything from the development of premises and environmental protection to security issues. Our customers can always feel secure with us.

Internally governed management and projects

Collaboration, proximity and dialogue with our customers are at the core of both our ongoing management and our long-term property planning and development. Our goal is to have internally governed operations and management based on a customer and security perspective.

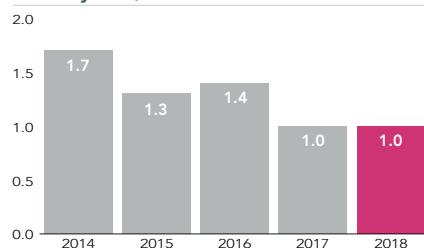
Specialfastigheter has also chosen to create its own project and development unit to guarantee customers’ needs are met in relation to the production and adaptation of the properties, and to maintain and develop our specialist skills in the area of security construction at the company. Our purchasing unit ensures cost-efficiency and credibility throughout the supply chain.



Growing demand and a low vacancy rate

There remains a strong and growing demand for premises, which has contributed to a low vacancy rate. As of 31 December 2018, the vacancy rate was 1.0% (1.0) – a low figure even within the public sector properties segment. We develop our property holdings in collaboration with customers and we generally always have a customer with us in new transactions.

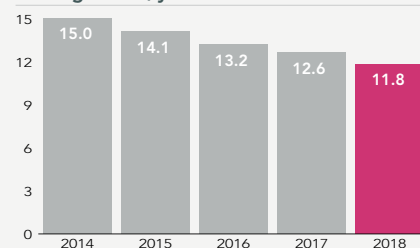
Vacancy rate, %



Long leases up to 25 years

The majority of Specialfastigheter’s leases are signed with public-sector operations and have long leases that often run for up to 25 years. The average remaining term in our contract portfolio is 11.8 (12.6) years, which results in sustained long-term security for the company. Rental income is secured for a long period and derives from creditworthy tenants who have non-existent credit risks.

Average term, years



Our property portfolio – secure facilities

From Ystad to Haparanda

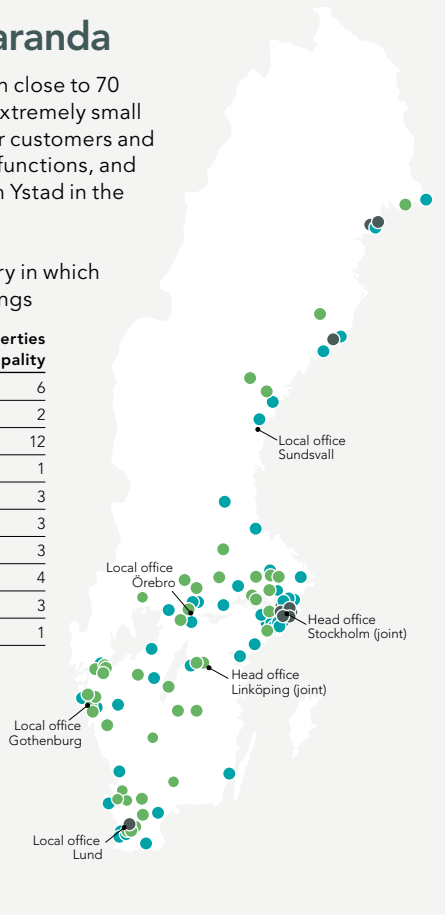
Specialfastigheter has properties in close to 70 municipalities in Sweden, in both extremely small towns and major cities. Many of our customers and their operations fulfil vital societal functions, and are spread across the country, from Ystad in the south to Haparanda in the north.

The ten municipalities in the country in which we have the largest property holdings

Municipality	Total owned floor space, sq m	No. of properties per municipality
Stockholm	332,651	6
Kumla	51,215	2
Södertälje	43,813	12
Solna	34,967	1
Lund	33,105	3
Kramfors	30,830	3
Luleå	29,739	3
Gothenburg	27,680	4
Umeå	26,330	3
Härnösand	23,911	1

Business areas

- Prison and Probation Service business area
- Defence and Judicial System business area
- Institutional Care and Other Special Operations business area



Portfolio development

Our movement toward focusing entirely on secure facilities has continued. During the year we acquired two properties with floor space totalling around 4,000 square metres in Värnamo, where SiS runs an addiction treatment centre. A detailed development plan has been adopted by Värnamo Municipality for an extension of around 1,800 square metres.

We have also purchased land in Södertälje adjacent to our properties for potential future expansion. Several leases were signed with existing customers, some of which had a term of 25 years. Many SiS institutions are expanding their operations, which is why we are redeveloping and extending several facilities, including in Hässleholm.

Rising property value

Our property value at the end of 2018 amounted to SEK 27.3 billion, up around SEK 2.3 billion year-on-year. The increase in investment properties' market value is mainly due to newly signed leases, investments and reduced return requirements.



Customised, sustainable secure facilities

The common denominator among our customers is their security requirements, and our role is to ensure that there are secure, adapted premises that help them fulfil their societally vital assignments. For us, this is a matter of understanding and creating a close dialogue in order to jointly create effective comprehensive solutions – the right property or premises for the right operations. Our customers' needs and conditions often change over time, which means we need to be proactive and receptive in order to adapt our offering.

Properties are to be sustainable throughout their lifecycle, from planning and production to management, redevelopment and demolition. For this reason, we adopt a long-term approach in every part of our business and collaborate with players in our value chain to ensure a fossil-free property sector. We work to ensure environmental certification of our buildings, reduce energy use and CO₂ emissions and proactively choose materials that have as minimal an impact on the environment and health as possible.

Strong financial position

Secure owner

Specialfastigheter is one of 47 state-owned companies and is owned entirely by the Swedish state. We are administrated by the Government Offices of Sweden, which pursue active corporate governance. Having a long-term, stable owner in this way provides a secure future. The state considers sustainability issues into operations to be a natural part of the company's long-term strategy and business development. We are also expected to develop the company by taking advantage of opportunities within technical developments and innovation.



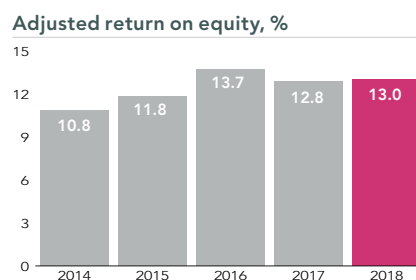
Very high credit rating

We have held a very high credit rating from Standard & Poor's on our long-term borrowing for a long time now, having been awarded an AA+/Stable outlook. This is thanks to our unique position as a landlord of secure facilities, our low business risk profile with a highly stable and predictable cash flow based on long-term leases with government authorities, as well as our strong liquidity position and the fact that the Swedish state is our owner. This score was confirmed once again in December 2018 and shows that we are a company with a positive future outlook.



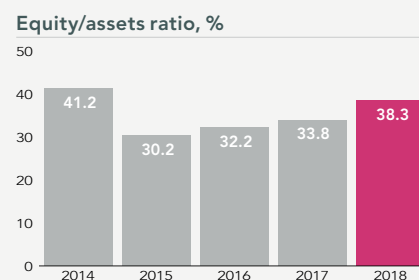
Stable return

We must manage our property holdings with a sustainable, long-term approach and with total efficiency from an ownership perspective. Our profitability target as set by the owner is 8.0% adjusted return on equity. We exceeded our target by a wide margin, and on 31 December 2018 the result was 13.0%. Our strong return is mainly due to our long leases – which provide us with stable cash flows – and the low interest rate level of recent years. Our growth is also enabled by the fact that half of our earnings are reinvested into operations.



Greater equity

Our capital structure target determines how we finance our assets and is thus an important control instrument for us in terms of our level of risk. Core parts of the capital structure include equity and interest-bearing liabilities, as well as the relationship between these two. The equity/assets ratio is the measure we use to manage the capital structure. To achieve clarity in our benchmarking while also enabling the necessary flexibility in terms of our financing, the target is expressed as a range of 25–35%. As of 31 December, we exceeded the owner's equity/assets ratio target as the outcome was 38.3. This was due to a non-recurring effect of SEK 190 million that resulted from a recalculation of the deferred tax liability from 22.0% to 20.6% to adapt to an impending reduction in corporation tax. The unrealised changes in value of our properties after tax have also increased equity by SEK 1,095 million since 31 December 2018.



EXTERNAL CONDITIONS AND STRATEGIES

Demand for secure facilities is increasing and we are ready to meet the need for both new builds and renovations of older buildings. Specialfastigheter's five core strategic areas have been developed based on the state's ownership policy, the company's targets and the UN's sustainable development goals. Creating customer value is a key issue for us.





Major needs and fiercer competition

Increased crime, overcrowding within the Prison and Probation Service and generally greater demand for secure properties are all leading to a major need for secure facilities. Competition within the sector is also increasing, with procurements that look more at price than at quality, security and sustainability.

Hopes of a shift towards a safer and more secure society do not seem to be coming true, judging from recent trends. During the first half of 2018, a total of 752,000 crimes were reported in Sweden, which is 3% higher than the corresponding period in the previous year. The category that saw the greatest increase was fraud-related crimes, with a huge rise in computer fraud in particular. It is also concerning to note the increasing violence seen in various criminal networks, with many shootings that often lead to fatal outcomes.

The consequence of this is a greater feeling of unease and insecurity among the public, according to many surveys. Issues such as criminality, the police and the judicial system also played a central role in the election campaign, alongside integration and healthcare. There are no indications at this time that this trend is going to reverse any time soon, and we should anticipate that property owners will need to make greater efforts to ensure a safe and secure environment for their tenants. We are also becoming increasingly vulnerable to breaches of IT systems thanks to expanding digitisation. Putting digital external protection in place is just as important as secure doors and unbreakable windows.

High occupancy rates at correctional facilities and remand centres

The lack of spaces within the Prison and Probation Service became acute in autumn 2018. According to the Prison and Probation Service, occupancy at that point had reached between 97 and 99%, so essentially full occupancy at all correctional facilities and remand centres. The desired level is an occupancy of 85 to 90%. Stricter sentences and a larger population are considered to be two of the causes of this trend.

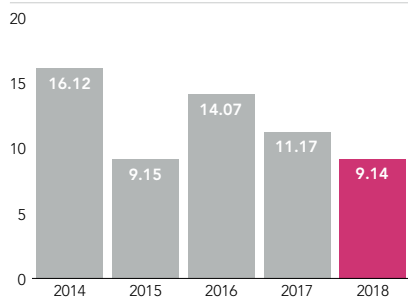
Overcapacity often leads to conflicts between inmates as well as personnel. Previous experience from the late 1990s has shown that escapes and jail breaks increase when occupancy is high. In November, the General Director of the Prison and Probation Service, Nils Öberg, took a directional decision to order the new construction and extension of high-security correctional facilities and remand centres in 13 regions around the country. This involves some 900 prison spaces and 200 remand centre spaces, while the extension will cover around half of the total estimated requirement. The directional decision refers to the medium term, that is, a 10-year period in which extensions will be carried out in regions where the Prison and Probation Service already operates.

An increase in crime is also putting pressure on the police and the need for new police officers remains acute. The so-called January agreement saw the Social Democratic Party, Green Party, Centre Party and Liberals agree to reach the target of 10,000 new police recruits by 2024. The attractiveness of a career in the police is to be improved by way of better conditions. Two challenges will be to ensure a sufficient number of applicants to police training courses and retaining the personnel that the force has. A larger police force entails a need for more premises.

Competition intensifies

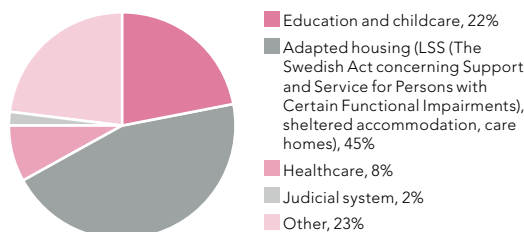
As we note greater demand for secure facilities, Specialfastigheter is also facing fiercer competition from other players in the property sector. Companies that are largely financed by pension funds are increasingly looking for

Public sector properties transaction volume, SEK billion



The transaction volume for public sector properties fell during the year. Source of diagram: CBRE

Transaction volume per category, %



The volume is based on 40 known transactions in 2018. The volume excludes Karolinska hospital that NIAM agreed to purchase in accordance with the City of Stockholm, but which it later retracted. Transactions in which minor parts of a portfolio refer to public sector properties and whose distribution is not known have been excluded. Source of diagram: CBRE

public sector properties. The sector is characterised by secure tenants and long contracts with secure cash flows.

Competition for leases is putting pressure on prices, and even rents to some extent. The challenge for Specialfastigheter is to continuously be one step ahead of the other companies in terms of security by showing our more than 20 years of experience in the area and demonstrating the value of properties with a strong environmental performance.

When the public sector carries out procurements of secure facilities, as a rule Specialfastigheter is involved in the process. A procurement is a balance between various different factors: price, quality, delivery capability, security and sustainability. We place a major emphasis on providing a realistic price as part of our tenders, as we know that reducing the quality will be more expensive for the purchasers in the long term. Security costs money and we do not feel there are grounds to compromise on that area. We also know from experience that building and managing this type of property is a complex task. That said, unfortunately we still take part in procurements where price is the decisive criterion.

The property market is becoming increasingly global due to new ownership structures, including opportunistic

owners with short investment horizons at times. There are currently no restrictions on what kinds of companies can acquire secure facilities, which may be a risk factor moving forward. A property can be sold on after coming onto the market, meaning a court or a police station could end up in the hands of irresponsible or, in the worst-case scenario, criminal owners. This is one risk analysis that should be carried out at an early stage of a procurement.

The property sector has long struggled with a lack of resources and skills – everything from service technicians to project managers and construction engineers. This shortfall did not ease in 2017–2018, and thanks to new laws and regulations expanding the responsibilities of property owners, the hunt for skills in these areas continues.

New Protective Security legislation

A new Protective Security Act will come into force on 1 April 2019, clarifying the protection requirements for businesses with sensitive security operations, i.e. our most security-intensive institutions. The Act is intended to reinforce protections against issues such as espionage and sabotage. It is certain that this legislation will lead to more managers and greater demand for skills.

External trends that affect us

Security has deteriorated

There is greater awareness of security issues in line with globalisation, IT scandals, the threat of infiltration, gang criminality and terrorist attacks. Several existing and potential customers are demanding more secure properties, new security solutions and/or security expertise. The impending new Protective Security Act will drive this trend. Increased appropriations to law enforcement authorities will lead in the long term to more prosecutions, which will increase the need for secure facilities.

Greater climate threat

Rapid and extensive reductions in CO₂ emissions are required on an unparalleled scale. According to Sweden’s climate policy framework, Sweden is to be free from “net emissions” of greenhouse gases into the atmosphere by 2045. Buildings consume around 30% of Sweden’s total energy. CO₂ emissions from properties’ entire lifecycles must be taken into account, which requires greater focus on the production phase, inclusive materials, that currently accounts for 50–60% of properties’ CO₂ emissions over their lifecycle¹.

Ongoing hunt for skills

An attractive employer must be able to offer challenging work tasks, skills development and free and flexible working arrangements that give employees the opportunity to control their work-life balance. Competition for the best suppliers is also increasing, with good conditions playing an important part in addition to purely financial considerations. The property sector is attractive, but a high retirement rate is increasing the need to recruit more people as replacements.

Fiercer competition for customers

The market for secure facilities is buoyant and competition is fierce. Many investors are looking for investments – ideally with a green profile – with low returns. The Swedish state does not always increase appropriations to its agencies in line with cost trends, and customers are streamlining. Sustainability is becoming increasingly important, and customers are submitting open and detailed inquiries more frequently to several property companies simultaneously when renting. There is also a trend whereby customers procure various contracts themselves before transferring them over to the landlord.

1) Report from the Swedish Construction Federation, “Minskad klimatpåverkan från nybyggda flerbostadshus” (Reduced climate impact from newly built multiple-family dwellings, in Swedish).



Collaboration is a prerequisite for sustainable business

We want to set an example within the area of sustainable business. We achieve this by balancing and uniting financial, social and environmental aspects in our daily work, which is supported by the state’s ownership policy, the company’s strategies and goals and the UN Sustainable Development Goals (SDGs). Thanks to close collaboration with our stakeholders, we are developing and improving our sustainable business.

For us, setting an example involves managing and developing every part of our business in a sustainable manner. As a state-owned company, we have a particular responsibility to set a good example in terms of acting in a way that fosters confidence in us. Sustainable business involves responsibility for, and analysis of, business opportunities and risks relating to the environment, human rights, working conditions, anti-corruption, business ethics, equal opportunities and diversity. Based on the operations we manage, these risks and opportunities can be found throughout the value chain and our ability to influence developments are to a large extent dependent on other players. Collaboration and dialogue with our stakeholders is thus of vital importance.

Active dialogue to ensure constant improvements

The dialogue with our stakeholders helps us to continuously develop and improve our operations, not least from a sustainability perspective. The stakeholders, who both influence and are influenced by our operations, have a major impact on the sustainability areas we focus on. Our main stakeholders include customers, suppliers, employees, investors and our owner. Naturally, it is not always possible to pursue a direct dialogue with our customers’ customers, but our tenants make sure that they represent them and convey their interests during our discussions.






We pursue a regular dialogue with stakeholders as part of our day-to-day

operations, of which sustainability-related issues form a part. For example, we hold natural discussions about the environment with our customers through our green leases with accompanying action plans.

Our suppliers are increasingly interested in collaborating in terms of sustainability issues and are often positive about the requirements we set. Our intention in 2019 is to further expand our supplier dialogue, partly via focus seminars and partly via the framework of the *Roadmap for fossil-free competitiveness initiative: Construction and civil engineering sector*. The on-site audits we carry out are excellent opportunities for dialogue, both during the audit and when following up with measures.

Stakeholder dialogue

In their dialogue with us, our main stakeholders have highlighted the following areas as having particular importance:

 Customers	<ul style="list-style-type: none"> • Develop and supply secure, tailored premises • Satisfied customers who are able to focus on their operations • Sustainable choice of materials that ensure a long lifespan and non-toxic environments • In-depth collaborations surrounding procurement and purchasing • Robust finances for long-term collaboration and investment • Collaborations surrounding energy enhancements and renewable energy
 Investors	<ul style="list-style-type: none"> • Sustained long-term profitability • Maintained high credit rating • Green investments and green financing • Sustainability in the construction phase
 Owner	<ul style="list-style-type: none"> • Contribute to a safer society • Reduce CO₂ emissions throughout the value chain • Sustainable supply chain over several stages • Work environment in construction projects
 Suppliers	<ul style="list-style-type: none"> • Long-term, strategic and mutually beneficial relationships • Sustainable supply chain • Clear requirements for procurements
 Employees	<ul style="list-style-type: none"> • Attractive employer with good working conditions • Skills development • Meaningful work that contributes to a safer society and satisfied customers • An inclusive workplace characterised by diversity and equality

In addition to these dialogues, more comprehensive discussions and workshops are held annually with one or more stakeholder groups. In 2018, we opted to extensively interview a number of investors about their expectations of our sustainability efforts. The outcome revealed that a broad view of sustainability was important for their decisions in relation to Specialfastigheter. They particularly want us to focus more on sustainability in the construction phase, including CO₂ emissions from materials and production, selection of materials, land management and work environment.

The dialogue with our owner surrounding sustainability issues is integrated with other ownership issues. During the year, the owner carried out an analysis of our sustainability efforts. The results of this showed that they consider us to be working systematically on sustainability within our business and that we have relevant targets and activities and a clear distribution of responsibility. Among their recommendations were that we intensify our work to reduce CO₂ emissions throughout the value chain and that we include subcontractors in our on-site audits to a greater extent.
















Our material sustainability areas

Our stakeholder dialogues, continuous monitoring of operating environment and analysis of our business’s impact on people, the environment and the economy all form the basis of our materiality analysis. Based on this, the management has prioritised nine areas deemed to be most significant for Specialfastigheter. The sustainable supply chain area has been removed as an individual area as it is deemed to be included in several other areas, including emissions, work environment

and anti-corruption. All areas are well integrated into the ongoing work of Specialfastigheter’s five strategic areas. Specialfastigheter’s governance of and work involving our sustainability efforts are reported in detail in various chapters of this Annual Report and Sustainability Report. Page 54 contains a thorough description of how we translate our prioritised sustainability areas into GRI standards.

Material sustainability areas	Why material?
Customer satisfaction	The long-term success of our business is based on our ability to meet customers’ needs.
Security	Security is our niche and it is what differentiates us from other property companies.
Work environment	Our supply chain entails a significant risk of work environment injuries. We care about both people and the environment. Health and safety are crucial in terms of our ability to be an attractive employer and to deliver quality.
Emissions (including trips and transport)	There are significant CO ₂ emissions from energy use during the production of materials, construction, occupancy and operation of properties.
Energy	A property’s lifecycle involves considerable energy use. The type of energy we select in line with suppliers, projects and at our properties has an impact on CO ₂ emissions.
Materials and chemical products (including waste)	We use large amounts of materials as part of our operations. Our selection of materials is relevant to both the environment and people’s health. There is a significant amount of waste, including hazardous waste, from production and demolition.
Equal treatment	The company is to reflect society from a diversity perspective in order to be an attractive employer and landlord.
Economic performance	A basic prerequisite of our business and development opportunities. Affects our stakeholders through the economic value we create for them.
Anti-corruption	The property sector entails risks as it involves major investments and complex transactions with many parties involved.

Our material sustainability areas relate to the UN SDGs in the following ways:

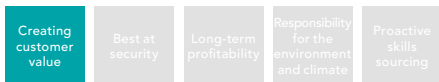
PRIORITISE	    	<p>Areas that are strategically prioritised from a sustainability perspective, based on the seriousness of climate change and the impact our business has in terms of use of materials, energy use, greenhouse gas emissions and impact on biodiversity. These issues require real efforts on our part as a company. Collaboration is crucial to ensuring efficient work. We are convinced that collaboration and partnerships are required to solve the major challenges facing us.</p>
MANAGE	     	<p>Areas we manage actively for long-term financial results, such as customer satisfaction, security, a good work environment, equal treatment and good working conditions both internally and throughout our supply chain. We are to be open to technical innovation that contributes to sustainable cities and a sustainable society.</p>
TAKE NOTE	     	<p>Areas of which we take note in our daily work, such as strong business ethics free from corruption, promoting life-long learning, contributing to indirect economic development by way of creating jobs, managing water resources and minimising emissions into the sea and waterways.</p>

Pink text = Specialfastigheter’s material sustainability areas

Five core strategic areas

Strategies > Our strategic areas serve as important tools in our efforts to more clearly manage, take decisions on targets and activities, prioritise and monitor operations.

<p>Creating customer value</p>	<p>We are to provide secure, adapted premises in a commercial and cost-effective manner, thus contributing to our customers’ operations. We work close to our customers and maintain a close dialogue, which gives us a deep understanding of their operations.</p>	<p>Read more on page 23. ▼</p>
<p>Best at security</p>	<p>Security is one of Specialfastigheter’s core values and security issues are always our highest priority. We aim to be the property owner best able to meet both its own and its customers’ requirements and high expectations relating to security, expertise and support in an innovative and responsible manner.</p>	<p>Read more on page 25. ▼</p>
<p>Long-term profitability</p>	<p>We have a long-term task from our owner to manage our property holdings sustainably and minimise the state’s overall costs together with our customers. Long-term profitability is a crucial aspect of fulfilling this task.</p>	<p>Read more on page 27. ▼</p>
<p>Responsibility for the environment and climate</p>	<p>Our operations and properties affect the environment throughout their lifecycle, from planning and construction to management, redevelopment and demolition. For this reason, we adopt a long-term approach in every part of our business and collaborate with players in our value chain to ensure a fossil-free and competitive property sector.</p>	<p>Read more on page 30. ▼</p>
<p>Proactive skillsourcing</p>	<p>In order to achieve our targets, we need the right skills – something for which there is fierce competition. Proactive skills sourcing is therefore a central strategy for Specialfastigheter. Our commercial and organisational ability is based on strategic choices and activities. We are a geographically diverse organisation, which means we need independent and committed employees who can provide every customer with the service they demand.</p>	<p>Read more on page 32. ▼</p>



Strategy – creating customer value > Long-term planning, proximity and collaboration with customers – this is the foundation on which we can create functional and cost-effective premises that correspond to customers’ needs and wishes. In the end, it is a matter of being able to offer the right property or premises for the right operation.

Specialfastigheter has a clear assignment – to supply premises in a commercial and cost-effective way to operations with security requirements. Being the leader in secure facilities places stringent requirements on our properties, our collaboration with customers, our monitoring of the operating environment and how we perform.

Close customer contact at several levels

Close dialogue at different levels – locally, regionally and centrally – is crucial in terms of pinpointing the most significant areas for our customers and thus helps us to prioritise development work. Regular meetings that are followed up provide valuable information for both our short- and long-term planning. The business unit is responsible for letting and transactions, while out at the properties our service technicians and property managers have daily contact with customers as part of ongoing work. The stakeholder dialogue is also an important forum for collaboration (see page 20).

In order to ensure efficient planning, our work is based on long-term management plans produced for each property. These plans guarantee long-term maintenance, performance quality, volume control and clear follow-up procedures. Read more about this aspect on page 38.

Technology for better efficiency and sustainability

Digitisation of our property automation processes and information flows improves efficiency as it increases searchability and accessibility. In 2018, we continued to develop technical security solutions that are to be used in future projects.

We work to provide sustainable property management in collaboration with our customers. At the turn of the year, 91% of our leases had a green appendix while 95% of the green appendices had an accompanying green action plan that is regularly reviewed. We also hold regular sustainability meetings with several of our major customers. We see the potential in developing these further, and with more of our customers, in order to create sustainability value for customers, such as healthy environments and climate-smart buildings.

Regular customer surveys

To ensure that customers are satisfied with our premises and our service, we conduct customer surveys that provide us with tangible proposals for improvement. The in-depth analysis of the latest survey was completed in February 2019. Read more about our customer surveys on page 38.

Strategies for creating customer value	Examples of activities undertaken in 2018
All leases are to have a green appendix and an action plan drawn up with the customer that contribute to the joint achievement of our environmental targets.	91% of our leases have green appendices, of which 95% have joint action plans.
Develop sustainable internal and external environments and acquire, redevelop and build to the value of at least SEK 1 billion per year.	Redevelopments, extensions and new build projects for SiS at Folåsa, Johannisberg, Ljungbacken, Ljungaskog, Björkbacken and Hässleholm. Acquisition of an SiS property for addiction treatment in Värnamo. Continued redevelopment and extension of the Hällby correctional facility and security-enhancing measures at the Skogome correctional facility. A number of land parcels adjacent to various properties were acquired to enable future expansion.
Ensure delivery that is so efficient, secure and sustainable that customers can focus entirely on their core operations.	We have developed standard building solutions (read more on page 24) and a concept for long-term supplier collaboration, known as “Entreprenadfabriken” (Contract factory), see page 41. Our customer service has been improved in terms of processes and procedures for reporting any need for service and a new solution for on call case management.
Enhance the efficiency of our property management by following digital trends and embracing new and tested technology.	Digitisation of our processes and information flows to ensure enhanced information security. Development of technical security solutions that are to be used in future projects over the coming few years.
Together with our customers, continuously produce updated plans for premises’ requirements, both now and for the future.	A number of investigation projects to increase capacity together with the Prison and Probation Service. Several investigations for the Swedish National Board of Institutional Care (SiS) concerning extra places for the treatment of young people and addicts.
Attract new customers by way of active market analysis and attractive offerings.	The award-winning district court in Lund shows how we are able to develop attractive and secure business premises for the Swedish National Courts Administration. We have purchased land in Södertälje as well as land adjacent to our properties for potential future expansion.

Bespoke solutions for facilities reduce lead times

The need for premises has grown dramatically for several of our customers over the past few years. One way to shorten lead times and make the construction process more efficient is to work with bespoke solutions – generically designed building models that are developed based on the customers’ needs and the requirements of Sweden Green Building Council’s Gold level.

There are many benefits linked to standardised building. We are able to cut the lead times of the process while the costs of programming and planning are also drastically reduced. Furthermore, we are able to produce tenders rapidly and have framework agreements prepared – a working method we have opted to name “Entreprenadfabriken” (Contract factory – read more on page 41). When work gets under way, we are able to call off directly as the Public Procurement Act (LOU) negotiations have already been conducted. We use contractors procured in different areas of the country in order to remain relatively local and near to the construction site.

Collaboration with the Swedish National Board of Institutional Care

“We launched a joint standard building project with SiS in 2014 as the authority had a drastically increased need for more spaces. They needed to create 200 new spaces as soon as possible. At the same time, all premises-related issues which had previously been taken at a local level were centralised at SiS,” explains Torbjörn Blücher, Business Director at Specialfastigheter.

In close collaboration with the customer, Specialfastigheter produced a standard building for residents containing two sections with eight accommodation units in each, along with administrative premises and staff rooms. A standard model for a sports building had already been in place for a while, and had been constructed at several locations across the country, including the Folåsa and Ljungaskog juvenile care homes. Now there are also standard buildings for emergency power plants and smaller complementary buildings such as turnkey buildings, car ports, recycling stations and similar facilities. Specialfastigheter has also produced a standard building for a school, which is expected to enter production for the Ljungbacken juvenile care home.

Standard building for the Prison and Probation Service

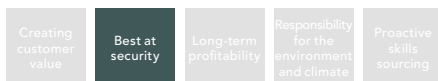
As in the case of SiS, the Prison and Probation Service has found itself in need of more spaces in recent years, and Specialfastigheter is therefore planning a standard building with 48 spaces in security class 3. The bespoke solution facility will be a pilot project in Skenäs, where preparatory groundworks were carried out in 2018, and the plan is then to build it at the Rödjan correctional facility in Mariestad. Other current standard building projects are under way for security classes 1 and 2 and remand centres with shared communal spaces.

“Around 2015, discussions began with the Prison and Probation Service about constructing bespoke solution facilities as a replacement for end-of-life correctional facilities from the 1950s and 60s. This need became more urgent as spare capacity fell drastically. Many correctional facilities and remand centres around the country are currently full. The Prison and Probation Service took a directional decision to expand capacity by around 900 prison spaces and some 200 remand centre spaces, which overall covers around half of the total estimated need. The standard buildings give us an excellent opportunity to help our customer increase capacity quickly, cost-effectively and sustainably,” explains Bo Gelin, Business Area Manager for the Prison and Probation Service at Specialfastigheter.

Another aspect of our efforts to produce cost-effective and high quality solutions are the standard windows and standard cell doors we designed in consultation with the Prison and Probation Service. The synergy effects are extensive and bespoke solutions are an area we will continue to develop for a long time to come.



Standard building for the Prison and Probation Service, 48 spaces for a correctional facility in security class 3.



Strategy – Best at security > Specialfastigheter aims to be the property owner best able to meet both its own and its customers’ requirements and expectations relating to security, expertise and support in an innovative and responsible manner. We have our own niche within public sector properties – secure facilities.

Our customers’ operations require us to maintain high standards of proficiency, confidentiality and commercial prowess. In many cases, Sweden’s security may be involved. The way we work with security is described clearly in our business plan and in our joint business management system. We work closely with our customers, but we always respect their integrity during any collaboration.

Our principal should obviously feel secure with us at every stage – from planning and construction to management and development. Security is therefore one of Special-

fastigheter’s core values and security issues are always our highest priority. For this reason, we established the term “secure facilities”. By this, we mean properties that are adapted for operations that require security.

In order to accomplish our task and achieve our vision – the most secure and attractive property company promoting a safer, more secure society – we have mainly concentrated on four different areas of security, namely: personal, physical, operational and information security. Read more on page 26.

Our most important tools to make us the best at security

Knowledgeable, security-vetted personnel

The skills, awareness, interest and commitment of our employees are all factors for success that ensure we succeed in our security efforts. Continuous skills development in the area of security is therefore a natural part of all employees’ work. Security also forms a central part of our recruitment process. We have a tried-and-tested concept using a special security assessment that covers all employees and reduces the risk of incorrect recruitment.

Continuous risk analyses

By systematically identifying, evaluating and managing operational risks, we gain an understanding of how we can effectively keep them under control. The most significant risks to operations are followed up at least twice a year during management reviews and once a year by the Board. The international risk management standard ISO 31000:2009 guides our efforts in this area. Read more about our risk management on pages 47–51.

Incident reporting

By continually following up on reported incidents, we create the right conditions for early follow-up of near-accidents, injuries and circumstances that may have a negative impact on assets requiring protection, such as individuals, tangible and intangible resources, the environment, our credibility or our finances. Read more about our incident reporting efforts on pages 26 and 57.

As part of our safety initiatives we joined the *Håll nollan* (Keep to Zero) project, an association of property developers, contractors, suppliers and stakeholder organisations that collaborates to ensure there are zero accidents within the construction industry.

This collaboration is primarily focused on the physical work environment and safety at and around construction sites.

Ethics and anti-corruption

Specialfastigheter’s work is founded on our core values. For us, an upright, ethical approach to all business relationships is a given – we must be a strong, reliable, business partner. We have an internal sustainability policy and a Code of Conduct that describe the company’s requirements regarding our employees and which form the basis of how each of us should behave in relation to ethical matters. To ensure that information and knowledge concerning business ethics is accessible throughout the organisation, we regularly hold discussions about ethics at each unit as well as annual training courses for purchasers.

Specialfastigheter never accepts bribes or any other form of corruption, and we have had a whistle-blower system in place since autumn 2013 that enables people to draw attention anonymously to irregularities or unsatisfactory conditions at our organisation. No cases were reported during 2016 or 2017, while two cases of whistle-blowing were registered in 2018. Both of these were able to be written off following an internal investigation, although one has been transferred to the relevant authorities for further processing.

Continuity planning

Continuity planning is based on the most important core processes and support processes. These are the processes that must be prioritised when returning to normal or other decided level of operation in the event of breakdowns or catastrophe.

Focus on four security areas



Personal security

The area of personal security comprises the safety and security of our employees, partners and customers. Our incident reporting system provides us with extensive knowledge of risks and allows us to proactively take preventive measures. Some of our employees work in environments where an increased understanding of their own behaviour can reduce their exposure to risk and lead to increased safety and security.

In order to prevent, manage and deal with threats, violence and other risks in the work environment, we adopt a shared view and have a well thought-out approach to these issues. We therefore continued to train our personnel in how to handle threats and violence in the work environment throughout the year. We also joined the *Håll nollan* (Keep to Zero) project in 2018, which is an association of property developers, contractors, suppliers and stakeholder organisations that collaborates to ensure there are zero accidents within the construction industry.



Operational reliability

A high level of operational reliability around the clock is a prerequisite at many of our properties, as they fulfil vital societal functions. Improvements are constantly being made to our property management organisation in order to lead to greater efficiency and security. Rapid technological developments within the area of property automation demand robust operating systems, good planning and conscientious employees, which we supply through our own personnel who are not only well acquainted with the properties and the technical installations, but also customers' needs. During the year we strengthened our organisation and improved the procedures for continuity planning of digital functions and monitoring of our properties. We also conducted a quality assurance project to enhance operational reliability in our digital systems for technical property operations and monitoring, and updated instructions and technical descriptions for property networks.



Physical security

Physical security is important in terms of our ability to establish a high level of security to protect both our own operations and those of our customers. It primarily consists of technical and mechanical security solutions, such as access protection, electronic access systems, automatic fire and burglar alarm installations, reinforced doors, windows, roofs and wall structures.

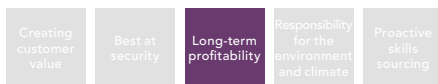
As part of the requirements we have established in our security protection agreements, Specialfastigheter carried out a review and follow-up of physical security statuses in 2018. We also carried out more work on security-enhancing measures at a number of correctional facilities and developed general technical security solutions that will be used in future projects.



Information security

Protecting both our own and our customers' information assets is a high-priority issue for us. We must be able to trust that all information – both our own and that which we manage on behalf of our customers – is always accessible, correct, traceable and protected against unauthorised access. Our customers, we ourselves and our operating environment all undergo changes, meaning we invest a lot of time in adjusting our security protection agreements and accompanying security instructions.

During the year we renewed our certification in accordance with ISO 27001:2017 and began adapting to the new Protective Security Act that is expected to take effect in April 2019. Our view is that our management system for information security means we are well equipped in terms of the new Act's requirements.



Strategy – Long-term profitability > Long-term profitability is a crucial aspect of fulfilling the task set by our owner and of satisfying our customers’ high expectations throughout the entire lease period. We must therefore manage our property holdings sustainably and with total efficiency from an ownership perspective.

Minimise the state’s total costs

The owner’s intention is for us to work with our customers to minimise the state’s total costs. We can achieve this by providing secure, adapted and sustainable premises in a commercial and cost-effective manner, thus contributing to our customers’ operations.

Our capital structure target (equity/assets ratio) determines how we finance our assets and is thus an important control instrument in terms of our level of risk. To achieve clarity in our benchmarking while also enabling the necessary flexibility in terms of our financing, our owner’s target equity/assets ratio is expressed as a range, which is 25–35%. The result for 2018 was 38.3%. Another target used to ensure long-term profitability is adjusted return on equity of 8%. The result for 2018 was 13.0%, which shows that we are efficient in terms of our business and that we have a strong and effective financial management system.

Effective governance and monitoring

We work strategically to ensure we have reliable IT support in place that is well adapted to operations and offers a high level of availability. Efficient and secure IT is a basic condition of efficiency at our properties and gives us the opportunity to improve and develop our operations so we can meet our customers’ needs. This issue is becoming increasingly important as digital developments gather pace, and we are working proactively to identify the opportunities they present us with as a company.

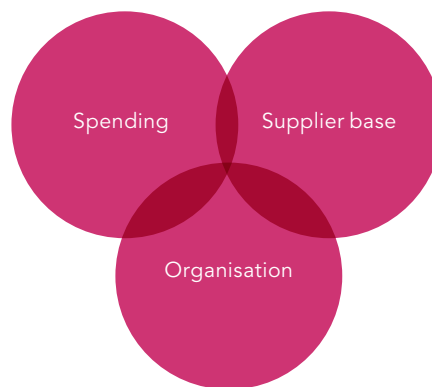
We introduced IT support for operational management in 2018, the aim of which is to offer operations better system support for planning, follow-up, analysis and reporting. In 2019, we will complete the implementation of a project management tool and begin work on a document and case management system.

Long-term supplier development

Purchasing strategy is key

A clear, rooted purchasing strategy based on a balance between our purchasing needs identified by a spending analysis, our supplier base and how the organisation for purchasing is designed, is a prerequisite for the long-term development of our purchases in relation to cost, quality and risk. Our purchasing strategy also gives us excellent conditions to work on sustainability in an effective way throughout our supply chain.

To extract the most value possible from the supply chain and ensure our ability to act in a planned and structured manner, we have developed a purchasing organisation in which a central unit is responsible for strategic initiatives, procurement and signing of all agreements. We can specify our needs and requirements for products and suppliers by



- Supply chain facts:**
- Highest spending (purchases measured in SEK) in the areas of construction contracts, specialist skills and energy
 - Around 1,200 suppliers (1,600 suppliers in 2013, 2,000 suppliers in 2008)
 - Total purchasing value in 2018: SEK 1,395 million (SEK 1,219 million in 2017)
 - The majority of suppliers are domiciled in Sweden
 - Contract compliance in 2018 amounted to 92% when calculated by transactions (approx. 30,000) and 96% calculated by value

categorising our purchases into product areas and based on various market conditions. This is also gives us the basis on which to develop individual strategies and the right supplier structure for each contract area. This way we can adopt a long-term approach to developing our supplier relationships and thus ensure greater continuity and higher quality in our deliveries.

Sustainable supply chain

To minimise supplier-related risks, we maintain an ongoing dialogue with all our suppliers. We have a documented process outlining how we check, set requirements for and follow up on our suppliers. Signing our Code of Conduct is mandatory when new central framework agreements¹ are entered into, in addition to general and product-specific requirements primarily relating to finances, the work envi-

¹) Central framework agreements refer to framework agreements and supplier agreements signed by the central purchasing unit and which are fully compliant with our purchasing strategy. These account for 95% of our total purchasing.

ronment, the environment and security, except for contracts involving both low values and low risk.

Code of Conduct and audits – important tools

When suppliers sign our Code of Conduct, they accept our guidelines and requirements in the areas of information



security, work environment, working conditions, the environment and corruption.

All suppliers who have signed the Code of Con-

duct are subject to self-assessment and off-site audits and could be subject to on-site audits. Off-site audits are conducted on the self-assessment that suppliers are requested to carry out upon signing a contract.

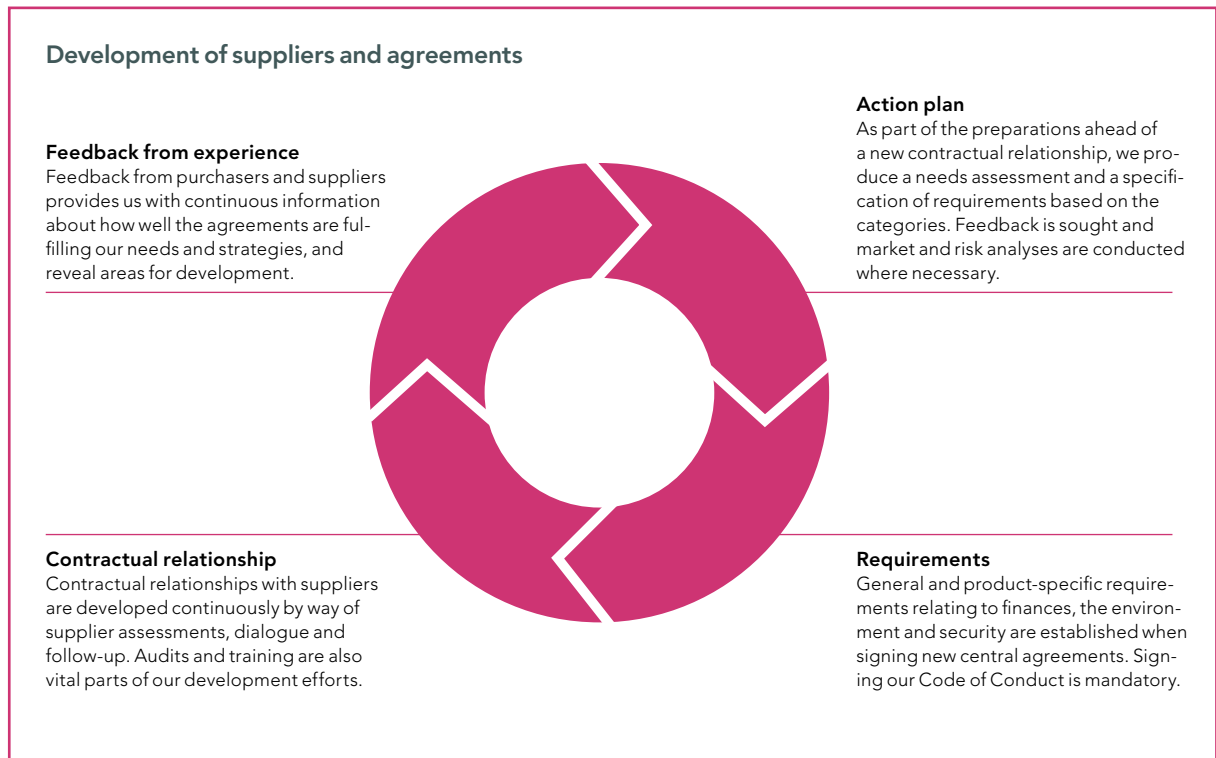
We conduct on-site audits in accordance with an annual plan based on a number of criteria, such as volume/spending, risk, external monitoring and how strategically important a supplier is. Experience of previous on-site audits has shown that many of our suppliers see it as an opportunity to learn and open a dialogue about sustainability.

Being able to develop together with the aim of offering positive and sustainable solutions is a good thing for both us and our suppliers. We carried out 46 off-site audits and 5 on-site audits during the year.

The audits we carried out showed that several suppliers lack active preventative measures against discrimination and a systematic work approach to setting requirements and following up on their own supply chains. We know that there are many sustainability risks² in the supply chain and therefore consider maintaining a dialogue with suppliers to be an important and obvious part of our sustainability efforts.

As an example of the positive effect of a dialogue and audits, one of our construction contractors employed a work environment strategist to improve systematic work environment efforts, as well as a purchasing manager to develop their strategic purchasing. Another example is Svensk Markservice, about whom you can read more in the interview on the next page.

Our intention in 2019 is to further expand our dialogue with suppliers about sustainability, partly via focus seminars and partly via the framework of the Roadmap for a fossil-free construction sector. We are convinced that collaboration is a prerequisite for a sustainable business.



²) Read more about sustainability risks on pages 47–50 and 59.

“The audit was inspiring and educational”

It is important that our suppliers share our values. Audits are the one of the tools we use to develop our supplier relationships and thus strengthen the dialogue surrounding sustainability, as well as create close and long-term partnerships. In 2018 we carried out five supplier audits, one of which was at Svensk Markservice which works with land planning and management for us throughout the country.

In line with the new sustainability reporting requirements contained in the Annual Accounts Act, Svensk Markservice identified its material sustainability issues for 2017–2018. In connection with this, the company also reviewed its sustainability initiatives, which led to the recruitment of Marie Nygren-Bonnier as Director of Sustainability. She was involved in the audit of Svensk Markservice carried out by Specialfastigheter in May 2018, and responds here to a few questions about it:

How did you perceive the audit in relation to the requirements specified in Specialfastigheter's Code of Conduct?

“The audit gave us a reason to review our systems and working methods, which is always useful. I personally felt that the audit was very inspiring and educational. We could feel that the focus of the audit was on dialogue and partnership, and that Specialfastigheter, just like us, feels we need to collaborate to create a sustainable value chain. A bonus was that we were also given a professional summary of all the areas that had been audited together with an analysis of their status and development proposals.”

Has the audit led to any changes in your working methods?

“In terms of responsibility along the supply chain specifically, we were very inspired by how Specialfastigheter itself works and we are now working on systemising our approach to a sustainable supply chain, based to some extent on Specialfastigheter's model. One example is that we have produced a Code of Conduct for suppliers, which will serve as an appendix to our supplier agreements.”

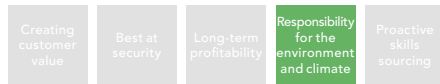
How will you proceed from here?

“Efforts to produce self-assessments are continuing, and in time we will also carry out on-site visits to monitor compliance among our suppliers. We believe that systematic sustainability efforts can provide us with a competitive edge, but this entails more purchasers valuing sustainability more highly and not simply basing it on price. We look forward to maintaining a dialogue with Specialfastigheter and exchanging our experiences about how to create a sustainable business together.”



Marie Nygren-Bonnier, Head of Sustainability at Svensk Markservice.

STRATEGIES



Strategy – Responsibility for environment and climate > Our operations and properties affect the environment throughout their lifecycle, from planning and construction to management, redevelopment and demolition. It is therefore vital that we adopt a long-term approach and endeavour to be a sustainable property company in every area of our value chain.

System for constant improvements

We have a structured and conscious approach to reducing our environmental impact and always use the precautionary principle as a guide. Our efforts are based on the impact our operations have on the environment and the climate. International guidelines, the UN SDGs, the Paris climate agreement and the generational and environmental quality targets set by the government all guide us in these efforts. To clarify our ambitious goals and to further systemise our environmental efforts, we chose to certify our company in line with ISO 14001:2015 in 2018. Our view is that this gives the organisation another incentive to work on constant improvements.

Optimised and energy-efficient operations

A property’s lifecycle entails significant energy use and thus also CO₂ emissions. Reducing CO₂ emissions is a priority and we therefore work systematically to reduce our energy use, which is reported, analysed and followed up on a monthly basis in terms of property, geographical area and at company level. An interesting pilot project for saving energy that ended during the year was biological purification of air from an industrial kitchen using fat-consuming bacteria. The aim of the project is to be able to recycle heating from extracted air, leading to an estimated energy saving of 105 MWh per year.

Lower return requirements in energy projects

The Board took a decision to set aside SEK 150 million to finance energy projects that do not meet the return requirements typically set by the company. The condition is that the investment should pay itself off over the duration of the project. Within this framework, a major ventilation replacement project was approved in November and is scheduled for implementation over the next few years.

To increase the proportion of renewable energy, we have also decided to install solar panels on all suitable rooftops.

More ambitious environmental efforts

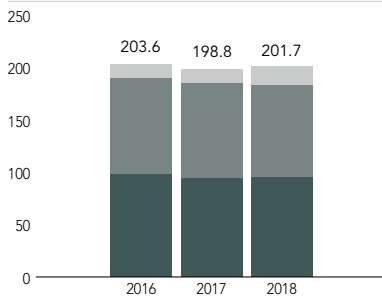
We have become far more ambitious in terms of reducing CO₂ emissions from purchased energy. Our new target is to reduce emissions by 75% by 2030 (base year 2012), which is in line with Fossil Free Sweden’s ambition to see a fossil-free Sweden by 2045.

We are implementing a number of measures to achieve this target. By 2020, we will phase out all heating oil we purchase in and replace it with rapeseed-based biodiesel. We are signing green district heating agreements wherever possible and pursuing a dialogue with energy suppliers to increase the share of renewable district heating sources.



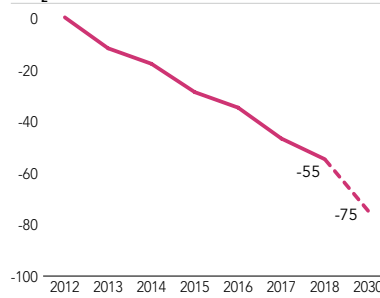
We see a clear need to set targets for reducing CO₂ emissions in our supply chain, as around 50–60% of CO₂ emissions from newly built properties occur during the production of materials and in the construction phase¹. We have begun an analysis of CO₂ emissions throughout our value chain and opened up dialogues with suppliers about how we can jointly contribute to reduced emissions. This could refer to climate-smart architecture, climate-smart choice of materials or greater consideration for the environment during the production phase. We have also signed up to

Total energy use in buildings, kWh per sq m Atemp



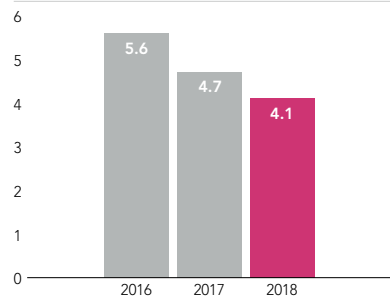
Electricity use has increased 0.5%. Consumption of heating has fallen 2% as we have optimised the operation of heating systems in our properties. Consumption of cooling rose significantly in connection with the hot summer in 2018.

CO₂ emissions, %



Our target is to reduce CO₂ emissions from purchased energy by 75% by 2030 (base year 2012). This reduction amounted to 55% at the end of 2018.

Emission intensity, kg CO₂ eq per sq m Atemp



Our CO₂ emissions have fallen, which is primarily due to the active steps our district heating suppliers have taken to reduce their consumption of fossil energy.

the *Roadmap for fossil-free competitiveness initiative: Construction sector* and both believe and hope strongly that collaboration within this framework will be the driving force needed to ensure the construction sector becomes fossil-free by 2045.

The energy use target (electricity at properties, operational electricity, heating and cooling) in 2018 was 196.1 kWh per sq m, while actual energy use amounted to 201.7 kWh per sq m. The main reason this target was not achieved was that consumption of cooling at our properties increased considerably during the hot summer.

In the 2012–2018 period, we reduced our CO₂ emissions from purchased energy by 55% (the target was 52%) and the outcome for 2018 was 15.1%. We have been able to reduce our emissions despite the fact that consumption of district heating at our properties increased during the year and the fact that we were forced to use heating oil at one property as a result of operational problems with a pellet boiler. This reduction in emissions is largely due to the fact that our district heating suppliers reduced their consumption of fossil fuels in their mix.

Business trips and service vehicles

We reduced our CO₂ emissions from business travel by 5% during the year – read more on page 57. This reduction was primarily due to our replacement of a large number of service vehicles with vehicles that use more environmentally friendly fuels. The amount of air travel we take has fallen while journeys by train have increased. Our travel policy encourages environmentally friendly travel and we make extensive use of travel-free meetings.

In 2018, our air travel led to 46 tonnes of CO₂ emissions. We compensate this by setting aside SEK 1,100 per tonne², or some SEK 50,000 per year, for environment-enhancing measures.

Conscious and healthy choice of materials

The construction and property sectors account for a large proportion of the public sector's use of materials in terms of both new builds and redevelopment. We adopt systematic working methods when choosing and using materials and we try, wherever possible, to phase out materials that could have a negative impact on health and the environment. Materials used in construction projects and management are to be documented in SundaHus's environmental database, assessed according to their criteria and should fulfil classes A or B. The database is based on the precautionary principle and shows whether a material contains substances that are hazardous to health or the environment. As our customers occasionally have special functional requirements, we need to deviate from the A and B classes in certain cases.

Specialfastigheter's target is for the amount of A- and B-classified materials within production to amount to at least 80%. This is measured annually based on the registrations in the database. In 2018, the number of A- and B-classified materials amounted to 84.3%, meaning we achieved our target. An important success factor is the dialogue and collaboration we have with our suppliers. Follow-ups and audits of the materials chosen and registered are undertaken regularly. As 80% of CO₂ emissions from the production phase of buildings comes from the production of building materials, we will step up our efforts to reduce our negative climate impact from materials, with suppliers serving as a vital partner.

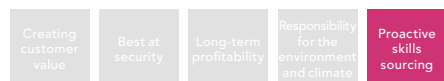
Extraction of raw materials as well as the production and use of materials can lead to both environmental and societal risks during the lifecycle of the material. To manage these risks, we place systematic demands on and monitor our suppliers by way of our Code of Conduct – read more on pages 27–28. Read more about risks on pages 47–50 and 59.



We reduced our CO₂ emissions from business travel by 5% during the year.

1) Report from The Swedish Construction Federation, "Minskad klimatpåverkan från nybyggda flerbostadshus" (Reduced climate impact from newly built multiple-family dwellings, in Swedish).

2) The SEK 1,100 amount is based on the Swedish carbon tax that amounts to around SEK 1.1 per kg of CO₂.



Strategy – Proactive skills sourcing > The right skills are crucial in terms of achieving our vision and succeeding in our business. Fierce competition for skills in the property sector means it is particularly important for us to work on camaraderie, health, skills development and diversity – everything that builds up our brand as an employer.

The right skills, today and tomorrow

The sector is expanding and our customers' requirements and wishes are changing constantly, and this requires us to be a flexible organisation open to change. This is why we take proactive measures relating to our resource and skills sourcing, with individual development plans and general succession planning.

We also need specialist expertise in strategic areas such as security, project management, maintenance, fire, electricity, sustainability and energy. For this reason, we strengthened the organisation during the year by adding a maintenance engineer, a project manager for property automation, a fire engineer and a business strategist. New roles and new skills also require leaders and employees to develop. During the year we focused on managers' ability to communicate. We also began training initiatives in conjunction with Akademiska Hus and Jernhusen, which aim to develop employeeship within our organisation. The participants will gain greater self-awareness and a more effective style of communication.

Most attractive employer of the year

One prerequisite of being an attractive employer is ensuring Specialfastigheter's employees are happy and spread a positive image of us. Specialfastigheter works strategically with employer branding to increase awareness of our company as an organisation and employer. We always use our Employer Value Proposition (EVP) as a basis, which describes our offering to new and existing employees. Our sustainability efforts are key to attracting new employees. In addition to systematic environmental and climate-related issues, we work proactively on health and safety at the workplace, employeeship, leadership and equal treatment.

As a testament to our committed employer branding efforts, we received the top score in the Nyckeltalsinstitutet's (Institute of Human Resource Indicators) Attractive Employer Index. We took first place out of 235 participating companies; something we are thrilled about. The survey measures nine different social and financial key indicators that describe the working conditions of an organisation.

During the year, we took part in three different jobs fairs at universities to attract more young people to the property sector. We also welcomed three (six) interns – a number we are aiming to increase. This is a great opportunity for both us and the students to learn from each other, and some interns have even gone on to become employed by us.

Everyone benefits from equal treatment

We are convinced that diversity and equality enhance our competitiveness and contribute to happier and more committed employees. Everyone at the company has a responsibility to promote equal treatment each and every day, both internally and in relation to potential employees,

students, customers and suppliers. During the year we enhanced our employees' skills in the area of equal treatment, and now essentially all employees and managers have participated in the "Växthuset" workshop to assess Specialfastigheter with regard to discrimination.

When recruiting and in every type of skills sourcing, we always concentrate on making good use of the skills and experience found in every corner of society. By promoting equal treatment at the company, we can more easily find the skills we look for as the talent pool is considerably broadened. Specialfastigheter has been collaborating with other property companies for three years now on a project in which we receive workplace induction students from the Rinkeby school in Stockholm. This gives the students the opportunity to familiarise themselves with property companies and will hopefully help attract new talent to our sector. In June we participated in the Järva political forum week, at which our HR Director talked about our commitment to workplace induction students. The aim of this was to inspire other organisations to participate in workplace induction projects as well as to find new channels to reach target groups that we are not currently reaching.

Unfortunately we did not reach our target of increasing the share of employees with a foreign background to 12% in 2018. The share is currently 10% (10) and we must undertake dedicated efforts in relation to this issue in 2019. We need to examine ourselves and review our procedures relating to employer branding and recruitment. We take an active approach to equality at our company and need to expand our efforts in that area too, as the number of women at the company had been around 30% for a long period and is now only at 26% (29). The proportion of female managers was 29% (37), which is a negative trend that we need to take into account moving forward.

Health-promoting initiatives for healthy employees

We have identified the work environment to be a significant sustainability area as the construction and property sector is affected from an accident and health perspective. We deem the greatest risks to be linked to our supply chain. Read more about this on pages 27–28 and 59. We are able to manage our work environment risks by way of systematic initiatives relating to the work environment that permeate our day-to-day operations and through dialogues with our suppliers about the work environment.

A prerequisite for fulfilling our task and achieving our targets is that our employees are in good health. For us, promoting health at work internally means that we take a holistic and sustainable approach, which includes wellness, leadership, employee camaraderie and skills development. We work preventively to promote good health, and sick leave at the company has remained low for a long time. Read more about this on pages 57–58. However, we are aware that some employees are experiencing high work-

loads, and as a result we have reorganised management and recruited new employees to our project unit.

As some of our employees work in environments that could lead to threats and violence, we offer training in how to manage such occurrences at work. Managers and health and safety officers regularly participate in work environment training courses, and as part of our sustainable leadership and employeeship efforts, all employees took part in workshops during the year focusing on a sense of coherence (SOC).

All employees are offered our comprehensive healthcare insurance as well as wellness, medicine and healthcare contributions and a benefits portal with a large range of discounts and offers for gyms and other health-related organisations. In addition to all the above, everyone has the opportunity to undertake eight hours of voluntary work per year during work hours.

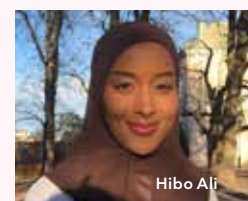
Employee facts

We have 144 (144) employees distributed across six local offices in Linköping, Stockholm, Sundsvall, Örebro, Gothenburg and Lund. Our geographical distribution is, however, greater than just these areas. We are present in close to 70 municipalities as our service technicians work at our properties on a daily basis.

The number of female managers fell during the year, amounting to 29% (37). On the Board, 45% (45) were women, while in management that figure was 63% (63). The total percentage of women at the company was 26 (29) at year end. Personnel turnover was 11.8% (5.1) during the year.

”I have everything I need to do my job”

25-year-old Hibo Ali worked as a summer intern at Specialfastigheter before obtaining a permanent role. Here she recounts her journey to joining the company and what attracted her to the property sector in the beginning.



What is your background?

”I studied civil engineering at the Institute of Technology at Linköping University between 2013 and 2016. Following my degree I underwent the Swedish Association of Public Housing Companies’ trainee programme for a year. After that I worked at Linköping’s municipally owned property company as a social coordinator for housing. That was really interesting, but I felt that I was missing the technical side of things.”

How did you find the summer job at Specialfastigheter?

”I simply googled ”properties + jobs + Linköping” and found Specialfastigheter. It ended with me working a summer position that was 50% office work and 50% producing drawings. At the end of the summer this turned into a 100% project and drawings assistant role. I wanted to develop more in the area of construction, and Specialfastigheter could see my potential.”

What does it mean to be a project and drawings assistant?

”I assist the project managers by reviewing drawings, surface area measurements and orders – I check that all necessary documentation is included, for example that we have architectural data and the correct land registry numbers. This entails close collaboration with the project unit and with many external project managers, not least because I am the system manager for the project tools we use. The job is challenging because I work on so many different aspects, but being involved in several different areas means I am able to see the bigger picture, which is something I really appreciate. For example, I get to go on excit-

ing study visits and look at the buildings before they are complete. Being a construction engineer means sitting at the computer for long periods – so these visits mean I can get out and see how it all works in reality! I have been assigned a project manager as a mentor, and both she and my line manager are really helpful, clear and pedagogical. They and everyone else with whom I have contact at Specialfastigheter are very understanding of the fact that I am young and not that experienced – they give me everything I need to do my job.”

Can you identify any particular challenges linked to our niche, secure facilities?

”During my degree we did not really talk about secure facilities much at all. Working at a company that has security at its core is therefore something new for me – for example, I cannot leave drawings lying around or just email them however I want, which is a major contrast to how things work on the housing side. For example, my family and friends think I have a really cool job because I am involved in building prisons.”

What are your thoughts on the future?

”I would like to continue getting to know our properties and building a stable foundation at the company – my aim is to become a project manager at Specialfastigheter. I would also like to see more women entering the property sector, of course; diversity is not its strong point. There were only 12 girls to 80 boys on my civil engineering degree. That said, I see more and more women when I am out and about at construction sites and know that the trend is moving in the right direction.”

DESCRIPTION OF OPERATIONS

A long-term approach for a safer Sweden – this is the goal of Specialfastigheter's work together with our customers and suppliers. The basis of our operations is to ensure that we have the right premises for the right operations by continuously monitoring, developing and matching customer needs with our property portfolio. Every single Specialfastigheter customer should feel confident in our management services so that they can focus fully on their core operations. We conduct our own project and development activities to develop and customise our properties and thus ensure our access to specialist expertise, primarily in the field of security.



Unique portfolio of secure facilities

Specialfastigheter's customers demand security. Many customers lease properties that are of a national security interest. Continuously reviewing the portfolio and ensuring that our premises are tailored to each customer's operations and security requirements is essential for maintaining customer confidence in us as a landlord and thus ensuring our success.

Our focus on security is what differentiates us from other property companies. This security aspect permeates our entire business and has been a part of it since the company was established in 1997. Our ambition to be Sweden's leading property company in the field of security is reflected in our extensive investments and initiatives in four different areas of security – operational, personal, physical and information security (read more on pages 25–26). We are one of very few Swedish companies to be certified in the area of information security.

Our employees are highly aware of security aspects and are experts in special technical areas. An important prerequisite for maintaining and developing our portfolio of secure facilities is our long-term relationships with customers. We have a unique dialogue and collaboration that gives us an insight into and understanding of their various businesses and security needs. Specialist knowledge and extensive experience form a solid basis, but it is our ability to convert our skills into concrete solutions specifically adapted to each customer that makes the real difference. Specialfastigheter's starting point is always "the right premises for the right operations." The fact box on page 36 provides examples of our modifications for customers in our property holdings over the past year.

Clearer focus on secure facilities

The hallmarks of our property operations are high quality, long contract periods and creditworthy customers. Specialfastigheter commands a strong position in the market and our aim is to further increase our property holdings in close collaboration with existing and new customers. The focus of our development is to exclusively target properties with customers who have security requirements – secure facilities. Specialfastigheter has the following five development strategies for its property portfolio:

- Property upgrades – create sustainable, modern and secure buildings that provide a favourable environment for employees and for customers' operations.
- Phase-out – older, low standard buildings and buildings that are poorly suited for operations. Demolition and dismantling are handled in a sustainable manner.
- Acquisitions with existing customers – expand our holdings with existing customers who currently lease from other property owners or in regions where they want to establish operations.

- Acquisitions with new customers – increase our holdings with new customers who need premises with built-in security.
- Refinement – disposal of properties that are not in line with our owner assignment.

In certain cases, we may pursue the following to meet customer needs and to learn more about operations with a slightly lower security focus:

- Develop with customers – acquire properties for those parts of customers' operations that have lower security requirements.

New investments

Modifications for customers entail complex property conversion and development projects in the form of new builds, extensions and redevelopments. Specialfastigheter's investments in projects totalled SEK 824 million (728) at year end. Read more about ongoing and planned investments on pages 40–42.

The construction of a new district court building for the Swedish National Courts Administration in central Lund is now complete. The building was opened in late August 2018.

During the year, Specialfastigheter signed 33 new leases, all of which have a green appendix. These signed leases entail a project volume of some SEK 378.5 million, with redevelopments, extensions and new builds all to be carried out.

Acquisitions

Specialfastigheter actively monitors the market and evaluates relevant acquisition opportunities to meet higher demand for properties that meet security requirements. The market is hot and competition is fierce for properties ready to be put up for sale. We acquired two properties in Värnamo during the year. These properties include buildings at which SiS runs addiction treatment centres. We have also purchased land in Södertälje as well as land adjacent to our properties for potential future expansion.

Transport Administration transaction currently not progressing

In 2018, the Swedish Parliament approved the transfer by the government of eight of the Transport Administration's rail traffic management centres to Specialfastigheter by way of a sale. It has since come to light that the costs cal-

culated and provided by the Transport Administration itself to adapt the premises have increased significantly. The government considers that the consequences of these cost increases need to be assessed and has thus opted not to progress with the approval it originally received. This means there will not be any transaction at this time.

Disposals

During the year a detached property in Lövsta was divested as the property no longer forms part of the company's operations.



Properties for over SEK 27 billion

The market value of Specialfastigheter's investment properties has increased significantly in recent years and amounted to SEK 27,288 million (25,002) at year end. The estimated values were determined by means of an internal

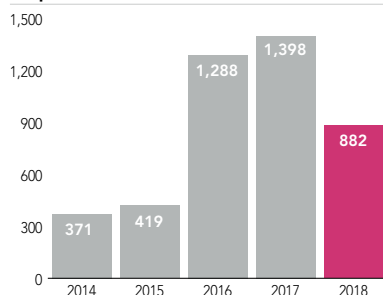
valuation based on actual lease income and operating expenses data. Information concerning cost of capital, required yield and current market rents is cross-checked with external appraisers. To assure the quality of the internal evaluation, it was cross-checked against an external evaluation of 50 (48) objects, equivalent to 90% (87) of the total value at 31 December 2018. The difference between the external and internal evaluations amounts to less than 3% (3). Specialfastigheter applies a value below that obtained from the external valuations.

Specialfastigheter manages property holdings containing 99 (96) secure facilities located in close to 70 municipalities across the country. The unrealised changes in value recognised for the period amounted to SEK 1,404 million (832). The average remaining contract term in the rental portfolio is 11.8 years (12.6). The company's largest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. The vacancy rate was very low at 1.0% (1.0) on 31 December 2018.

Examples of projects in 2018

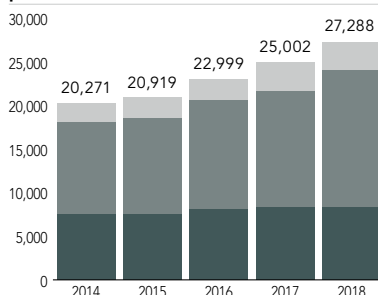
Property and customer	Project/Customer modifications
District Court in Lund	Construction of new district court, 10,560 sq m floor space in central Lund Opened in late August 2018.
Hall correctional facility	Investigation and preparatory work ahead of new builds, redevelopments and extensions.
Tidaholm and Sagsjön correctional facilities	Investigation/planning ahead of new builds, redevelopments and extensions.
The Prison and Probation Service	Investigation and planning of standard buildings ahead of future capacity increases at 12 properties nationwide. These initiatives will begin with the Skenäs and Rödjan correctional facilities.
SiS's juvenile care homes at Folåsa, Johannisberg, Ljungaskog and Ljungbacken	New standard buildings and planning of a standard school.
SiS Björkbacken	Construction of residential section, administration and central kitchen.
SiS's juvenile care home in Hässleholm	Residential sections extended.

Investments including property acquisitions, SEK million



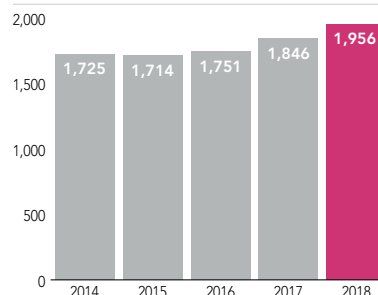
The reduction in 2018 was primarily due to the fact that we did not make any major acquisitions during the year.

Market value, investment properties per business area, SEK million



Market values have increased mainly due to property-specific events such as newly signed leases, investments and lower return requirements.

Total rental income, SEK million



Increased rental income is due largely to new leases, including the district court in Lund and the newly renovated Kronoberg remand centre.

A modern, high-security remand centre that breaks the isolation

The Kronoberg remand centre on Kungsholmen in Stockholm is the Prison and Probation Service's second-largest high-security remand centre. A comprehensive renovation and modernisation of the premises was launched in 2011. The centre continued running as normal, which meant the project was a complex operation that dragged on and was only completed in late 2017.

The newly renovated premises are highly valued by the Prison and Probation Service, according to Jennie Alten, then Director of the Kronoberg remand centre, who responds below to a number of questions about the construction process and final outcome:

Why did the Kronoberg remand centre need renovating?

"It was first completed in 1975 and after 40 years needed a major upgrade. A lot of new technology that we want to use was developed during that period, not least in the area of security. The way the remand centre operates has also changed radically since that time, which is why the premises needed to be modernised and adapted to how we currently manage our operations."

What are the greatest challenges your operations face at the remand centre?

"Naturally, the remand centre must be secured against break-ins and break-outs; it should not be possible for anyone to escape from our units and no one should be able to gain access and sabotage our operations either. Another main task is to create activities that break the isolation, and this requires appropriate, adapted premises."

What difficulties are involved in renovating a remand centre while continuing to operate?

"The redevelopment process is extended significantly when operations are ongoing. The external protection must be maintained while building materials are delivered to the property. Evacuation routes must be functional. Workmen who need to work within the remand centre need to be checked, escorted and trained in security procedures. Then there are periods of disruption that cannot be avoided, of course, such as noise and dust from construction."

How did your collaboration with Specialfastigheter work?

"We have enjoyed a great collaboration with many discussion meetings at which we worked to understand each other's circumstances, helped each other, built relationships and created contact paths, all of which is key. We drew up procedures and worked together to ensure the remand centre could continue operating and the construction could proceed."

And how was the final outcome – the renovated and redeveloped remand centre?

"Overall, we have gained a more secure and more modern remand centre with fresh and appropriate premises. We now have technology installed for more secure entry and exit and sluice gates, which is important from a work environment perspective. We now also have many communal areas for exercising, playing games and watching films, as well as a kitchen for preparing food and baking and a production unit where inmates can undertake paid work for simple tasks. All of these premises are extremely important to our operations, as the activities we run there help to break down the inmates' isolation. Every cell has been renovated, and that renovation was done sustainably – around 300 cells were dismantled and renovated to brand-new standard by inmates at a correctional facility. We also have some double cells here which, I believe, may be unique to us – a door between two cells can be opened and inmates can therefore keep each other company. The exercise yards, which play an important part in the wellbeing of inmates, have been made lighter, airier and have a better view in some places."

How have the personnel reacted?

"Since the reopening of the entire remand centre in January 2018, we have received very few complaints from employees. I believe this is due to the fact that we at the Prison and Probation Service have been able to influence and share opinions throughout the entire project. For example, we have tested functions for locking devices and handles, and the project organisation has adjusted solutions and designs based on our views. Put simply, we build things the right way from the very beginning!"

Facts about Kronoberg high-security remand centre

- Located on Kungsholmen in Stockholm
- The remand centre has space for 279 inmates
- The remand centre has a range of special departments – care, high-security, female, arrest and transportation
- Around 300 cells were dismantled and renovated to brand-new standard by inmates at the Beateberg correctional facility
- The construction project used around 1.5 million screws and 120 km of electric cables
- Almost 1 kilometre of carpeting was torn out and an equal amount re-laid

Efficient and secure management

Our customers feel safe, secure and able to focus on their operations because of the management services we provide using our own personnel, our focus on a high level of operational reliability and our efficient technical solutions.

Flexibility when performing maintenance

Our customers' operations mean we have to be flexible when planning and implementing our management tasks. Sustained high utilisation rates in Swedish correctional facilities, including those run by the Swedish National Board of Institutional Care and the Prison and Probation Service, meant that we were unable to carry out any major maintenance involving the closure of accommodation. In such cases, we try to redirect our maintenance to external measures or to other spaces that have less impact on the operations. Specialfastigheter always attempts to coordinate maintenance with measures planned by the customer in order to minimise disruption to the operations.

Own operational personnel to create security and efficiency

We adopt a customer and security perspective in our aim to manage our properties using our own personnel. In addition to specialist know-how in the field of security, Specialfastigheter's service technicians and managers must also have a high level of technical expertise to efficiently manage complex and highly digitised properties.

Our geographical range is a challenge to management services, as is the small-scale of many of our properties. Skills sourcing is extremely important for maintaining a high-level of service close to properties in all locations. Read more about Specialfastigheter's work on skills sourcing on pages 32–33.

Efforts to create a stronger customer dialogue

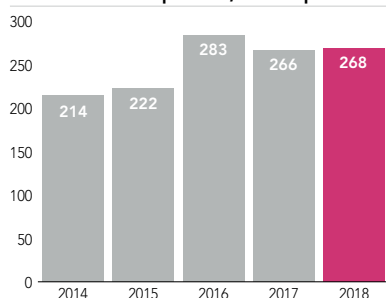
Many of our customers conduct operations at a large number of locations. As a result, dialogues and collaboration take

place at various levels in order to encompass the entire operations. Local tenant meetings as well as regional and central meetings at which the overall development of the organisations are discussed are examples of important dialogues.

We currently conduct two-pronged customer surveys, the first survey providing us with a customer satisfaction index (CSI) while the second survey offers an in-depth analysis of certain focus areas. The last survey carried out in winter 2016/2017 produced a CSI of 65. The in-depth analysis showed that communication in general – and maintenance planning in particular – were important areas for improvement. In 2017/2018 we introduced maintenance tours along with our customers ahead of maintenance planning. We also recruited two maintenance engineers who will offer planning support and ensure a more uniform assessment of the maintenance needs at our various properties. We obtained the results of the first part of this year's customer survey in December 2018. The CSI was unchanged at 65, despite almost all underlying parameters increasing. This is due to the fact that the weighting of customer groups was amended. For example, the index for both personal service and influence and responsiveness increased by a full four points. The in-depth analysis was carried out in February 2019 and will be followed by a new action plan.

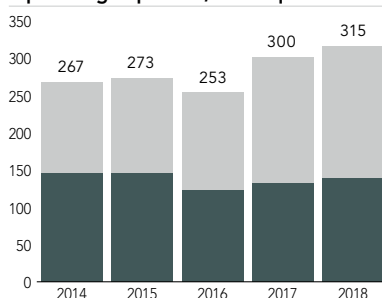
In 2018, we focused extensively on developing our customer service, including by further improving processes and procedures for reviewing service. Efforts to more effectively adapt to our customers' wishes are continuing. We also introduced a new solution for managing urgent matters, which will help us gain better control over this vital process.

Maintenance expenses, SEK/sq m



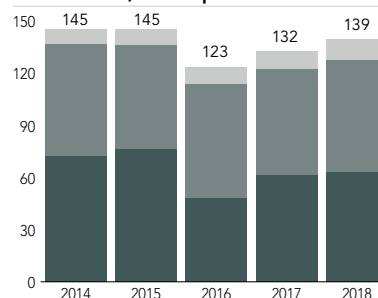
Maintenance expenses were essentially unchanged compared with 2017.

Operating expenses, SEK/sq m



The increase in operating expenses was mainly due to higher heating and snow-clearing expenses.

Media costs, SEK/sq m



The cold winter, hot summer and tax rises led to an increase in overall expenses during the year.

Long-term planning

Our management plans for each property contribute to efficient, sustainable and long-term property management. The plans are based on a dialogue with our customers and highlight what is required for us to deliver in line with our commitments. Each part of the plan has a long-term strategy, targets and an action plan. The plans are followed up and revised during the year to adjust the planning to current customer needs.

High operational reliability around the clock

High operational reliability, in many cases around the clock, is a precondition for enabling our customers to operate their businesses in a secure and safe manner. It is essential to have robust operating systems, excellent planning and meticulous employees with in-depth understanding of customers' needs, their properties and their technical equipment. The geographical range of the properties entails requirements for continuously developing technological aids, management systems and governance and surveillance systems. Digitisation means that efficiency can be enhanced but is also an area in which the risk of hacking must always be taken into consideration, which is why information security has become one of Specialfastigheter's prioritised security areas (read more on pages 25–26).

New property systems fully operational

In 2017, our new property systems became fully operational, and in 2018 efforts continued to standardise working methods, refine and improve work processes and quality-assure data. At the same time, we are reviewing the option of facilitating day-to-day work for our operational personnel by reducing unnecessary administration within the property systems and by investigating options for greater mobility.

Sustainable property management

Sustainable property management entails us working actively to reduce energy use and CO₂ emissions when managing our properties. Other important areas include consumption of materials, management of hazardous substances and the work environment. Read more on pages 30–31.

Energy use has a significant impact on both operating expenses and the environment. Energy enhancements and monitoring the types of energy are priority areas in which Specialfastigheter works internally and alongside its customers. We also have a clear strategy for property automation. Part of the aim is to enable optimised and energy-efficient operation by using operationally secure technology

to obtain digital control over our properties' climate systems. At the end of the year, around 70 properties had joined our platform for property automation and digital monitoring. It is hard to estimate the energy enhancement offered by this, but it does give us favourable preconditions to control, monitor and follow up areas such as energy use, ventilation and heating at our properties.

Our properties are very often surrounded by agricultural land and forest. In 2018, we had proposals drawn up for green forestry plans for several properties, with the aim of implementing them as pilot projects in 2019. The aim is to increase biodiversity and to increase the recreational value of the forest we manage.

We take active steps to sign green appendices for our leases and produce joint green action plans for management. These joint action plans specify how we are to work together to reduce the burden on the environment and is a permanent agenda item of local tenant meetings. A follow-up and update of the action plan is carried out at least once a year. The number of green appendices for our leases increased during the year, with appendices being signed with the Swedish Defence Research Agency and Swedish Police, among others. The production of action plans for all new appendices has not been completed yet, meaning the number of agreements with green appendices including an action plan at the turn of the year amounted to 95%.

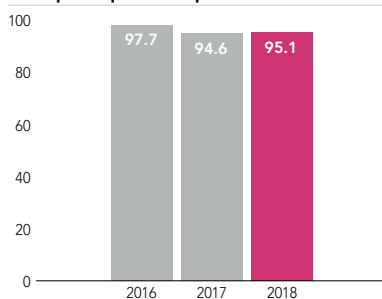
Operation and maintenance expenses

Electricity, heating and water account for the majority of our operating expenses. This means that working together with our customers to enhance efficiency and optimise operations is a key element of retaining a low cost base. Our maintenance expenses differ from many other property companies in that they often include internal maintenance and other security-enhancing measures. Operating expenses for 2018 amounted to SEK 315 per square metre (300) and maintenance expenses to SEK 268 per square metre (266). The increase in operating expenses was mainly due to higher heating and snow-clearing expenses.

Radon assessment conducted

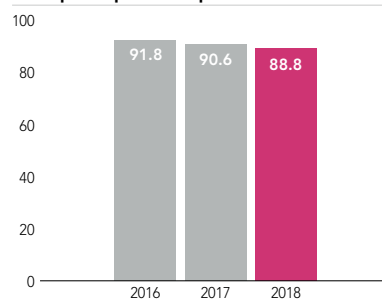
Our entire property holdings have now been radon-assessed. We have taken remedial action wherever we have found elevated values, and follow-up measurements continued during 2018. As we purchased some properties over the year, certain measures and control measurements will continue into 2019.

Electricity consumption, kWh per sq m Atemp



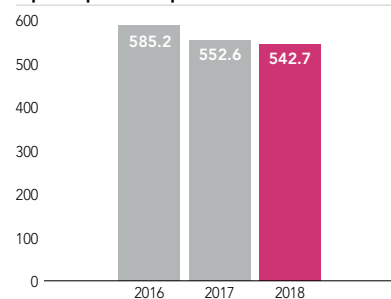
The electricity consumption at our properties only increased marginally compared with previous years, despite major operations at many premises. We replaced spent lighting with LED lights and took major measures to optimise operations.

Heating consumption, kWh per sq m Atemp



Heating consumption fell 2%. This was due in part to the fact that we have optimised the operational lifespans of ventilation systems. The figures have been corrected for a normal year.

Water consumption, L per sq m Atemp



Water consumption fell 1.8%, which is mainly due to the fact that we have several projects in progress that have restricted the level of operations. We also implemented a number of projects in 2017 that required large amounts of water.

Projects with stringent security requirements

Our customers have a continuous need to alter their operations and premises requirements. We are to be the best at security, and in line with this also best at managing projects with stringent security requirements. We therefore have our own project and development unit that manages complex projects. Our project volume maintained a high level throughout 2018.

Specialfastigheter has chosen to establish an in-house project and development unit to meet its need for proprietary expertise in the field of secure facilities. Our project managers provide valuable expertise across the entire chain from concept to completion, and we also have specialists in construction, water and sewerage, security, electricity, sustainability, the environment, energy, property automation, fire and CAD/BIM. The unit is tasked with meeting our customers' needs for appropriate and secure premises in a professional manner and with contributing to long-term development of sustainable properties. As our project volume has increased significantly over the past few years and we can see major volumes are forthcoming, we have worked intensively on our strategies for supplying the projects with resources. This has resulted in a concept we have named "Entreprenadfabriken" (Contract factory) – a more strategic collaboration with contractors and consultants in which we are able to meet the growing need for investment by way of framework agreements and strategic partnerships. We communicate our needs continuously to the sector and recruited more employees during the year in our project operations.

Choice of materials

Specialfastigheter operates in a material-intensive sector and a systematic method for how we select and use materials is an important part of our sustainability efforts. We record all the materials used in new construction, extensions and redevelopments in an environmental database. Among other things, this helps us to see if a material contains substances hazardous to health or the environment. The database also enables us to retrieve information about where a material is located in our buildings should this come into question in the future. Regarding materials, our standards are higher than those under the Sweden Green Building Council's criteria and we also document electrical, ventilation, plumbing and control systems at component level. We guide our suppliers through material selection requirements and material documentation. We also make sure waste management follows the requirements we have been given. Read more about our use of materials on page 31.

Sweden Green Building Council

Specialfastigheter has opted to produce properties in line with the Sweden Green Building Council (SGBC) certification system. Our aim is to see all new construction attains

Gold level and our major redevelopment projects attain Silver. The high security standards to which our buildings are often subject make it difficult for us to complete the final certification stage since this requires an external review, and for security reasons we cannot grant access to all information about our properties. For this reason, we have chosen to work on the basis that our properties are ready for certification and we then decide on certification on a case-by-case basis. Our new district court building in Lund has been initially certified to SGBC Gold. We also have several ongoing redevelopment and new-build projects for SiS's facilities in Hässleholm, Ljungbacken, Ljungaskog, Folåsa and Johannisberg, with the aim of building in line with SGBC Gold and Silver. To demonstrate our ambition, we have issued green bonds whereby SGBC certification is a prerequisite for obtaining financing for our projects. Read more about green financing on page 45.

Projects in 2018

There were 86 (95) investment projects in progress at year end. The total investment volume for projects in progress is estimated at SEK 1,597 million (2,095), of which SEK 849 million was accrued as of 31 December 2018. Of the 86 projects in progress, 16 had estimated investments in excess of SEK 20 million, corresponding to around 83% of the total investment volume.

Prison and Probation Service business area

The Prison and Probation Service has historically operated at near-full capacity and is facing a major need to expand the number of prison and remand centre spaces. In November, the General Director, Nils Öberg, took a directional decision to order the new construction and extension of high-security correctional facilities and remand centres in 13 regions around the country. To meet this need, Specialfastigheter and the Prison and Probation Service together developed a standard building, with the flows and floorplans being decided at central level, thus allowing to the buildings to be constructed across the country where the need arises (read more on page 24).

Directional decisions have previously been taken concerning the expansion of spaces for the Tidaholm and Sagsjön correctional facilities. Security-enhancing measures have been taken at a range of correctional facilities over the past few years, and these were completed in 2018 at facilities such as Skogome.

The right resources in the right place and at the right time with the Contract Factory

Long-term projects require long-term relationships. This is the main idea behind Specialfastigheter's investment in "Entreprenadfabriken", or Contract Factory – a concept for long-term supplier partnerships.

Specialfastigheter continuously manages around 200 projects with a wide geographical distribution. We have our own project managers, property managers and service technicians, but we hire resources such as architects, designers, environmental consultants and contractors. The challenge is to optimise our in-house and hired resources to ensure that the right resource is always in the right place at the right time.

Greater continuity enhances deliveries

A long-term perspective in collaboration with customers has always been a natural part of Specialfastigheter's property development, with leases running up to 25 years. That said, contracts with suppliers are typically much shorter, while resources are often procured locally for one or multiple projects at a time.

"We want to enhance opportunities for more strategic and long-term partnerships. We believe there is potential to exploit our combined skills more effectively and thus also develop even more innovative and sustainable customer-specific solutions over several projects," says Henrik Nyström, Purchasing and IT Director at Specialfastigheter.

Specialfastigheter wants to improve the conditions for long-term planning and collaboration by bringing together all the projects managed by each supplier in every region under one agreement.

The suppliers are to gain an incentive to earmark resources who will have the opportunity to build in-depth expertise and knowledge about our customers' needs. Another fundamental aspect

of the Contract Factory is that each supplier is to appoint a national key account manager to take responsibility for ensuring that the right resource is always offered to Specialfastigheter, regardless of the region or project.

"By having a dedicated key account manager, suppliers will have greater opportunities to work on internal knowledge transfer, which should reduce their dependence on people when making deliveries to us. As security is our core issue, continuity within projects is of the utmost importance in terms of delivering top quality within the specified time-frame and at a reasonable price," says Göran Cumlin, Projects and Development Director at Specialfastigheter.

As part of the first stage, agreements have been signed with ten suppliers of medium-sized contracts, and the idea is to expand by way of agreements for even larger contracts.

Rough number of projects managed by Specialfastigheter

200
parallel projects

Defence and Judicial System business area

The new district court constructed for the Swedish National Courts Administration in Lund was completed in 2018. The project won Lund's urban construction prize and was nominated as "Årets Bygge 2019" (Building of the Year). In 2018, Specialfastigheter took part in the investigation into a concentrated headquarters for the Swedish Armed Forces, in which the customer chose to proceed with a preliminary study together with another property owner. We also participated in a number of tenders regarding new establishments for customers within this business area. In some cases, the authorities opted to accept rental tenders submitted by private organisations, demonstrating the increasingly fierce competition for secure facilities.

Institutional Care and Other Special Operations business area

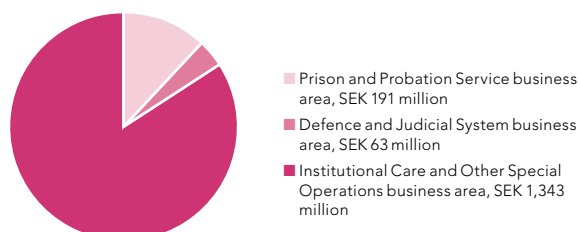
Planning of a standard school had been undertaken and the first such school is intended to be established at SiS's Ljungbacken residential care institution. Standard buildings are going to be constructed at SiS's Folåsa, Johannisberg, Ljungbacken and Ljungaskog properties. A redevelopment and extension of SiS's juvenile care home in Hässleholm has begun, with operations being extended from three to six departments. This project will be completed in 2021.

Investment projects in progress on 31 December 2018

Investment volume, SEK million	Estimated
Investment projects > SEK 20 million	1,330
Investment projects < SEK 20 million	267
Total investment volume, projects in progress, SEK million	1,597

Additional floor space, sq m	
Investment projects > SEK 20 million	18,856
Investment projects < SEK 20 million	593
Total additional floor space, sq m, projects in progress	19,449

Investment projects by business area



Total, SEK 1,597 million

Major investment projects in progress per 31 December 2018

Property name	Customer	Project description	Additional floor space, sq m
Fridhem 9	SiS	New builds and extension of accommodation and school at Hässleholm juvenile care home	7,785
Gräskärr 1:1	SiS	Extension of accommodation and school at Ljungbacken juvenile care home	2,687
Grytnäs 2:1	SiS	Extension of accommodation and school at Johannisberg juvenile care home	1,789
Fälåsa 12:1	SiS	Extension of accommodation at Folåsa juvenile care home	1,789
Gudhem 12:3	SiS	Redevelopment and extension of accommodation and communal areas at Gudhemgården LVM home	292
Ljungaskog 15:28	SiS	Redevelopment and extension of accommodation, educational premises and new construction at Ljungaskog juvenile care home	1,980
Bergsjön 21:1	SiS	Redevelopment and extension of residential sections and communal areas at Björkbacken juvenile care home	1,275
Orretorp 2:2	SiS	Redevelopment and extension of residential sections at Klarälvsgården juvenile care home	969
Tumbo-Berga 1:3, 1:5	The Prison and Probation Service	Redevelopment and extension of building no. 9 at Hällby correctional facility	290
Kronoberg 18	Swedish Policy Authority	Redevelopment of offices	0
Hall 4:4	SiS	Modification of premises (from prison to institution) of Tysslinge juvenile care home	0
Skogome 2:2	The Prison and Probation Service	Security-enhancing measures at Skogome correctional facility	0
Stigby 1:9, 7:3	SiS	Redevelopment of residential sections at Stigby juvenile care home	0



Fridhem 9, Hässleholm juvenile care home



Gräskärr 1:1 Ljungbacken juvenile care home



Kronoberg 18, Police Authority's offices



Fälåsa 12:1, Folåsa juvenile care home



Bergsjön 21:1, Björkbacken juvenile care home



Orretorp 2:2, Klarälvsgården juvenile care home



Gudhem 12:3, Gudhemgården LVM-home



Hall 4:4, Tysslinge juvenile care home

Future project volumes

Many of our customers have indicated that their needs for premises have changed and expanded. Specialfastigheter is seeing greater demand for security among both existing and new customers. The reduction in the

investment volume compared to 2017 was due to two major projects reaching completion: the new construction of the district court in Lund and a redevelopment in the Kronoberg block. The project volume is expected to increase once again over the coming five years.

Secure properties – secure finances

Specialfastigheter is one of the companies in the property sector that enjoys an extremely low credit risk and a stable financial position. We monitor economic trends carefully to safeguard our position moving forward.

Specialfastigheter is owned by the Swedish state and finances operations through borrowing in the Swedish and international capital markets through bond and commercial paper programmes. Borrowing is conducted against the balance sheet without pledging properties. The loan agreements include an ownership clause that reinforces the lenders' position by entitling them to call in a loan early if the state's ownership level falls below 100%.

The past year

In 2018, interest-bearing liabilities fell by SEK 380 million, primarily due to a lower acquisition volume than previous years. In June, a bond was issued for SEK 250 million with a term of 30 years, while in October a bond was issued for SEK 300 million with a term of 20 years. These issues increased the duration to 0.9 years, thus creating the opportunity to counteract potential future interest-rate increases. Corporate bond issues fell from just under SEK 10.3 billion to SEK 9.7 billion in 2018. The issue volume in the commercial paper market increased somewhat from slightly more than SEK 2.9 billion to slightly more than SEK 3.0 billion during the year. We also expanded the diversification of loan commitments to several different banks to reduce our exposure.

In November 2017, we issued our first green bonds at a total value of SEK 1.25 billion, divided up into two tranches with maturities of five and seven years respectively. Interest in these bonds was so intense that they were oversubscribed by a multiple of 2.2. The plan was to continue issuing in 2018, but as a result of projects being moved back

our aim is now to issue in late 2019. Read more about green bonds on page 45.

During the year, we invested SEK 900 million in Swedish covered bonds and used these as collateral for bank loans in the repo market. This has provided us with opportunities for faster funding for shorter terms and at negative interest rates since the repo rate is currently at negative 0.25%.

Loan-to-maturity periods have become longer since we increased funding in the long-term capital market. The fixed-interest period is unchanged in relation to the previous year.

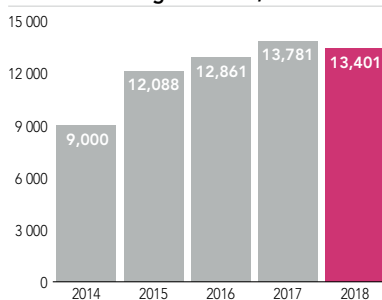
Net financial expenses amounted to SEK 110 million compared with SEK 118 million in 2017. This positive change is largely due to the low market rate and low credit spread that we can exploit for new borrowings of our commercial paper and corporate bonds.

Changes in derivative values were a positive SEK 10 million (negative: 18). The higher interest rate and higher price of electricity compared to previous years has led to a positive change in value.

Outlook for 2019

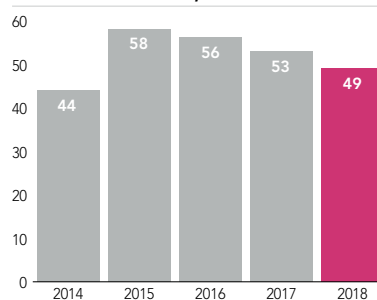
At its December 2018 meeting, the Riksbank's Executive Board decided to raise the repo rate by 0.25 percentage points to -0.25%. The Riksbank's forecast for the repo rate indicates that the next rise will likely take place during the second half of 2019.

Interest-bearing liabilities, SEK million



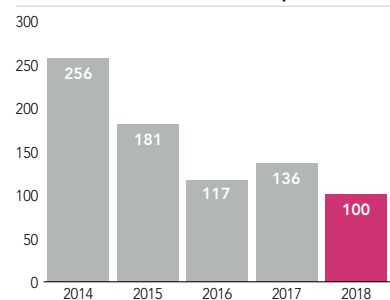
Our liabilities are almost unchanged in relation to the previous year.

Loan-to-value ratio, %



The loan-to-value ratio has fallen slightly year-on-year.

Total net financial items trend, SEK million



Net financial items have fallen as we have taken advantage of the low interest-rate level of the past few years. The change in value for financial instruments is included in the total net financial items trend.

Specialfastigheter’s external debt financing will increase over the coming years as a result of the planned increase in project volume. We will primarily increase financing via the bond market, mainly via green bonds. Depending on the market situation, we aim to have bonds with maturities of 5–10 years. Our corporate bonds have been traded with low credit spreads over the past few years. These may rise when the Riksbank ceases its quantitative easing programme. This will likely be done gradually over the coming years, which will lead to a gradual increase in credit spreads that will in turn lead to higher borrowing expenses. We want to maintain the current level of financing in the short-term market as our commercial paper and whole loan repos are currently borrowed at a negative interest rate and because we expect the Riksbank to raise the rate gradually and cautiously.

Specialfastigheter’s financial operations

Trends in the financial market impact the company’s cost trend. Financial management must reflect and support the operations’ business objectives. Specialfastigheter’s financial risks are to be limited while active financial management is to ensure low net financial items linked to the operations’ targets and conditions. This is achieved by identifying risks and managing them within set frameworks.

The aims of the financing activities are to:

- Maintain the company’s strong financial position and credit rating of at least AA
- Limit the risks of negative effects on cash flow, earnings and the balance sheet
- Ensure access to necessary financing at reasonable costs
- Control financial risks according to the financial policy
- Ensure risk management through control and reporting

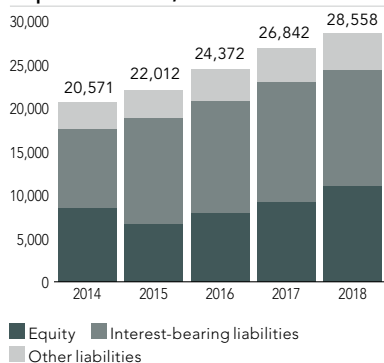
Commercial paper programme

The company has had a commercial paper programme in the Swedish market since 1999 with a limit of SEK 5 billion. A total of SEK 3.0 billion of the programme had been utilised at 31 December 2018.

Bond programme

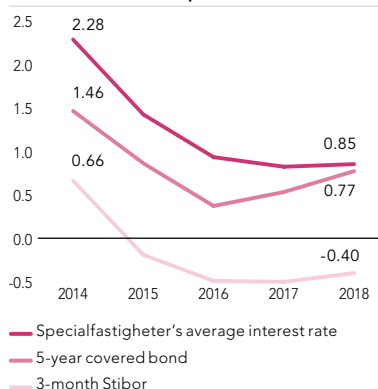
The company issues bonds denominated in SEK or EUR in the Swedish capital market under an MTN programme with a maturity of one year or longer. The programme has a total limit of SEK 13 billion or equivalent value in EUR. A total SEK 9.7 billion (10.3) had been utilised at year end. In addition to the Swedish market, Specialfastigheter has two outstanding bonds in the amount of USD 50 million, equivalent to just under SEK 443 million, in the European market. Fixed-income and currency derivatives were also entered into, meaning currency risk has been neutralised. We reduce financing risk by spreading loan-to-maturity periods over different years and via loan commitments that cover maturing commercial paper and bonds for the years immediately ahead. The volume of unutilised loan commitments as of 31 December totalled SEK 5,550 million.

Capital structure, SEK million



Equity increased in 2018 as a result of the net profit for the year.

Interest-rate trend, %



Bond issues in 2018

Maturity	Amount, SEK million
30 years	250
20 years	300
4.5 years	300

The maturity refers to the final year of maturity of the bond, while the amount refers to the nominal amount in SEK million. Issues during the year undertaken as part of the company’s MTN programme and in the Swedish capital market.

Green financing driving environmental efforts forward

As part of our financial sustainability initiatives, we issued our first green bonds just before the turn of the year 2017/18 at a value of SEK 1.25 billion. The bonds were oversubscribed and we are now planning to issue even more.

Specialfastigheter is to set an example in the area of sustainability, and as a long-term property owner it has the opportunity to influence several parts of the value chain. The environment is one of our core sustainability issues, as properties affect the environment throughout their lifecycle. For this reason, we integrate environmental issues into the planning and production stages, as well as management, redevelopment and demolition. Specialfastigheter's various units work together with customers and suppliers to ensure sustainable new-build and redevelopment production, greater energy enhancements, lower CO₂ emissions and lower consumption of finite resources.

"The green bonds mean we have also managed to include sustainability in our financing and are able to offer the capital market the opportunity to invest in our projects with a clear environmentally friendly sustainability profile. We are thrilled about the substantial interest we have noted for our first issues," says Deputy CEO/CFO Kristina Ferenius.

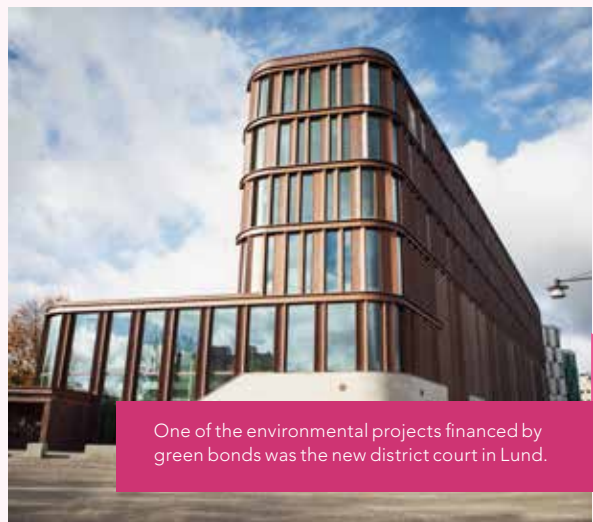
Specialfastigheter's first green bonds were oversubscribed by a multiple of 2.2. The capital from the green bonds is to finance environmentally certified buildings, energy enhancement projects and renewable energy, among other areas. One of the environmental projects financed by green bonds was the new district court building in Lund, which began operating in August 2018.

We aim for SGBC Gold and Silver

Many people are in our properties around the clock, so it is vital that we can offer secure and healthy environments. One step in terms of producing sustainable property holdings is for all of our new construction to attain SGBC Gold and our major redevelopment projects to attain Silver. In terms of materials, we apply even stricter requirements than those specified by these certifications.

Environmental initiatives that yield results

We have made great strides in recent years by integrating sustainability as a natural part of our day-to-day work. For example, since 2012 we have reduced our CO₂ emissions



One of the environmental projects financed by green bonds was the new district court in Lund.

from purchased energy – our most important environmental target – by 55%. We have signed green appendices for 91% of our leases and, together with our customers, we are continuously developing green action plans. In 2018, we published our first investor report in which we set out how we used the capital from our first green bond issues.

Green financing to continue

Specialfastigheter is maintaining its extensive investment programme, implementing both major new-build and renovation projects within the Prison and Probation Service. Representatives from Specialfastigheter's various business and operational areas are responsible for identifying potential environmental investments, which are then evaluated by a committee consisting of the CEO, Deputy CEO, CFO, Property Management Director, Business Director and Projects and Development Director. The committee is also responsible for ensuring that the projects fulfil the requirements of the green framework designed by Specialfastigheter in conjunction with Handelsbanken.

"We investors welcome both state-owned, municipal and private corporate issuers to the green bond market. It is a real pleasure to see that a state-owned company like Specialfastigheter is opting to use green bonds to finance green-classified investments made by the company."

Helena Lindahl, Portfolio Manager at SPP/Storebrand

RESPONSIBILITY AND GOVERNANCE:

Assuming responsibility for the entire value chain and effectively governing the operations are essential for creating value. We govern our operations based on a long-term and collaborative approach to increase business value for our customers, owners and other stakeholders. Key sustainability issues and risk management are integrated into all of our work. The international risk management standard ISO 31000:2009 guides our work in this area. We comply with the Swedish Corporate Governance Code, and as a state-owned company we always endeavour to set a good example. Our sustainability efforts are reported in accordance with the Global Reporting Initiative (GRI) Standards.



Balanced risk-taking

All business operations entail risks. However, when handled properly, balanced risk-taking promotes long-term value creation that considers both opportunities and risks. Identifying, analysing, managing and following up on risks are therefore priority issues.

In addition to the business opportunities that could arise when we manage risks, there are also threats that, if not managed correctly, can jeopardise our credibility and competitiveness and result in negative consequences for our stakeholders and operating environment.

Our risk-related work is an integral part of all our operations and is based on a structured process that begins with our annual business planning. During this process, the operations' company-wide risks are identified, based both on the possible consequences for Specialfastigheter and the consequences of our operations for our operating environment. Risk management at Specialfastigheter follows the ISO 31000:2009 standard for risk management. The risk analysis is then used as a basis for our action plan for internal control and for our internal audits.

An assessment of probability and consequence is conducted for each identified risk to determine its risk level, after which point we produce an action plan with proposals of measures accompanied by timetables and distribution of responsibility. Finally we analyse our capability of managing the identified risk. We split our risks into four risk categories: business-related; legal; operational; and financial.

The Board follows up incidents and any disputes on a quarterly basis. Once each year, the Board approves and follows up the plans for internal control and discusses and follows up identified risks. Specific risk analyses are conducted for larger projects. Our ambition is to consistently improve our risk management through our proactive efforts. In 2018, we initiated efforts to clarify and establish methods and systems for risk analysis. This work will continue throughout 2019.



Process for managing risks



Changes in risks, 2018

As part of our risk management, we chart the risks and possibilities that influence our operations, but during the year we have also noted how our operations in their turn impact the environment. We have therefore added a risk, *Inadequate measures to mitigate negative climate impact from operations*, since a building gives rise to significant carbon emissions during its life cycle. The only risk with an extremely high risk level is *Climate change's consequences for our properties*. We have also advanced our examination of suppliers and have therefore identified the risk *Irregularities in the supply chain in terms of human rights, work conditions and work environment*. Our long-standing work to prevent corruption is a natural part of our work with business ethics and is thus included in the risk *Poor business ethics*. The extreme pace of development in digitisation also entails risks and opportunities for us. We have therefore added the risk *Inadequate or non-secure digital transformation*. The risk of *Failure to attract suitable suppliers* has been merged with the risk of *Project delivery failure* since they essentially address the same challenges.

Risk matrix



The figures indicate specific risks that are described on pages 48–50. The colour of the square indicates the risk level and the colour in the circle indicates our estimated efficiency level.

Operative risks



















Operative risks include all risks in our day-to-day operations that affect how we handle daily operational assignments. We focus on the following risk areas: work environment, the environment, information security and organisational.

Risk	Analysis, management and checks	Risk assessment	
		Risk level	Efficiency level
1 Loss of confidential information	Our management system for information security is certified in line with ISO/IEC 27001:2013 and aims to guarantee the best possible conditions to protect both our information assets and those of our customers. The certification was renewed in May following an audit. We have an interactive information security training course that is mandatory for all staff. We monitor the rapid developments linked to threats to the IT environment by analysing and assessing threats and vulnerabilities and using such analyses to come up with appropriate protective measures. We are aware of the risk of exposure to insider crime and work to prevent this with measures including diligent recruitment processes and continuous improvement efforts.	High	Good
2 Inadequate measures to reduce the negative impact of operations	During its life cycle, a building gives rise to significant CO ₂ emissions. Buildings and the property sector account for around 30% of Sweden's total CO ₂ emissions (domestic and imported). We are reducing our climate impact through ambitious goals for emissions from operations and are working to set goals that encompass emissions across the entire value chain. In 2018, we raised the bar and decided to implement stricter emissions goals. We participate in Fossil Free Sweden's work to phase out fossil fuel and regularly follow up our emissions.	High	Good
3 Use of substances hazardous to health and the environment	To ensure we do not incorporate hazardous material into our buildings or use such materials in our operations, we have clear guidelines and goals for material use. An environmental strategist monitors whether we have the appropriate know-how in-house and that we assess every construction project regarding substances hazardous to health and the environment. All material included in a building, together with locations, is documented in a database for future reference. In this regard, we go beyond the SGBC's requirements in terms of which material requires registration, since we work proactively with this issue from a precautionary perspective.	Medium	Very good
4 Physical and/or psychosocial injury to employees	We maintain a constant focus on security for our customers and employees. We work systematically with the psychosocial and physical work environments and continuously conduct training initiatives and risk analyses. In many cases, customers are contractually obliged to provide alarms and guidance with the aim of preventing threats and violence. Further evaluation is ongoing of other supports for working alone. We also provide employees with security guard support if necessary.	High	Good

= Our most prioritised risks in the area

Business-related risks

Business-related risks are attributable to events in our operating environment, among our customers and suppliers, and at our organisation, impacting both our business and developments in the property market. We analyse risks in the following areas: market, projects, organisation, credibility and value.

Risk	Analysis, management and checks	Risk assessment	
		Risk level	Efficiency level
5 Loss of market position	Competition is intensifying in the market for public sector properties Our customers are mostly state-owned operations with high security standards, so we must be best at providing them with secure, efficient and effective premises and good service. Work is continuously under way in collaboration with many of our customers to find good solutions that provide the best overall efficiency. Our project volume will increase through the development of our own properties. We also continued to reinforce our unique skills in the area of security and to keep updated on the new Protective Security Act that enters force on 1 April 2019.	 Medium	 Good
6 Shortage of suitable premises	We work closely with our customers to meet both their current and future needs. We constantly monitor events in the market as well as legislation and regulations. The property management plans detail how our premises can be maintained and modernised. We have reviewed our maintenance process and will continue to prioritise maintenance work in 2019.	 Medium	 Good
7 Project delivery failure	We work in a structured manner and assess projects for risks. Project reviews guarantee good control and follow-up and ensure projects are on budget, on time and meet the scope of supply and quality requirements. Production cost risks are limited to the greatest possible extent through contracts with both the contractor and tenant. We have developed a concept for long-term, strategic supplier partnerships that has been positively received by the market. In 2018, the organisation was strengthened with the addition of a manager for the project group and a project leader for property automation. A new project management tool will be implemented in 2019.	 High	 Good
8 Inadequate or non-secure digital transformation	Digitisation is advancing very quickly, is difficult to predict and entails both opportunities and risks for our business. We are working with several digitisation projects internally which, inter alia, will lead to streamlining, improvement, modernisation and increased sustainability for our properties, our way of working and our offering. At the same time, we always prioritise information security. We also participate in workshops and conduct active business intelligence on digitisation issues. From 2019, we have a chief information officer (CIO) tasked with focusing on digitisation and digital transformation at Specialfastigheter.	 High	 Acceptable
9 Shortage of appropriate skills today and in the future	In order to avoid losing vital skills and experience, we plan for replacement recruiting. We continuously conduct skills assessments with the aim of planning the right skills development areas for our employees, and we also have succession planning for key employees. Moreover, we are continuing efforts to strengthen our brand as an employer. We are developing as purchasers and currently procure professional non-critical expertise for our core operations from external consultants and contractors.	 Medium	 Good
10 Poor business ethics	Our values and Code of Conduct guide us during our day-to-day operations with the aim of strengthening our credibility. We have a supplier code of conduct, structured purchasing system and we comply with the Swedish Public Procurement Act. Training for purchasers is conducted on an ongoing basis with the objective of providing know-how and understanding of ethics to prevent the occurrence of corruption. Whistle-blower and incident reporting systems aim to detect irregularities and comprise a basis for developing our operations. We have guidelines in place for addressing the threat posed by insiders and infiltrators, since this know-how is critical for credible and effective security measures. Moreover, extensive efforts to adapt to GDPR were completed in 2018.	 Medium	 Very good
11 Falling market value of properties	Our high credit rating and very strong balance sheet enable us to cope with a market downturn. We draw up long-term development plans for each property and follow them up on an ongoing basis to retain our customers and maintain the value of our properties. Maintenance measures and investments are conducted in close consultation with customers. There is a risk that maintenance works will be delayed if customers cannot give us access to the premises, resulting in a deterioration in the quality of the properties. We therefore continuously strive to improve the joint planning process.	 Medium	 Good
12 Climate change's consequences for our properties	Climate change entails rising outdoor temperatures, raised sea levels and more extreme weather events in the form of heavy precipitation, powerful winds and forest fires. Properties that are in danger zones in terms of potential consequences of climate change are protected by means of preventive measures. Examples of such measures are redundancy in terms of the supply of electricity, heating and cooling as well as weather and damp protection in buildings.	 Very high	 Good
13 Irregularities in the supply chain in terms of human rights, work conditions and work environment	Our supply chain is complex and comprises a large number of subcontractors/contractors. Risk increases as one progresses down the chain, and our ability to influence the risks decreases. Our assessment is that the greatest risks are linked to our contracts, followed by the goods and services we purchase. Risks include the risk of discrimination and harassment, forced labour in production plants, unfair working conditions and a poor work environment. Our central purchasing organisation signs all framework agreements and achieves 92% contract compliance with our purchasers. We maintain dialogues with our contracted suppliers and set requirements through procurements and through our supplier code of conduct. We conduct off-site and on-site audits that encompass how our contracted suppliers set requirements and follow up their own suppliers. To date, we have not carried out audits of our subcontractors.	 High	 Acceptable

 = Our most prioritised risks in the area

Financial risks

Specialfastigheter is exposed to different kinds of financial risk in its operations, including through fluctuations in profits and cash flow as a result of market valuations, financing, interest rates, credit and counterparty risks, currencies, exchange-rate losses, electrical prices and risks associated with reporting, taxes and fees. Our financial policy for managing financial risks has been approved by the Board and forms a framework of guidelines and rules in the form of risk mandates and limits for financial operations. The overall objective of our financial department is to provide cost-effective funding and to minimise the adverse effects of market fluctuations on company earnings.

Risk	Analysis, management and checks	Risk assessment	
		Risk level	Efficiency level
<p>14 Lack of financing</p> <p>Financing risk is the most significant risk we have to manage. Our goal is to ensure access to the loan capital necessary for running our operations while also considering the total cost of financing and the loan commitments necessary for the fulfilment of our financial policy. In order to limit financing risk, we must strive to raise credit with long maturities and an even maturity profile for existing loans. The majority of our financing takes place in the Swedish capital market, but issues are also made in international capital markets wherever appropriate from an overall cost and diversification perspective. To further reduce financing risk, there were unutilised backup facilities and overdrafts totalling SEK 5,550 million (4,750) as of 31 December 2018. This amount almost covers the maturity of commercial paper and bonds outstanding for a period of one and a half years.</p> <p>As of 31 December 2018, loan-to-maturity was 3.8 years (3.4), and taking unutilised guaranteed loan commitments into consideration, loan-to-maturity was 4.8 (4.3) years.</p>	<p>Low</p>	<p>Very good</p>	
<p>15 Interest-rate risk</p> <p>Interest-rate risk is one of the more significant risks we have to manage. Our interest rate management objective is to achieve low interest expenses over time while adapting the interest rate profile to the underlying business conditions. To manage interest expense and interest-rate risks, we continually assess the existing debt portfolio including derivatives in relation to the current market yield curve. We seek an interest-rate profile that is suitable in terms of total expenses, commercial conditions and applicable business plans. The practice of taking and exiting positions with the aim of making money – referred to as trading – is not permitted. Specialfastigheter’s interest-rate profile is regulated in the financial policy by limiting the number of interest maturities within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest term should be within the 1–5 year range. As of 31 December 2018, the average fixed-interest term was 3.2 years (3.2).</p>	<p>Medium</p>	<p>Very good</p>	
<p>16 Change in value of financial derivatives</p> <p>Using interest-rate derivatives may give rise to changes in value due to changes in the market interest rate and the time factor. In determining fair value, we use market quotations on the closing date and generally accepted calculation methods. The change in value is reported in profit or loss. Currency translation to Swedish kronor is at the rates of exchange quoted on the closing date. Interest-rate swaps are measured by discounting future cash flows to their present value. On the closing date, the change in value of interest-rate derivatives amounted to a negative SEK 12 million (negative: 21). However, losses or gains remain unrealised as long as the derivatives are not terminated prematurely.</p>	<p>Medium</p>	<p>Very good</p>	
<p>17 Credit and counterparty risk</p> <p>To reduce credit risk, investments are only permitted in securities with high credit ratings. On 31 December 2018, investments were made in eight secured Swedish covered bonds with a total nominal amount of SEK 900 million.</p> <p>Counterparty risk for derivatives is reduced through our agreement to net assets against liabilities with counterparties with whom we make derivative transactions. To reduce counterparty risk further, Specialfastigheter may enter into agreements that govern the management of collateral pledged at net market value.</p> <p>The company’s counterparty risk in derivative contracts totalled SEK 55 million (57) as of 31 December 2018; this corresponds to the company’s total receivables from unrealised derivatives with positive values. As of 31 December 2018, we have received SEK 0 million (0) as deposits from our counterparties that can be used if a counterparty cannot meet its obligations.</p>	<p>Low</p>	<p>Very good</p>	
<p>18 Loss in terms of price of purchased covered bonds</p> <p>Changes in market interest rates, the credit spread and time factors affect the purchase price of covered bonds. In order to counter this risk, we have taken up interest-rate swaps for equivalent amounts. These have an equivalent impact on earnings in the opposite direction, which eliminates price gains/losses. If the price change is due to a changed credit spread on covered bonds, it will have no impact on the interest-rate swap. In this case, the impact on earnings is only on the covered bond. The covered bonds we buy have the highest credit ratings and are negotiable. A 50 basis-point change in the credit risk entails a change in value of around SEK 15 million to be recognised in profit or loss. This corresponds to barely 1% of our net operating income.</p>	<p>Medium</p>	<p>Very good</p>	

Legal risks

Legal risks include those that concern our property owner responsibility such as the Work Environment Act, the Swedish Environmental Code and the Planning and Building Act.

Risk	Analysis, management and checks	Risk assessment	
		Risk level	Efficiency level
<p>19 Deficiencies in property owner responsibilities</p> <p>We are constantly reviewing our requirement for skills and skills enhancement and offer training to ensure our employees understand what property owner responsibility entails. We keep informed about changes in legislation to ensure compliance with relevant legislative requirements.</p>	<p>High</p>	<p>Acceptable</p>	

 = Our most prioritised risks in the area

Sensitivity analysis

When performing risk analyses, it is important to conduct sensitivity analyses based on various scenarios to see which of them have the greatest impact on income, should they occur. In our own sensitivity analysis we noted that the cost of capital and the yield in terms of property valuations have the greatest impact on our earnings.

Variable	Change	Annualised earnings impact, SEK million
Rental income	+/- 1 percentage point	17.0
Property operations and utilities excl. electricity	+/- 1 percentage point	4.0
Maintenance expenses ¹	+/- 1 percentage point	2.9
Interest	+/- 1 percentage point	48.6
Market rates, derivative instruments ²	+/- 1 percentage point	23.2
Price change, purchased covered bond ³	+/- 1 percentage point	24.2
Cost of capital ⁴	+ 0.25 percentage points	-354
Cost of capital ⁴	- 0.25 percentage points	250
Yield ⁴	+ 0.25 percentage points	-850
Yield ⁴	- 0.25 percentage points	832

Each variable in the above table has been tested individually.

1) Includes capitalised maintenance expenses according to IFRS.

2) Impact on earnings relates to the change in value of derivative instruments.

3) The impact on earnings relates to momentary changes in deposited covered bonds as of 31 December 2018 with a nominal value of SEK 900 million.

4) Impact on earnings relates to change in value of investment properties.



Stockholm district court,
photographed from Polishusparken

GRI Sustainability Report

Specialfastigheter's Sustainability Report is integrated into the Annual Report and sustainability information pursuant to the GRI can be found in its various sections. This part of the Annual Report includes a description of our reporting principles and in-depth GRI information.

Reporting principles

Specialfastigheter applies the 2016 GRI Standards: Core option for sustainability reporting together with GRI's Construction and Real Estate Sector Supplement. Based on the company's strategies and targets, our actual impact and the expectations and requirements of our stakeholders, Specialfastigheter has decided to report nine sustainability areas (nine GRI topics and two company-specific topics) that are material and relevant to us and our stakeholders. The selected sustainability areas and GRI disclosures are shown in the GRI Content Index on page 54.

The Sustainability Report covers the entire company including subsidiaries, and is applicable to the full-year 2018. The organisation is not split into regions. The Sustainability Report follows the financial year and is published annually. The most recent Sustainability Report was published in the 2017 Annual Report on 15 March 2018. The report is cross checked internally and an external authorised public accountant has undertaken a limited assurance engagement of the report.

No significant changes have been made regarding the information provided in the 2017 Annual Report. In the 2018 Annual Report, however, Specialfastigheter is report-

ing one new disclosure linked to GRI 305-3, Other indirect (Scope 3) GHG emissions. We have selected 2012 as the base year for our measurements of CO₂ emissions, since we have reliable statistics for all types of media from 2012. Since the GRI disclosures for material are not appropriate for us based on how we work, measure and set targets in the materials area, we have chosen to design our own disclosure to measure chosen materials. Changes to demarcations and/or reporting principles for the data reported are indicated in the relevant text or table.

Disclosures that have an environmental impact are reported with the property holdings for 2018. Descriptions of calculation and measurement methods, any limitations and assumptions are provided alongside each disclosure.

The energy monitoring system takes into account the date on which the area changed (for example, due to remeasurement, acquisition or divestment) and an average area for the year as a whole is then calculated. We have also updated the report to include a new type of media, biogas.

The contact for the Sustainability Report is Kajsa Marsk Rives, Sustainability Strategist, telephone +46 10 788 62 12.



Specialfastigheter's governance of sustainability initiatives

Specialfastigheter's Board is ultimately responsible for sustainability governance. In the management group, the CEO bears overall responsibility, but each head of department is responsible for integrating sustainability in the day-to-day operations. All of the organisation's managers and employees are responsible for compliance with applicable policies and guidelines. The CEO is responsible for ensuring the requisite resources are in place for implementing the sustainability agenda the company has committed to.

To support the management and the operations with sustainability issues, we have an environmental strategist and an energy strategist, and since 2018, a sustainability strategist.

The table shows Specialfastigheter's sustainability governance. The state's ownership policy, our sustainability policy, our business plan and our management system provide overall governance and are therefore not specified below.

Material sustainability areas	Guidelines and instructions	Follow-up	Responsibility	Targets and outcomes 2018
Economic performance	Financial targets Financial policy Insider policy Market plan	Interim reports/year-end report Annual Report	CEO Deputy CEO/CFO	Target: Adjusted return on equity, 8% Outcome: 13.0%
Security	Overall security policy Information security policy Security protection agreements Guidelines on physical protection Guidelines on information about incident reporting Guidelines for insider and infiltration threats ISO 27001	Management review Ongoing security follow-ups Ongoing risk analyses Incident reporting Audits	CEO Management group Head of Security Projects and Development Director	Target: No form of corruption or the giving or acceptance of bribes Outcome: 0 cases
Customer satisfaction	Management plan per property Market plan	CSI Customer dialogues	CEO Business Director Property Management Director Business area managers	Target: CSI 67 (2018) Outcome: 65
Work environment	Guidelines on physical, organisational and social work environment Guidelines on managing substance abuse problems Instructions, action plan for bullying Equal treatment plan Swedish Work Environment Act Swedish Working Hours Act Swedish Annual Leave Act Purchasing policy Supplier code of conduct Purchasing agreements	Organisational analysis Follow-up of benefit of occupational health services Measuring absence due to illness Incident reporting system Internal controls Risk analysis of human rights Self-assessments and audits of suppliers	CEO Managers HR Director Head of Security Work Environment Committee Equal Treatment Committee Head of Purchasing	Target: Workshops focusing on a sense of coherence (SOC) were held for all units Outcome: 100%
Anti-corruption	Code of Conduct Purchasing policy Supplier code of conduct Security policy Delegation arrangements Purchasing agreements	Whistle-blower system Internal controls Self-assessments and audits of suppliers	CEO Managers Head of Purchasing	Target: No form of corruption or the giving or acceptance of bribes Outcome: 0 cases
Emissions	Strategic energy and environmental targets Purchasing policy Supplier code of conduct Purchasing agreements	Interim reports/year-end report Annual Report Media monitoring Self-assessments and audits of suppliers	Projects and Development Director Head of Purchasing	Target: Reduce CO ₂ emissions from purchased energy by 52% (compared with the base year, 2012) Outcome: Reduction of 55%
Energy	Strategic energy and environmental targets Financial targets Financial policy Purchasing policy Supplier code of conduct Purchasing agreements	Interim reports/year-end report Annual Report Media monitoring Self-assessments and audits of suppliers	Projects and Development Director Head of Purchasing	Target: Energy consumption max 196.1 kWh per sq m Outcome: 201.7 kWh per sq m
Material	Environmental programme template for construction projects Purchasing policy Supplier code of conduct Purchasing agreements	Audits End documentation in the SundaHus database Self-assessments and audits of suppliers	Projects and Development Director Property Management Director Head of Purchasing	Target: Proportion of material with good environmental classifications in production should increase to 80% Outcome: 84.3%
Equal treatment	Code of Conduct Equal treatment plan Swedish Discrimination Act Purchasing policy Supplier code of conduct Purchasing agreements	Measurement of key performance indicators for diversity and equal opportunities Salary survey Organisational analysis Survey of the company's participation in workshops, "Växthuset" tool Self-assessments and audits of suppliers	Managers HR Director Equal Treatment Committee Head of Purchasing	Target: Increase the number of employees with foreign backgrounds to 12% Outcome: 10%

GRI Content Index

GRI Content Index	Disclosure	Page	Global Compact principle
GENERAL DISCLOSURES			
GRI 102: General disclosures			
Organisational profile			
102-1	Name of the organisation	Inside cover	
102-2	Activities, brands, products, and services	2, 3	
102-3	Location of headquarters	2	
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102-5	Ownership and legal form	63	
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102-8	Information on employees and other workers	33, 55	
102-9	Supply chain	27	
102-10	Significant changes to the organisation and its supply chain	52	
102-11	Precautionary principle or approach	30-31	7
102-12	External initiatives	55	
102-13	Membership of associations	55	
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102-14	Statement from the senior decision-maker	4-5	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	1	
Governance			
102-18	Governance	63-69	
Stakeholder engagement			
102-40	List of stakeholder groups	20	
102-41	Collective bargaining agreements	55	3
102-42	Identifying and selecting stakeholders	20	
102-43	Approach to stakeholder engagement	20	
102-44	Key topics and concerns raised	20	
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102-52	Reporting cycle	52	
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103-2	The management approach and its components	10, 11, 53	
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GRI 201: Economic performance			
201-1	Direct economic value generated and distributed	56	
Anti-corruption			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
103-2	The management approach and its components	10, 11, 53	
103-3	Evaluation of the management approach	10, 11, 53	
GRI 205: Anti-corruption			
205-3	Confirmed incidents of corruption and actions taken	25	10
Material			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
103-2	The management approach and its components	10, 11, 31, 53	
103-3	Evaluation of the management approach	31, 53	
GRI 301: Material			
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GRI Content Index	Disclosure	Page	Global Compact principle
Energy			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
103-2	The management approach and its components	30, 31, 53	
103-3	Evaluation of the management approach	30, 53	
GRI 302: Energy			
302-1	Energy consumption within the organisation	30, 31, 57	8
CRE-1	The use of energy in buildings	30, 57	
Emissions			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
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403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	57, 58	1
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103-2	The management approach and its components	32, 53	
103-3	Evaluation of the management approach	53	
GRI 405: Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	33, 58, 59	1, 6
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GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
103-2	The management approach and its components	27, 28, 53	
103-3	Evaluation of the management approach	28, 53	
GRI 414: Supplier social assessment			
414-1	New suppliers that were screened using social criteria	59	1-6
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GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 56	
103-2	The management approach and its components	53	
103-3	Evaluation of the management approach	53	
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	Qualitative description	25, 26	
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GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	21, 23, 56	
103-2	The management approach and its components	53	
103-3	Evaluation of the management approach	53	
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	Customer satisfaction index (CSI)	38, 53	

GRI – general disclosures and material sustainability areas

GRI information that cannot be found in the other parts of the Annual Report is published here.

GRI 102-8 Information on employees and other workers

Gender distribution of temporary employees and permanent employees

Total number of employees	2016	2017	2018
Women	39 (29.8%)	42 (29.2%)	37 (25.7%)
Men	92 (70.2%)	102 (70.8%)	107 (74.3%)
Total	131	144	144

Total number of temporary employees	2016	2017	2018
Women	0	3	0
Men	0	1	1
Total	0	4	1

All figures pertain to 31 December in the year concerned.

All employees are full time employees. A certain proportion of the organisation’s work is carried out by external consultants, contractors or their subcontractors. These individuals are not covered by the summary. We are not able to report this separately as most of the external human resources work intermittently and only a few have consultancy assignments with fixed working hours. The invoicing system does not allow the retrieval of cost data specified by consulting hours. No significant seasonal variations in the number of employees occur.

GRI 102-12 External initiatives

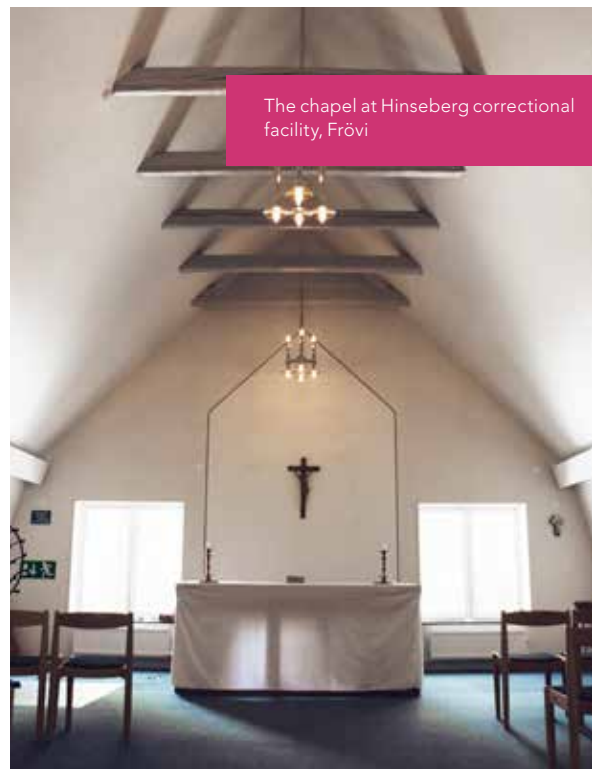
Initiative	
Fossil Free Sweden	Member
Roadmap for fossil-free competitiveness initiative: Construction and civil engineering sector	Member
BELOK	Member
GreenChain	Member
NMC (The Swedish Association for Sustainable Business)	Member
NSD (the Confederation of Swedish Enterprise’s security delegation)	Member
Håll nollan	Member

GRI 102-13 Membership of associations

Organisation	Type of participation
ASIS International Sweden (American Society for Industrial Security)	Member
BIM Alliance	Member
Swedish Construction Clients Forum	Member
Swedish Centre for Innovation and Quality in the Built Environment	Member
Collaborative forum	Member of steering and management groups and various project groups (BIM, HUT, Rules and agreements)
SGBC (Swedish Green Building Council)	Member
Smart Built Environment	Member
SNOS (Säkerhet för näringsliv och samhälle)	Member
Stockholm Chamber of Commerce	Member, the CEO is a city councillor
SWERMA (Swedish Risk Management Association)	Member
TUC	The Head of Purchasing, IT and Quality is a member of the management group for strategic purchasing
Development of public sector property activities (UFOS)	Member

GRI 102-41 Collective bargaining agreements

All employees are covered by collective-bargaining agreements. Specialfastigheter belongs to the Almega employers’ association and applies the civil servants’ union agreement for the property sector.



GRI 103-1 Explanation of the material topic and its Boundary

GRI topic	Topic boundary	Limitations
Direct economic value generated and distributed	Directly affects Specialfastigheter’s business and development opportunities in the short and long term. Directly affects our stakeholders through the value we create for them, for example, in the form of owner dividends and tax to the state.	
Materials	Direct impact through the choice of material in property management. Indirect impact on contractors’ use of materials through the material requirements we set for our contractors.	We report the share of registered materials that meet classes A and B in the Sunda-Hus database.
Energy	Direct impact through energy use at offices and by property management service vehicles. Indirect impact on technical installations in our properties and the choice of fuel through the material requirements we set for our contractors. Indirect impact through our tenants’ energy use. Indirect impact through contractors’ energy use for new builds, redevelopments and extensions and through our suppliers’ energy use in the manufacture of materials.	We report our tenants’ energy use in our property holdings as the energy used in our properties is considerable.
Emissions	Direct impact through emissions from energy sources under our control, including service vehicles. Indirect impact through emissions from purchased energy (electricity, steam, heating and cooling), which occurs at the producer. Indirect emissions from our business travel.	We do not report indirect emissions from contractors’ energy use for new builds, redevelopments and extensions and from suppliers’ emissions in the manufacture of materials, nor do we report emissions from our employees’ commutes, since these figures are not obtainable at present.
Occupational health and safety	Direct impact on the physical, organisational and social work environment internally at Specialfastigheter. Indirect impact on the work environment at suppliers and contractors by setting and following up on requirements for their work environments.	We report work-related accidents and serious near accidents in projects with a budget exceeding SEK 5 million.
Equality and diversity	Direct impact by promoting increased diversity at Specialfastigheter and in the property sector generally.	
Supplier social assessment	Indirect impact on working conditions and human rights at suppliers and contractors by setting and following up on requirements in terms of working conditions and human rights.	We primarily assess our contracted suppliers.
Supplier environmental assessment	Indirect impact on environmental efforts at suppliers and contractors by setting and following up on environmental requirements.	We primarily assess our contracted suppliers.
Anti-corruption	Direct impact in the procurement and purchase, and through internal courses as well as from contact with customers and suppliers. Indirect impact on anti-corruption efforts at suppliers and contractors by setting and following up on anti-corruption requirements.	
Non-GRI topics		
Company-specific topics		
Security	Direct impact through our operational management that applies a security focus, including personal security, operational reliability, physical security and information security.	
Customer satisfaction	Direct impact, since our behaviour toward and our deliveries to customers are reflected in how satisfied our customers are.	

GRI 201-1 Direct economic value generated and distributed

It is important for Specialfastigheter to create value for its owner and other stakeholders. We do this by strengthening our economic, environmental and social competitiveness as a property management company. Our responsibility to the owner is to generate a financial return. Good profitability and a strong financial position enables long-term action and makes planning for sustainable construction and sustainable property management possible. It also provides us with the ability to continue investing in the skills devel-

opment of our employees. Employee initiatives through daily dialogue and collaboration with our customers are invaluable in creating the right product for the customer’s operation. Direct expenses that create value include salaries, training, taxes and fees as well as payments to suppliers for goods and services. Variable costs include expenses for absence due to illness and the taxes generated by staff and others.

Economic value generated	Stakeholders	2014	2015	2016	2017	2018
Rental income	Tenants	1,872	1,867	1,912	2,028	2,138
Financial income	Finance market	0	4	19	64	40
Property sales	Customers, property market	3	-1	4	29	1
Distribution of economic value						
Operating expenses	Suppliers	352	399	416	431	449
Salaries and benefits to employees	Employees	96	101	109	116	128
Payments to financiers	Finance market	282	230	98	182	150
Payments to the public sector (dividend)	Owner	3,000	446	497	560	555
Payments to the public sector (taxes)	Society	423	329	501	487	443
Unrealised changes in value	Property market	-643	-322	-865	-832	-1,404
Unrealised changes in value	Finance market	-26	-45	38	18	-10
Remaining in Group		-1,609	732	1,141	1,159	1,869

GRI 302-1 Energy consumption within the organisation

Energy purchased for our properties such as electricity, district heating and how large a proportion is not renewable; biofuel, electric heating, bio oil, oil, gas and cooling. The total amount of energy purchased for our properties during the year was 760,154 GJ, compared to 790,045 GJ the previous year. The total amount of energy purchased in the previous year is adjusted to reflect the 2018 property holdings. Energy use is followed up monthly at the property level and by energy type.

	2016	2017	2018
Electricity	399,248	388,847	403,762
District heating, renewable	265,580	269,094	281,262
Pellets	14,754	15,015	12,029
Bio oil	4,592	4,202	1,900
Biogas		3,485	7,232
Electric heating	24,793	23,131	22,073
Cooling	58,392	56,067	4,980
Total renewable energy	767,358	759,840	733,239
District heating, non-renewable	19,683	17,176	13,253
Oil	13,121	9,956	13,662
Gas	6,921	3,072	0
Total non-renewable energy	39,724	30,204	26,915
Total (GJ)	807,083	790,045	760,154

GRI 305-1 Direct (Scope 1) GHG emissions

Here we show emissions made up of direct emissions and emissions from our own production of heating. We use the Swedish Environmental Protection Agency model to calculate our total CO₂ emissions. Here we show emissions resulting from the use of oil, gas, pellets and bio oil use. Source emissions factors: Swedish Environmental Protection Agency¹. The CO₂ eq used for oil is 267.3g CO₂ eq/kWh, for gas 226.2g CO₂ eq/kWh, for biogas 0 g CO₂ eq/kWh, for pellets 4.5g CO₂ eq/kWh and for RME 8.1g CO₂ eq/kWh.

	2016	2017	2018
Non-renewable energy	1,281.8	877.2	1,014.52
Renewable energy	34.0	39.1	19.28
Total	1,315.8	916.3	1,033.8

GRI 305-2 Energy indirect (Scope 2) GHG emissions

Here we report emissions made up of indirect emissions from purchased electricity and heating, using the market-based approach. Each year, we update the CO₂ equivalents that we use when calculating CO₂ emissions. The calculation of carbon dioxide emissions resulting from our use of district heating was based on supplier information regarding the fuel mix used in delivering the major proportion of district heating to us during the year. The information is taken from <https://www.energiforetagen.se/statistik/fjarrvarmestatik/miljovardering-av-fjarrvarme/>. With the help of the district heating providers who delivered district heating to us over the year, CO₂ equivalents attributable to district heating were calculated as 42.2 g CO₂ eq/kWh. District heating CO₂ equivalents decreased due to the supplier choosing to produce more heat with renewable fuel.

	2016	2017	2018
District heating, renewable	4,598.3	4,064.4	3,297.0
District heating, non-renewable	298.7	301.2	155.4
Electricity	0.0	0.0	0.0
Total (tonnes, CO₂ eq)	4,897.0	4,365.6	3,452.4

¹ <https://www.naturvardsverket.se/Stod-i-miljoarbetet/Vagledning/Luft-och-klimat/Berakna-dina-klimatutslapp/>

Reportable quantities of refrigerants are reported to the supervisory authority. Discharges are reported when discharges occur, which was not the case during 2018. The number of kilos of refrigerants increased slightly, partly due to property acquisitions and partly due to clearer reporting given the new legislative requirements.

Refrigerants, kg	2016	2017	2018
HFCs	2,828.46	3,260.62	3,305.97

GRI 305-3 Energy indirect (Scope 3) GHG emissions, tonnes, CO₂ eq

We currently lack the capability to obtain data for rental vehicles and for employees' commutes by vehicle.

Source emissions factors: Swedish Environmental Protection Agency¹.

Business travel	2016	2017	2018
Air travel	40.2	46.4	45.9
Rail travel	0.001	0.001	0.001
Service vehicles	63.6	44.2	32.4
Company cars and using own vehicle for work purposes	57.5	61.9	66.2
Total (tonnes, CO₂ eq)	161.3	152.4	144.4

GRI 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

We offer all of our employees industrial injury, group life and healthcare insurance. We also make use of occupational health services where necessary. All of our employees who work in environments with an increased risk of contagious diseases are offered vaccinations.

During the year, 19 work environment incidents were reported in our incident reporting system. In 2017 and 2016, 16 work environment incidents were reported each year. Work environment incidents encompass high-risk conditions, near-accidents and injuries primarily suffered by our employees. Some of the incidents pertain to consultants and contractors working for Specialfastigheter. Since incident reporting for consultants and contractors is not universal, we have requested reports for 2018 from our 30 largest suppliers covering near-accidents and accidents that occurred during the year while performing tasks for Specialfastigheter. The statistics are reported in the table on the following page. Moving forward, we intend to develop the reporting of work environment incidents that occur at our suppliers to be able to report even more reliable figures.

Work-related accidents, near accidents and injuries	2016	2017	2018
Number of serious near accidents reported	1	0	0
Number of serious accidents reported	0	0	1
Number of work-related accidents classified as work-related injuries that resulted in absence due to illness	0	1	1
Number of work-related accidents classified as work-related illness	1	1	0

Number of work-related injuries in projects, with contractors and subcontractors

The risk of work-related injuries and near accidents is substantial in projects where there are many hazardous work tasks including the following risk areas: falling, collapse, demolition, detonation, hazardous substances and heavy lifting. We have reported the work-related injuries and near accidents at our 30 largest¹ contractors and their subcontractors when performing work for Specialfastigheter in 2018. The statistics are based on figures reported by contractors with work environment responsibility.

¹) Based on spend 1 Jan–30 Sep 2018.

Work-related injuries and near accidents in projects	2016	2017	2018
Number of near accidents reported	n/a	n/a	49
Number of accidents reported	n/a	n/a	36

Specialfastigheter is not split into regions and we do not have access to accident statistics broken down by gender. No work-related fatalities occurred during 2016–2018. We comply with Swedish legislation when recording and reporting accident statistics. Because the number of work-related accidents is so low, we do not find it meaningful to report accident ratios or ratios regarding work-related illnesses.

Absence due to illness, % of total working hours	2016	2017	2018
Women	2.14%	1.05%	1.88%
Men	2.78%	3.44%	1.86%
All employees	2.60%	2.73%	1.87%

Absence due to illness only refers to our employees, not consultants, contractors or their subcontractors. We do not report their absence due to illness separately as external human resources report any absence to their own employer and not to us.

GRI 405-1 Diversity of governance bodies and employees

Gender and age breakdown, Board, management and employees

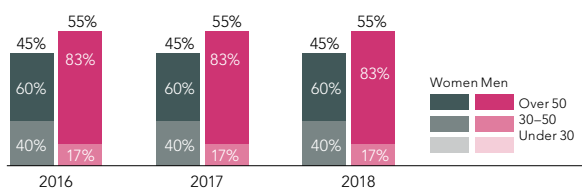
Average age	2016	2017	2018
Board, including alternates	54	54	54
Management	50	51	52
Employees	47	47	47

The compositions of the Board and executive management are presented in more detail on pages 70–71 and 72. The proportion of employees with a foreign background is reported on page 32.

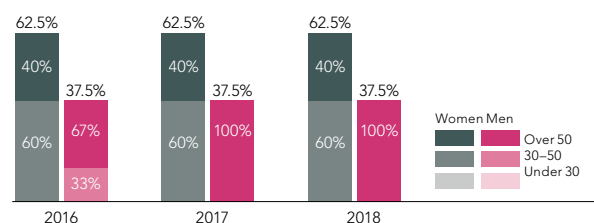
Number of people on the Board including alternates and management

- 2016: Executive management: 5 women, 3 men. Board: 5 women, 6 men.
- 2017: Executive management: 5 women, 3 men. Board: 5 women, 6 men.
- 2018: Executive management: 5 women, 3 men. Board: 5 women, 6 men.

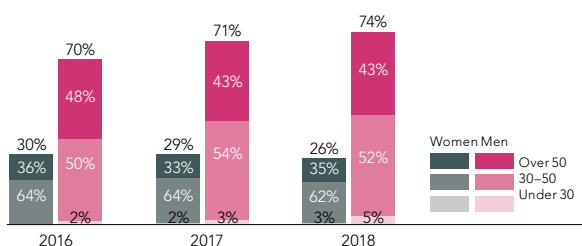
Board, including alternates



Management



Employees



Unit	2016		2017		2018	
	Women	Men	Women	Men	Women	Men
CEO	1	0	1	0	1	0
Accounting, Treasury and Financial Control	9	3	10	4	7	4
Purchasing and IT	6	5	8	5	7	4
Support functions ¹	7	1	8	1	7	3
Business areas	1	5	1	5	1	5
Property management	8	61	6	68	5	68
Projects & Development	7	17	8	19	9	23
Total	39	92	42	102	37	107

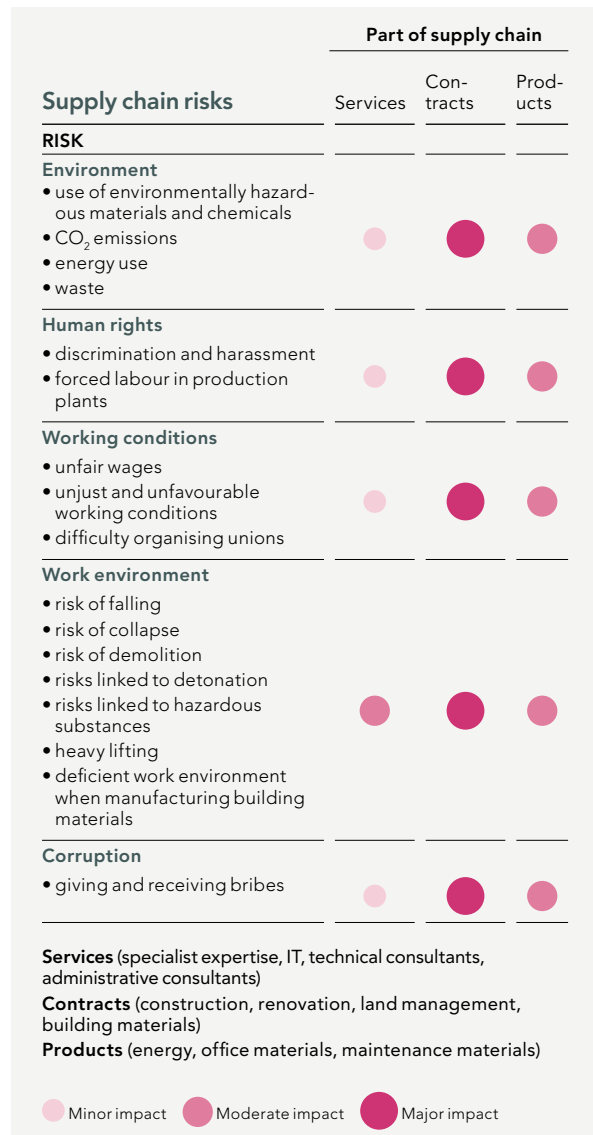
¹) Includes the units: HR, Communication, Quality & Sustainability and Security.

GRI 308-1 and 414-1 Supplier environmental and social criteria assessments

Our supplier code of conduct contains environmental and social criteria pertaining to the following areas: the environment, information security, working conditions, human rights, work environment and business ethics.

	2016	2017	2018
Number of supplier code of conduct on-site audits executed	4 ¹	4	5
Percentage of new agreements ² , where suppliers accepted our Code of Conduct and carried out self-assessments ³	78%	80%	70%

- 1) Number of audits solely concerning environmental standards.
- 2) We report the percentage of new contracts rather than the percentage of new suppliers since it provides a more complete picture of our auditing of the supply chain.
- 3) The percentage should be related to the fact that about 80% of suppliers with new contracts are subject to full controls. Other agreements are of such negligible value and risk that checks are unwarranted.



Assurance Report

Auditor's limited assurance report on Specialfastigheter Sverige AB's (publ) Sustainability Report.

To Specialfastigheter Sverige AB (publ), Company Registration Number 556537-5945

Introduction

We have been engaged by the Board of Specialfastigheter Sverige AB (publ) to undertake a limited assurance engagement of Specialfastigheter's Sustainability Report for 2018. The company has defined the Sustainability Report's scope to the sections referenced in the GRI index on page 54.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board and executive management are responsible for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria described on page 52 in the Sustainability Report comprising the applicable parts of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), as well as the accounting and calculation principles that the company has developed and disclosed. This responsibility also includes the internal controls considered necessary for preparing a Sustainability Report that does not contain material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a limited assurance conclusion on the Sustainability Report based on the procedures we have performed.

We have conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less extensive than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden.

The audit firm applies the International Standard on Quality Control (ISQC) 1 and, accordingly, has a comprehensive system for quality control comprising documented guidelines and routines for complying with ethical requirements, professional standards, and applicable laws and regulations. We are independent of Specialfastigheter Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Consequently, the procedures performed in a limited assurance engagement do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Accordingly, the conclusion based on a limited assurance engagement does not have the same degree of certainty as a reasonable assurance conclusion.

Our review is based on the criteria defined above and chosen by the Board and executive management. We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 18 March 2019

Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant

Marianne Förander
Expert Accountant Member of FAR

Security – a question for the management and Board

A security mindset pervades all operations and employees at Specialfastigheter – encompassing the Board and management and down to individual employees. Information security is a complex area in constant flux. For Specialfastigheter’s Board and management it is crucial to keep updated on the subject. We made a field trip to our customer, the Swedish Defence Research Agency (FOI).

FOI are experts in assessing information security risks and, among other tasks, conduct exercises and training courses in IT security. Tommy Gustafsson and David Lindahl, both of whom are research engineers at FOI, kicked off with situational analysis of the ever-advancing IT threat. IT-related crime is rising and many companies have been subjected to phishing attacks, where scammers send fake emails that appear to come from credible senders and that prompt recipients to click links or download files. The victims of the scam can be tempted to provide critical information or find their computer infected by malicious code. In the latter case, information on the computer can for example become encrypted and a ransom demand to unlock the data. In terms of information security, it is often people who are the weakest link, and therefore the awareness, interest and commitment of employees to security issues are key to successful safety work.

Hacking can continue unnoticed for several years

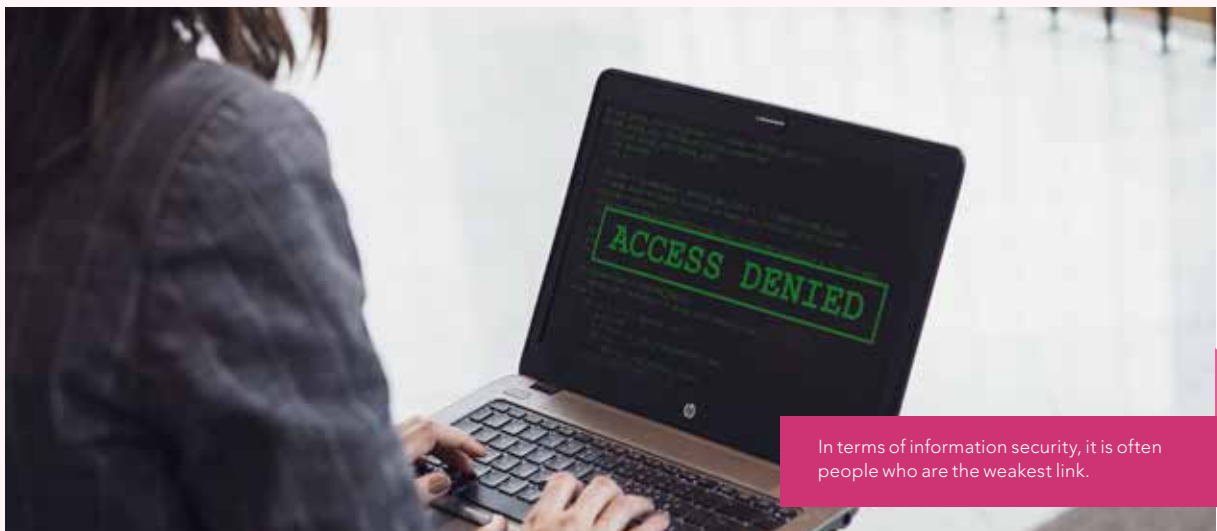
Increased infiltration of IT environments and computer espionage was another area raised by FOI. They explained different methods hackers use to access IT systems, such as zero-day vulnerabilities that entail exploiting vulnerabilities in the software that are unknown to the user or software

vendor. FOI showed how common computer accessories such as remote controls and USB flash drives can contain hidden functionality that can read data. It was a wake-up call to realise how difficult it is to detect hacking and how long, sometimes several years, an attack can last before detection.

Crucial to not forget security issues

The Board and management were given a demonstration of how a mobile phone could be used as a bug by installing a hidden app on the phone. Social engineering can be used for this, whereby the attacker initially invests time and energy in befriending the victim or through the user installing an app. The attacker can then remotely choose to enable interception or choose to read all content on the phone.

“Information security is something that affects almost everyone and all businesses today. While IT development has improved society in many ways, we must never forget the security issues intrinsic to this technology. As the Board of Directors, we bear considerable responsibility for understanding and verifying that the company manages security issues in an appropriate and responsible manner,” says Eva Landén, Chairman of the Board of Specialfastigheter.



In terms of information security, it is often people who are the weakest link.

Message from the Chairman

Specialfastigheter is a company wholly owned by the state. This entails a special responsibility. Our owner – the nation’s citizens – have the right to expect that we always act in a manner that inspires confidence and which meets the high standards demanded of a sustainable business operation. The state’s ownership policy forms the basis of the Board’s governance. This means that we comply with the Swedish Corporate Governance Code.

The accelerating climate threat is something that everyone, individuals and society as a whole, must take responsibility for. Therefore, Specialfastigheter has adopted a new, science-based emissions target to reduce CO₂ emissions from purchased energy by 75% by 2030 (base year 2012). This is a tough but necessary target in line with the Paris climate agreement and the Swedish parliament’s decision that by 2045, Sweden is to have no net emissions of greenhouse gases.

Specialfastigheter’s project volume has increased dramatically over the last few years. To ensure the continued high quality of projects, the company has worked actively with strategies for supplying the projects with resources. This entails developing deeper, strategic partnerships with contractors and also recruiting more employees to project operations.

Possessing the right competence is key to the company’s success. Leadership courses have been conducted and a joint employeeship training program has been developed together with two other property companies. Efforts to become a more inclusive workplace have continued but we have unfortunately failed to attain our goal of increasing ethnic diversity. Specialfastigheter’s first place ranking on the Institute of Human Resource Indicators’ measurement of the Attractive Employer Index indicates a strong employer brand entailing favourable possibilities for attracting and retaining competence, which is important for the future and a good indicator of a functioning corporate culture.

Continuous improvement efforts are necessary in the company. At year end, a new unit was established, Quality & Sustainability, which focuses on developing the organisation’s operations. IT support for operational management



Eva Landén,
Chairman of the Board

has also been implemented, with the aim of offering improved system support for planning, follow-up, analysis and reporting.

The security challenges in our operating environment are manifold, and include the increasing IT threat in conjunction with increased digitisation. The Board monitors security issues that pertain to the company’s operations and, during the year, visited the Swedish Defence Research Agency (FOI), the Swedish Armed Forces Headquarters and the Swedish Defence Materiel Administration.

For 2018, the annual evaluation of the Board showed that the Board’s work functioned well. Together we represent various perspectives and differing expertise, which is imperative for a well-functioning Board.

Eva Landén, Chairman of the Board

Corporate Governance Report

Corporate governance at Specialfastigheter

Specialfastigheter Sverige AB is characterized by the company's ability – from a sustainable social perspective – to create well-functioning principles and processes that enable the efficient and controlled management, leadership and development of operations. Specialfastigheter's corporate governance report forms part of the statutory annual report.

State ownership

Specialfastigheter Sverige AB is a Swedish limited liability company wholly owned by the Swedish state. The owner governs Specialfastigheter through the General Meeting of shareholders and the Board of Directors in accordance with the Swedish Companies Act, the Articles of Association and the instructions in the form of the state's ownership policy and other guidelines adopted by the government (www.regeringen.se).

Corporate governance

Specialfastigheter's corporate governance is based on Swedish legislation and regulations, and the state's ownership policy stipulates that state-owned companies must act in an exemplary manner in the field of sustainable enterprise and otherwise act in a manner that inspires public confidence. Integrating a sustainability approach into operations is a natural part of the long-term business strategy and business development. Sustainability activities are reported in accordance with the GRI Standards: Core option. During the year, we significantly raised our CO₂ emission target, gained environmental certification pursuant to ISO 14001 and continued to develop our work approach in terms of supplier audits following up our Code of Conduct. Our risk management enables us to identify threats and opportunities and, based on this, the company's overarching strategy areas and goals are established. We apply the Swedish Corporate Governance Code, (the Code) (www.corporategovernanceboard.se). In accordance with the Comply or Explain principle of the Code, the government has justified deviations in certain matters.

Based on this, Specialfastigheter deviates from the Code as follows:

- The owner's guidelines mean that the Code rules concerning the preparation of decisions on the nomination of Board members and auditors are replaced by a special process for state-owned companies.
- The independence of the members of the Board in relation to the state as a major shareholder is only reported in relevant listed companies.
- According to the Code, the CEO may be a member of the Board but not its Chairman. The government considers it important to separate the Board's and the CEO's roles. Accordingly, the CEO may not be a member of the Board.
- Specialfastigheter has no internal audit function independent from management as described under rule 7.3 of the Code. When audit requirements are identified by the Board, these are procured externally from independent auditors. The principal reason for these deviations from the Code is that Specialfastigheter has only one owner, while the Code is mainly aimed at listed companies with dispersed ownership.

Articles of Association

Because the state owns 100% of the company, there is no regulation governing shareholding per shareholder contained in the Articles of Association. The Articles of Association lack specific regulations on the appointment and dismissal of Board members or on changes to the Articles of Association. The Articles of Association are approved at general meetings of shareholders and are available in their entirety on the company's external website.

General meeting of shareholders

Specialfastigheter's highest decision-making body is the general meeting of shareholders. The Annual General Meeting (AGM), which is held within four months of the end of the financial year, considers the progress of the company and passes resolutions on a number of central issues, such as the election of Board members and auditors, adoption of the company's balance sheets and income statements, the distribution of profits and discharge from liability of the members of the Board and the CEO. The AGM also decides on financial targets and changes to the Articles of Association, and approves the Sustainability Report. The general meeting has not authorised the Board to decide on whether the company shall issue new shares or acquire its own shares.

The Board is responsible for convening the general meeting of shareholders. The Board proposes guidelines to the Annual General Meeting (AGM) for the remuneration of senior executives for approval, and reports on whether guidelines decided upon previously have been adhered to and the reasons for any deviations. Specialfastigheter calls an AGM no earlier than six weeks and no later than four weeks before the meeting. The company provides information on its website regarding the time and place for the AGM in conjunction with the interim report for the third quarter, which is normally at the end of October.

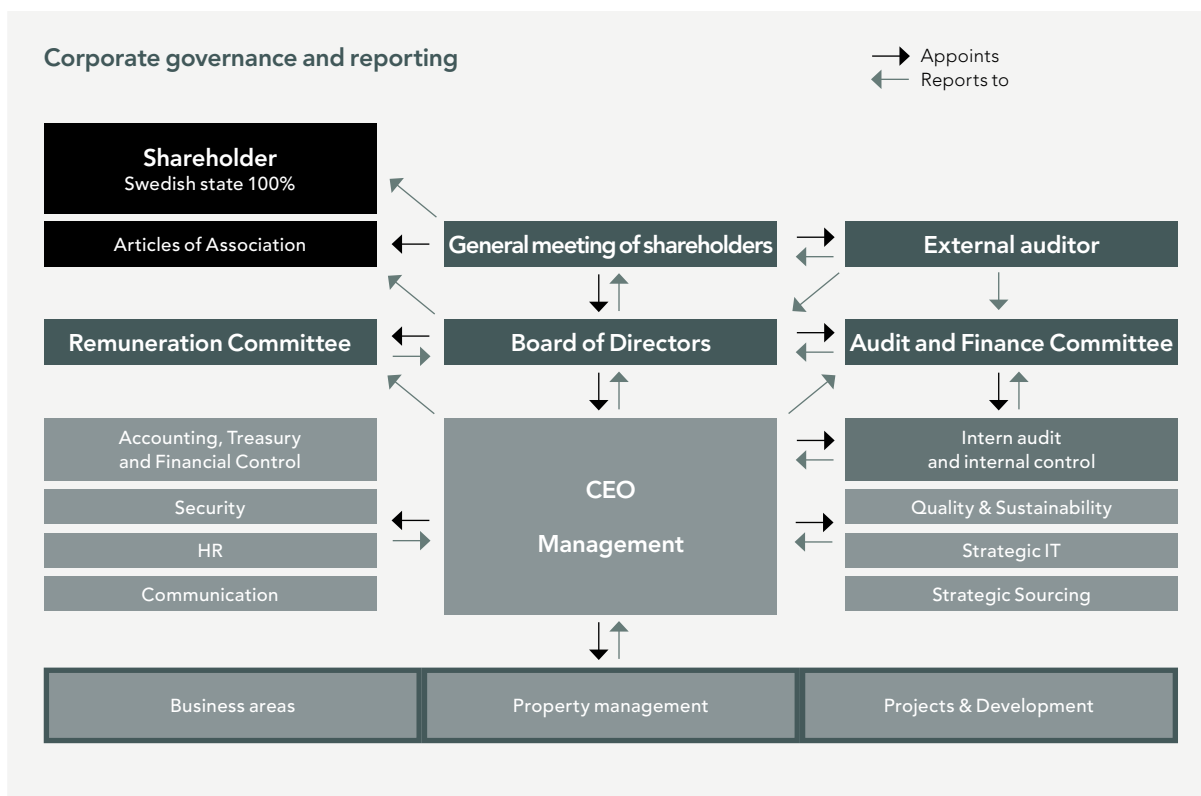
The 2018 AGM was held on 17 April. The AGM was open and the general public was invited to attend together with other specially invited persons such as members of the Swedish parliament, customers and other stakeholders who were given the opportunity to pose questions and receive answers. The owner was represented by Department Secretary Gustaf Hygrell from the Government Offices of Sweden. The 2019 AGM will be held on 12 April. Documents prior to, and minutes from our AGMs are available on Specialfastigheter's external website.

Board composition and working method

The Board is responsible for ensuring that companies in which the state participates are managed in an exemplary fashion within the framework provided by legislation, the company's Articles of Association, the state's ownership policy and any other owner instructions.

Board nomination process

For wholly state-owned companies, the following principles replace the rules of the Code regarding the preparation of decisions on the appointment of Board members and auditors:



- Uniform and common principles for a structured Board nomination process are applied. The aim is to ensure an effective supply of skills and expertise to the companies' boards.
- The nomination process is coordinated by the unit for company analysis and corporate governance at the Ministry of Enterprise and Innovation.
- A working group analyses needs for skills and expertise on the basis of the company's operations, situation and future challenges as well as the composition of the Boards concerned. Any recruiting needs are then determined and recruitment process begins.
- Members are selected from a broad recruitment base with the aim of making best use of the skills and expertise of men and women alike, as well as people with different backgrounds and experience.

A more detailed description of the nomination process can be found in the state's ownership policy. Once the process is completed, nominations are published in accordance with the Code.

Board composition

The owner's point of departure when nominating each of the Board members is the Board's skills requirement based on the relevant issues for the company. Board members must continuously acquire knowledge about the company that is necessary for the assignment. According to the Articles of Association, Specialfastigheter's Board may comprise no fewer than three and not more than ten members elected by the general meeting. The employee organisations have the right to appoint a total of two full members and two alternate members. Board members are elected for one year at a time.

Newly elected Board members are introduced to the company's business focus, market, policies and systems for internal control and risk management. During 2018, Specialfastigheter's Board consisted of seven members elected by the general meeting and two full members and two alternates appointed by the employee organisations. Åsa Wirén and Erik Tranaeus were elected as new members of the Board at the last general meeting. Eva Landén was elected Chairman of the Board.

Independence requirement

The state's ownership policy states that nominations to the Board must be published in accordance with Code's guidelines, with the exception of reporting independence in relation to major shareholders. The reason why the company must report Board member independence is primarily to protect minority shareholders in companies with dispersed ownership. Wholly state-owned companies thus lack such reasons for reporting independence.

The work of the Board

The Board is responsible for managing the company within the confines of the law and in accordance with the owner's long-term interests. Corporate governance is conducted from a social perspective and safeguards the company's value-creating abilities in the long term. The Board bears the ultimate responsibility for the organisation and administration of the company. The most important policy documents are:

- Articles of association
- Minutes from general meetings
- The state's ownership policy and other guidelines
- Rules of procedure for the Board, instructions for the allocation of work between the Board and the CEO, instructions for financial reporting and policies adopted by the Board. During 2018, the Board held one statutory meeting and eight scheduled Board meetings.

Board member attendance at Board meetings in 2018 is presented in the table on page 65.

The work of the Board takes place in accordance with the rules of procedure adopted annually at the statutory meeting of the new Board following the AGM. The rules of procedure govern the delegation arrangements within the company as well as the procedure for Board meetings, reporting instructions and the allocation of work between the Board, its Chairman, the CEO and Board committees. The work of the Board focuses on strategic issues, such as the focus of operations, material policies, market, finance and economics, major investments, risks, personnel and leadership, internal control and efficiency, and sustainable development in regard to financial, environmental and societal responsibility. During the year, the Board adopted policies in respect of finance, sustainability, information security, purchasing, communications, quality, security and insiders. Other important policy documents adopted by the Board are the business plan including the budget. The Board appoints the CEO and approves any significant positions the CEO may occupy outside the company. When the company is faced with especially important decisions, the Board, acting through its Chairman, must coordinate its view with representatives for the owner and present it in writing prior to a Board decision.

Audit and Finance Committee

The Audit and Finance Committee includes at least three members appointed by the Board of which one is the Committee's Chairman. The CEO and Deputy CEO/CFO also participate in the Committee, along with other company representatives when deemed necessary. The principal assignments according to the adopted rules of procedure include supervising the company's financial reporting, preparing quarterly reports for adoption by the Board, supervising the efficiency of the company's internal controls and risk management with regard to financial reporting, supervising the company's work with capital structure and other financing issues including the management of financial

risks and, together with company management, the preparation of financing matters, finance strategy and policies for adoption by the Board. The Committee is obliged to prepare minutes of its meetings and make the minutes available to the Board.

During 2018, the Committee held five scheduled meetings. Committee member attendance is shown in the table "Board composition and attendance during 2018."

Remuneration Committee

The Board appointed a Remuneration Committee that includes the Chairman of the Board and a minimum of an additional two members specially appointed by the Board. The CEO is present at Committee meetings as the recorder and the company's HR Director usually participates. The Remuneration Committee's principal task according to the adopted rules of procedure, is to prepare matters for the Board regarding remuneration, remuneration principles and other terms of employment for the CEO and other members of company management, monitor and evaluate the application of guidelines for remuneration of senior executives as resolved by the AGM and applicable succession planning, remuneration structures and levels on an overall level in the company. The committee must follow up and evaluate the application of these guidelines. The meetings must be minuted and the minutes provided to the Board. The Committee held five scheduled meetings during 2018. Committee member attendance is shown in the table Board composition and attendance during 2018.

Remuneration of senior executives

Salaries and other benefits to personnel in company management positions must be reasonable and competitive. Remuneration must follow, not lead, current market trends. This is achieved through comparisons with other relevant companies. Remuneration must be characterised by moderation, prudence, be well balanced and contribute to good ethics and corporate culture, and reflect the responsibility the work entails. The company has no variable

Board composition and attendance in 2018

	Elected, year	Board and committee fees, SEK thousand	Board meetings	Remuneration Committee	Audit and Finance Committee
Bo Lundgren, Chairman ¹	2013	65	3/3	1/1	
Eva Landén, Chairman ²	2014	273	10/10	5/5	5/5
Jan Berg	2009	154	10/10		5/5
Carin Götblad	2013	134	9/10	4/5	
Mikael Lundström	2013	134	9/10	4/5	
Ulrika Nordström ³	2015		0/3		
Erik Tranaeus ⁴	2018		9/10	4/5	5/5
Maj-Charlotte Wallin	2016	154	9/10		5/5
Åsa Wirén ⁵	2018	116	7/7		3/3
Masoomeh Antonsson ⁶	2013		10/10		
Roger Törngren ⁷	2011		10/10		
Tomas Edström ⁸	2013		8/10		
Erik Ydreborg ⁹	2016		9/10		

- 1) Chairman of the Board until the AGM
 2) Chairman of the Board from the AGM
 Chairman of the Audit and Finance Committee until the AGM
 Chairman of the Remuneration Committee from the AGM
 3) Paternity leave until the 2018 AGM
 4) Co-opted during Ulrika Nordström's maternity leave
 Board member following the AGM

- 5) Elected at the 2018 AGM
 6) Employee representative
 7) Employee representative
 8) Alternate employee representative
 9) Alternate employee representative

salaries or any forms of incentive programmes. The CEO has a defined-contribution pension plan. Pension terms for other senior executives follow an ITP (supplementary pension) plan; employees engaged after 2013 have a defined-contribution pension plan.

For information regarding salaries and remuneration, refer to Note 7, Consolidated Financial Statements.

During 2018, the company adhered to the employment condition guidelines for senior executives adopted by the general meeting of shareholders. The Board proposes that the company continues to follow these guidelines during 2019.

Remuneration of the Board

Information regarding remuneration of Board members approved by the 2018 AGM is available in the annual report, Note 7, Consolidated Financial Statements.

The Board's evaluation of its own work

The work of the Board is subject to annual evaluation. Work undertaken in 2018 was evaluated by means of an online questionnaire. The evaluation also includes a measurement of how effectively internal controls are perceived to function in the company. The results of the evaluation will be compiled, discussed and reported to Committees, the Board and the owner.

CEO

The CEO must ensure that the Board receives reports concerning the progress of Specialfastigheter's operations in respect of such matters as the company's earnings trend, financial position and liquidity, information on the status of major projects, the efficiency of internal controls and important events. Reports must be structured in such a way that the Board is able to make well-founded assessments. An instruction regarding the allocation of work between the Board and CEO, and which clarifies the distribution of responsibilities and reporting, is approved annually. The CEO does not serve as a Board member.

The most important policy guidelines that must be approved by the CEO include the company's strategies, operational goals, information security, risk management, delegation arrangements, continuity planning, law lists (information concerning the most important changes in legislation that affect the work environment, the environment and construction), Code of Conduct and Supplier Code of Conduct.

Auditors

Auditors are elected by the owner at the AGM. The Board presents proposals for the election of auditors to the AGM based on a recommendation from the Board's Audit and Finance Committee. The proposals for the appointment of auditors are drafted in accordance with the rules contained in the EU Audit Regulation and Directive and are published in accordance with Code's guidelines.

Ernst & Young AB were elected as auditors at the 2018 AGM with Mikael Ikonen as auditor in charge. The election took place for the period up until the close of the 2019 AGM.

Presentation of auditor; refer to page 71.

The auditors elected by the AGM perform an annual review of the internal control. The auditors reported to the Board twice and to the Audit and Finance Committee on four occasions in 2018. In addition to the regular audit, Ernst & Young AB conducts annual examinations at our offices.

The review of Specialfastigheter's 2018 Sustainability Report was conducted by Ernst & Young AB. The report was assured by Authorised Public Accountant Mikael Ikonen and Marianne Förander, Expert Member of FAR. Moreover, the Group's Q2 interim report is subject to review by the company's auditor.

For information regarding auditors' fees, refer to Note 5, Consolidated Financial Statements.



Lund's new district court was completed in 2018 and in December was awarded the municipality's Building of the Year accolade.

Agenda items during the year

During 2018, the issues addressed by the Board included the following:

February

- Auditors' report on internal control and the annual accounts
- Decision on annual accounts for 2017 including proposed dividend
- Decision to refrain from a Group contribution and a shareholder contribution
- Decision on investments
- Internal control plan 2018
- Follow-up of investment projects
- Amendment of the 2018–2022 business plan

March

- Decision on the 2017 Annual Report and Sustainability Report
- Preparation of rules of procedure for the Board and its committees, and CEO's instruction
- Preparation of company-wide policies, supplier code of conduct and the Code of Conduct
- Adoption of guidelines for remuneration of senior executives
- Decision on the notice regarding the 2018 AGM for the 2017 financial year
- Board's statement regarding the proposed dividend
- Decision on investments and sales and transfer of land

April

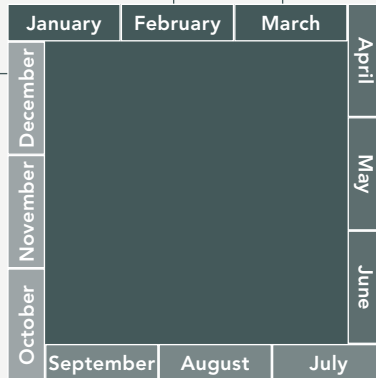
- Adoption of the interim accounts and interim report
- Final audit of the 2017 Sustainability Report
- Follow-up of investment projects
- Statutory Board meeting and adoption of the Board's rules of procedure including the CEO's instruction and instructions for financial reporting, rules of procedure for the Remuneration Committee, rules of procedure for the Audit and Finance Committee and approval of delegation arrangements.
- Adoption of company-wide policies, the Supplier Code of Conduct and the Code of Conduct
- Decision on sales
- Extra Board meeting, decision on mandate for conciliation negotiations regarding Kronobergsbadet

December

- Adoption of the 2019–2023 business plan and the 2019 budget
- Preliminary capital structure and dividend for 2019
- Auditors' report
- Proposals for election of external auditors
- Decision on investments and sales
- Review of risks and risk management
- Evaluation of the Board, the CEO and internal control
- Decision on the need for independent internal audit
- Whistle-blowing
- Field trip to the Hall correctional facility, Södertälje

October

- Discussion regarding forthcoming business plan for 2019–2023
- Follow-up of investment projects
- Adoption of the interim accounts and interim report
- Preliminary capital structure and dividend
- Decision on investments and sales



June

- Business planning 2019–2023
- Decision on investments and dispute resolution
- Change in the CEO's location from Linköping to Stockholm

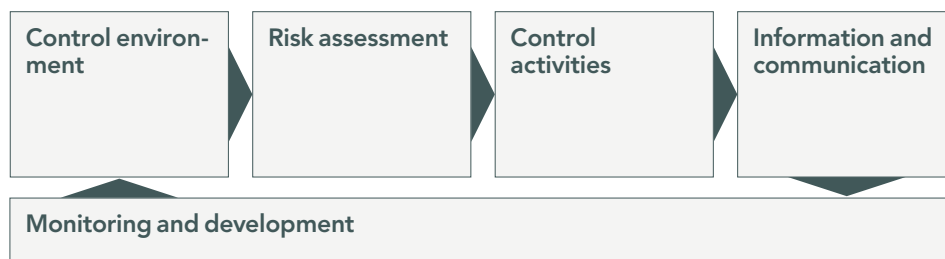
July

- Adoption of the interim accounts and interim report
- Decision on investments
- Auditors' Q2 report

September

- Follow-up of the 2018–2022 business plan
- Reporting of personnel issues
- Follow-up of the internal control plan for 2018
- Adoption of the annual plans for committee and Board meetings in 2019
- Decision on sales
- End reporting of projects

Description of internal control and risk management regarding financial reporting



This description has been prepared in accordance with the Swedish Annual Accounts Act and the Code, and is therefore limited to how internal control over financial reporting is organised. The Board's statement regarding internal governance and control is based on the framework document COSO (The Committee of Sponsoring Organizations of the Treadway Commission). Internal control is undertaken not just through regulations and instructions but primarily by staff at every level of the organisation. The internal control system for financial reporting seeks to provide reasonable assurance that the company's external reporting is complete and correct. The aim of the internal control is to limit the risks of irregularities occurring that would affect the view or assessment of the company's financial results and position, ability to meet set business objectives and/or the owner's expectations of the company. It is therefore important that internal control over financial reporting is adapted to the company's risk assessment. The Board considers Specialfastigheter to have well-structured accounting and financial management and internal controls.

Control environment

The basis for internal control over financial reporting is the control environment comprising the organisation, its culture, and decision paths, powers and responsibilities documented and communicated in policy documents such as company policies, guidelines and instructions. Specialfastigheter's internal controls are aimed at identifying, measuring and minimising risks in the operation. The controls comprise both preventive and controlling components.

Rules of procedure between the Board and CEO provide a clear allocation of responsibilities to ensure good internal controls. Responsibility for maintaining an effective control environment and the day-to-day internal control work and risk management is delegated to the CEO through the rules of procedure. The allocation of responsibility and delegation within the company are further clarified in our delegation arrangements. Company-wide policies are approved by the Board and updated at least once a year. Internal guidelines and instructions are decided by the CEO, or the individual the CEO has delegated these powers to, and are updated on an ongoing basis.

During the year, the Audit and Finance Committee followed up and supervised the financial reporting and efficiency of the company's internal controls and risk management.

Our management system forms an important part of our control environment and aims to ensure we work in line with our assignment and our business model. Leading operations with the aid of a management system entails a systematic focus on customers (external and internal), a process-oriented approach and driving constant improvement efforts. Our system controls our working method through clear processes and policy documents that are linked to each process. Specialfastigheter's management system is certified for information security according to the ISO/IEC 27001:2013 standard. A certification renewal audit was conducted in May with only minor deviations, observations and improvement proposals noted.

Every year, a number of internal operational audits of the management system take place. These are not independent internal audits according to the Code, but audits that comply with ISO standards. Specialfastigheter has trained internal auditors among its employees, who audit our processes and policies to check how effectively these function and are complied with. The internal auditors also contribute to the dissemination of information about our management system and they form an important part of the learning organization and efforts for constant improvements. The internal audit aims to ensure compliance with legislation, regulations, internal rules and best practices. The Deputy CEO/CFO, head of finance and controllers provide support for internal controls in business planning, financial calculations, analyses and follow-ups. The company's IT manager provides IT support and access and supervises IT system access, security and authorisations. The company has a whistle-blower function to enable attention to be drawn anonymously to irregularities.

Risk assessment

Assessments regarding the risk of errors in the financial reporting are made by the Board, management, the units and the external auditors. A risk analysis seeks to identify processes where the risk of substantial errors in financial reporting is greatest. Specialfastigheter's risks are described on pages 47–51. Our risk analysis tool helps us systematically identify, analyse, evaluate and follow-up risks at every level on an ongoing basis. The risk analyses are reviewed and analysed in turn, and management assesses risks from a company perspective.

Control activities

Activities that are drawn up based on the risk analysis aim to manage significant risks identified to eliminate or limit the occurrence or effects of said risks. The Board and management are informed about compliance with policy documents and processes, and the effectiveness of the control structures. The management system contains the processes that show how Specialfastigheter should proceed and the controls that must be performed. Specialfastigheter's documented allocation of responsibilities, decision-making and delegation arrangements permeate all of our processes. IT controls that support processes and influence internal controls are created in our computer systems. There are also well-functioning internal reporting procedures.

In order to ensure financial reporting regarding the company's income and expenses follow internal guidelines and instructions, analyses and crosschecks are carried out by the internal auditors at various levels in the organisation, for example, in respect of deviations from approved plans and previous outcomes. During the year, we improved controls in our purchasing process. Control activities are also implemented in the processes specified in the internal control plan, with the objective of developing the processes and preventing, detecting and correcting any errors or deviations.

Information and communication

The company's policy documents in the form of internal guidelines and instructions regarding financial reporting, are updated on an ongoing basis by process owners and management and made available and known to employees via our internal information and communications channels. Specialfastigheter's management system and intranet contain information that enables rapid communication with all employees to inform them of new rules and guidelines regarding financial reporting. All of our staff bear responsibility for keeping up-to-date with rules and regulations and for complying with our guidelines. The Board regularly receives reports and financial information from the CEO and external auditors. Specialfastigheter complies with the guidelines for external reporting described in the state's ownership policy. Reporting according to GRI Standards helps us clearly communicate our sustainability.

Monitoring and development

Monitoring takes place on an ongoing basis at several levels within the company. The budget is approved annually by the Board, which receives financial reports and reconciliations from company management on a quarterly basis at a minimum in connection with interim reports. The company's external auditors report their observations from reviews and their assessment of internal controls to the Audit and Finance Committee and the Board at the scheduled autumn meeting, the final audit and as necessary. This takes place in the presence of company management or not, as the case may be. In the business plan and account closing processes, management regularly carries out reconciliations and follow-ups of operations. In order to ensure uniform financial reporting, there is an approved report plan.

Follow-ups of completed investment projects are presented to the Board on an ongoing basis during the year. The company's external auditors continually report the results of reviews performed, actions to be taken and the status of the latter to company management. Activities and action plans stemming from risk management are followed up on an ongoing basis. When necessary, Specialfastigheter engages external consultants to scrutinise and follow-up areas for the purpose of discovering opportunities for improvement, any discrepancies and/or irregularities. The results of audits, follow-ups and risk analyses carried out are reported to the CEO and company management.

Internal audit

Specialfastigheter has no internal audit function independent from management as described under rule 7.3 of the Code. When audit requirements are identified by the Board, these are procured externally from independent auditors. The Board considers the follow-up reported by the CEO, internal controls and internal audits in the management system in accordance with this document combined with the review by the external auditors, to be sufficient to ensure that internal control over financial reporting is effective, and does not contain any significant errors. The internal business audit described in this report concerns only the audit of the company's management system based on the requirements of the standards the company adheres to.

Board of Directors



Eva Landén

Chairman of the Board
CEO of Corem Property Group AB
Elected 2014

Other board assignments
Board member of Klöver AB

Previous experience
Authorised Public Accountant, PwC,
CFO Bonnier Cityfastigheter,
CFO Corem Property Group AB

Education
M.Sc. Business and Economics, Uppsala
University.

Born
1965



Jan Berg

Own consultancy
Elected 2009

Other board assignments
Board member of Agenta Investment
Management AB

Previous experience
Head of Credit, Venantius AB,
Project Manager, Securum AB

Education
Graduate in Engineering, CTH

Born
1953



Carin Götblad

Regional Police Commissioner
Elected 2013

Other board assignments
Board member of the Beridna Högvakten

Previous experience
Police Commissioner, Stockholm County;
Police Commissioner, Gotland County and
Varmland; General Counsel, SiS; Chief clerk,
district court; legal counsel, Swedish Agency
for Youth and Civil Society, Swedish Psycho-
logical Association; National Board of Health
and Welfare coordinator against violence in
close relationships

Education
National Police Board Chief of Police pro-
gramme, bachelor of laws, FBI, Preschool
teacher programme

Born
1956



Mikael Lundström

CEO Svefa AB
Elected 2013

Other board assignments
Board member of Elof Hansson Holding AB,
AB Göta kanalbolag. Chairman of Värderings-
data AB

Previous experience
CEO, Akademiska Hus AB,
Deputy CEO, Jones Lang LaSalle AB,
Head of Market Area, Skandia Fastigheter
AB, Head of Administration, NCC Fastig-
heter AB

Education
Graduate in engineering, KTH Royal Institute
of Technology

Born
1961



Erik Tranaeus

Investment Director, Government Offices of
Sweden
Elected 2018

Other board assignments
Board member of Orio AB and SOS Alarm AB

Previous experience
Positions in investment banking at Deutsche
Bank, Citigroup and Danske Bank.

Education
M.Sc. Business and Economics, SSE

Born
1975



Maj-Charlotte Wallin

Own business
Elected 2016

Other board assignments
Board member of the Swedish Heart-Lung
Foundation and the Fourth Swedish National
Pension Fund

Previous experience
CEO of AFA Försäkring, Deputy CEO Alecta
pensionsförsäkring, CEO Jones Lang LaSalle
AMS AB, CEO Nordbanken Fastigheter
AB, Adm. Manager Bredenberg & Co AB,
Controller Nordbanken Finans AB

Education
M.Sc. Business and Economics, SSE

Born
1953



Åsa Wirén

CFO Bonnier Group
Elected 2018

Other board assignments

Board member of Actic Group AB, N Å Future AB and Aspia AB

Previous experience

CFO of SkiStar AB, Partner and Authorised Public Accountant at KPMG

Education

M.Sc. Business and Economics, Uppsala University.

Born

1968

Employee Representative



Masoomah Antonsson

Employee Representative
Appointed 2013

Other board assignments

None

Previous experience

Consultant, Ibitec; Consultant, Invid; Consultant, Qurius

Education

Systems analyst, Orebro University

Born

1975

Employee Representative



Roger Törngren

Employee Representative
Appointed 2011

Other board assignments

None

Previous experience

Property Management Engineer, Specialfastigheter, Service Technician, Vasakronan, Project programmer, control systems, TASAB

Education

Control systems/operations technology, Qualified property management

Born

1965

Employee Representative



Tomas Edström

Alternate member for Employee Representative
Appointed 2013

Other board assignments

Chairman, Central Sweden Volleyball Association, Manomet Rock AB

Previous experience

Head of Operations, AB Tierpsbyggen, Asset Manager, Sundsvall's municipality

Education

Mechanical engineer

Born

1964

Employee Representative



Erik Ydreborg

Alternate member for Employee Representative
Appointed 2016

Other board assignments

None

Previous experience

Industrial floor installer, building maintenance technician, service technician

Education

High School Engineer, four-year electrical power studies

Born

1967

Auditor



Mikael Ikonen

Auditor in Charge,
Ernst & Young AB

Other significant audit assignments

Hembla AB, Corem Property Group AB, Hemsö AB, Slättö Förvaltning, Rikshem AB

Born

1963

Management



Åsa Hedenberg
CEO

Previous experience
CEO, Huga Fastigheter AB; CEO, Uppsala hem AB; Market Area Manager AP Fastigheter; Head of Development Properties, SEB Asset Management; Property Manager, Hantverks- och Industribyggen; Property Manager, Skanska Fastigheter AB

Board assignments
Board member of Bonava AB, Envac AB

Education
Graduate in engineering, Surveyor, Royal Institute of Technology

Born
1961

Employed since
2014

Kristina Ferenius
Deputy CEO/CFO

Previous experience
Head of Finance, Huga Fastigheter AB; CFO Enaco AB; Business Controller Coor Service Management Sverige AB; CFO Skanska Guest Relocation AB; Head of Accounts, Swedish Enforcement Authority in Stockholm

Education
Master's degree in economics, Stockholm University

Born
1968

Employed since
2015

Torbjörn Blücher
Business Director Sweden

Previous experience:
Head of Property Unit, Swedish Fortifications Agency; Property Manager, Malmstaden AB (subsidiary of Tornet Group); Property Manager, Prevoluta AB

Education
Technical structural engineer

Born
1966

Employed since
2005

Hanna Janson
Communication Director

Previous experience
Communications Manager Akademiska Hus AB region Stockholm; Pro tem Communications Director Akademiska Hus AB; Consultant, JKL AB Gothenburg and Stockholm

Education
M.Sc. Business and Economics, SSE

Born
1975

Employed since
2015

Christina Burlin
Human Resources Director

Previous experience
Personnel Director, Swedish Maritime Administration; Group Personnel Director, Ostgota Correspondenten; Personnel Director, SAAB Civil Aircraft

Education
Bachelor of Arts Study programme in personnel management

Born
1962

Employed since
2012

Henrik Nyström
Head of Purchasing and IT

Previous experience
Head of Purchasing, Partnertech AB; Strategic Purchasing, Ericsson; Strategic Purchasing, SAAB Aircraft

Education
Economics (upper secondary school)

Born
1963

Employed since
2007

Göran Cumlin
Projects and Development Director

Previous experience
Property Manager, Sollentunahem; Technical Manager, Stockholm Student Housing (SSSB); Regional Manager, SWECO Project Management

Board assignments
Vice Chairman, SSSB

Education
Graduate in engineering, KTH Royal Institute of Technology

Born
1963

Employed since
2015

Åsa Welander
Property Management Director

Previous experience
District Manager, Fastighets AB Forvaltaren; Head of Leasing, Bostader Fastighets AB Forvaltaren; Property Manager, ByggVesta AB

Education
Law studies, Stockholm University

Born
1973

Employed since
2015

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Consolidated income statement, SEK million

	Note	Full-year 2018	Full-year 2017
Rental income		1,956	1,846
Other income	2	182	182
Income from property management		2,138	2,028
Property expenses	3	-564	-533
Net operating income		1,574	1,495
Administration	4, 5	-54	-55
Financial income	6	40	64
Financial expenses	6	-150	-182
Profit from property management	7	1,410	1,322
Realised gain on property sales	8	1	29
Change in value of investment properties, unrealised	9	1,404	832
Change in value of financial instruments, unrealised	6	10	-18
EBT		2,825	2,165
Tax	10	-402	-446
Net profit for the year		2,423	1,719
Of which attributable to the Parent Company's shareholder		2,423	1,719

Consolidated statement of comprehensive income, SEK million

	Full-year 2018	Full-year 2017
Net profit for the year	2,423	1,719
Total other comprehensive income for the year, net after tax	-	-
Total comprehensive income for the year	2,423	1,719
Of which attributable to the Parent Company's shareholder	2,423	1,719

Comments to the income statement

Income from property management totalled SEK 2,138 million (2,028).

Rental income increased to SEK 1,956 million (1,846) as a result of new leases and acquisitions. Other income stayed the same at SEK 182 million (182), and where income attributable to modifications for customers and media was unchanged year-on-year.

Property expenses, SEK 564 million (expense: 533)

Our property expenses increased SEK 27 million due to higher costs for clearing snow, media and maintenance. The figures for 2017 also included damages of SEK 10 million.

Net operating income, SEK 1,574 million (1,495)

Altogether, the above resulted in a year-on-year increase in net operating income, where the increase in rental income was the single largest reason behind the increase in net operating income.

Surplus ratio, 73.6% (73.7)

The surplus ratio shows the proportion of our revenues that remains after property expenses. Our figures were slightly below our minimum target surplus ratio of 75% due to the increase in revenue from modifications for customers relative to our total income and the lower margins on this revenue. The surplus ratio excluding modifications for customers was 76.7% (77.0).

Net financial expense SEK 110 million (expense: 118)

Net financial items for the period were lower, primarily due to lower interest rates when renewing loans and derivatives, and from leveraging the low interest-rate levels for new borrowings. This item includes value changes for currency derivatives of SEK 35 million (negative: 45). These derivatives are linked to existing currency loans.

Profit from property management, SEK 1,410 million (1,322)

The increase in profit from property management was mainly due to higher rental income of SEK 110 million. At the same time, property expenses rose SEK 31 million.

Changes in value, SEK 1,414 million (814)

Value changes in investment properties totalled SEK 1,404 million (832). Financial instruments increased in value by SEK 10 million (decrease: 18).

Tax expense, SEK 402 million (expense: 446)

Tax comprised tax paid of SEK 145 million (expense: 157) and a deferred tax expense of SEK 257 million (expense: 289). In the second quarter, we recalculated the deferred tax liability using a tax rate of 20.6% instead of 22%, since corporation tax is being lowered to 21.4% from 2019 and then to 20.6% from 2021. Our assessment is that we will be able to realise this liability at the new tax rate. The entire deferred tax liability for 2018 has now been restated at 20.6%, which entails a positive effect in the second quarter of this year of SEK 190 million.

Net profit, SEK 2,423 million (1,719)

Net profit for the year increased primarily due to higher rental income, higher unrealised value changes in investment properties and financial instruments, and due to a lower tax expense.

Consolidated balance sheet, SEK million

	Note	2018	2017
ASSETS			
Non-current assets			
Investment properties	9	27,288	25,002
Other property, plant and equipment	11	6	6
Derivatives	12, 19	32	54
Other financial investments	12	990	1,114
Other non-current receivables	13	6	13
Total non-current assets		28,322	26,189
Current assets			
Trade receivables		153	144
Derivatives	12	23	3
Tax assets		1	-
Other receivables	13	23	12
Prepaid expenses and accrued income	14	24	29
Cash and cash equivalents	15	12	465
Total current assets		236	653
Total assets		28,558	26,842
EQUITY AND LIABILITIES			
Equity			
Share capital		200	200
Other contributed capital		616	616
Retained earnings, including net profit for the year		10,113	8,250
Total equity		10,929	9,066
Liabilities			
Non-current liabilities			
Green bonds	16, 19	1,244	1,244
Other non-current interest-bearing liabilities	16, 19	7,266	8,220
Derivatives		100	120
Deferred tax liabilities	10	3,247	2,990
Total non-current liabilities		11,857	12,574
Current liabilities			
Current interest-bearing liabilities	16, 19	4,891	4,317
Trade payables		169	148
Tax liability		-	28
Derivatives		0	27
Other liabilities	17	111	107
Accrued expenses and deferred income	18	601	575
Total current liabilities		5,772	5,202
Total liabilities		17,629	17,776
Total equity and liabilities		28,558	26,842

Comments to the balance sheet

Investments, SEK 824 million (728)

Group investments in property projects totalled SEK 824 million for the period.

Acquisitions, SEK 58 million (670)

We acquired the Värnamo Läkaren 2 and 4 properties in February and the Södertälje Kolpenäs 1:9 property in May.

Disposals, SEK 0 million (227)

One minor disposal was carried out during the year.

Market valuation, SEK 27,288 million (25,002)

The estimated values of Specialfastigheter's investment properties are determined by means of an internal valuation based on actual data in respect of rents and operating expenses. Information concerning cost of capital, required yield and current market rents has been cross-checked with external appraisers. With regard to reliable rental income, the estimated cost of capital over the contract period was mainly between 5.00% (5.00) and 5.25% (5.25). The required yield ranges mostly from 4.65% (5.25) to 9.70% (9.70) depending on property location. Market values were mainly influenced by property-specific events such as newly signed leases, investments and lowered yield requirements. At 31 December 2018, the market value was SEK 27,288 million. The unrealised changes in value recognised for the period amounted to SEK 1,404 million (832).

Changes in the value of investment properties, SEK million

	2018	2017
Opening balance, market value, 31 December	25,002	22,999
+ Investments incl. capitalised interest expenses	824	728
+ Acquisitions	58	670
- Sales	-	-227
+ Unrealised change in value	1,404	832
Closing balance, market value, 31 December	27,288	25,002
Unrealised changes in value	1,404	832
of which, change in cost of capital and yield	1,033	959
of which, new and renegotiated leases	204	56
of which, change in the remaining term	-371	-272
of which, other	538	89

Other financial investments, SEK 990 million (1,114)

Other financial investments of SEK 990 million (1,114) comprised covered bonds of SEK 926 million (1,040) and cash deposits pursuant to CSAs of SEK 64 million (74).

Interest-bearing liabilities, SEK 13,401 million (13,781)

Interest-bearing liabilities amounted to SEK 13,401 million.

Consolidated changes in equity, SEK million

Attributable to the Parent Company's shareholder

2018	Share capital	Other contributed capital	Retained earnings	Total equity
Opening balance, 1 January 2018	200	616	8,250	9,066
Comprehensive income				
Net profit for the year	-	-	2,423	2,423
Other comprehensive income	-	-	-	-
Total	200	616	10,673	11,489
Transactions with the shareholder				
Dividend	-	-	-560	-560
Total transactions with the shareholder	-	-	-560	-560
Closing balance, 31 December 2018	200	616	10,113	10,929

2017	Share capital	Other contributed capital	Retained earnings	Total equity
Opening balance, 1 January 2017	200	616	7,028	7,844
Comprehensive income				
Net profit for the year	-	-	1,719	1,719
Other comprehensive income	-	-	-	-
Total	200	616	8,747	9,563
Transactions with the shareholder				
Dividend	-	-	-497	-497
Total transactions with the shareholder	-	-	-497	-497
Closing balance, 31 December 2017	200	616	8,250	9,066

Equity

Capital management

The Board's financial objective for the Group is to maintain a sound capital structure and financial stability, to thereby retain the capital market's confidence and form the basis for continued development of business operations. The target equity/assets ratio is 25–35% and strategic planning includes adaptation to meet this target. The Board aims to preserve a balance between high returns and the advantages offered by a high level of equity. The Group's profitability target is for net profit, after including changes in value and associated deferred tax, to correspond to 8% of average equity. Profitability is a variable target whose level is adjusted depending on the composition of the property portfolio. The adjusted return on equity for 2018 was 13.0% (12.8). From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity. We have also restated these key performance indicators retroactively. Over the last five-year period, Specialfastigheter's adjusted return on equity averaged 12.5%, which well exceeds the Group's target of 8.0%. Specialfastigheter's dividend policy is to distribute 50% of net profit for the year after adding changes in value and associated deferred tax. The annual resolution on the dividend must also take into account the Group's future investment needs and financial circumstances. Over the last five years, the dividend has averaged 7.0% (7.3) of equity. The Group will pay an extraordinary dividend when the capital structure and financial needs of the business so allow. No change took place in the Group's capital management during the year. Neither the Parent Company nor any of its subsidiaries is subject to external capital requirements.

Share capital

The share capital is divided into 2,000,000 shares with a quotient value of SEK 100 and with one (1) vote per share, which applies to both the opening and closing number of shares in the above reporting periods.

Appropriation of profits

The Board proposes that the 2018 Annual General Meeting of Specialfastigheter Sverige AB resolve in favour of paying a dividend of SEK 555 million, or around SEK 277.50 per share, to the owner. The proposed dividend constitutes 62.2% of the company's equity and 5.0% of the Group's equity and is in line with financial dividend target stipulations. Refer also to Note 11 for the Parent Company.

The company's holdings of financial instruments were measured at fair value in accordance with Chapter 4 Section 14a of the Annual Accounts Act. This entailed an increase in equity of SEK 45 million excluding deferred tax, which represented approximately 5.0% of the Parent Company's equity excluding deferred tax. The proposed dividend to the shareholder reduces the Parent Company's equity/assets ratio from 11.9% to 9.1%, and the Group's equity/assets ratio from 38.3% to 37.0%. Group operations are run with stable, healthy profitability, and income is hedged in the long term through long lease agreements. In the Board's assessment, after distribution of the proposed dividend, the company will continue to have adequate financial capacity to meet the requirements placed on the Group's and the Parent Company's equity by the nature, scope, investment requirements and risks of the business.

The proposal is therefore justifiable given the consolidation needs, liquidity and other circumstances of the Group and Parent Company. This means, inter alia, that the proposal does not hinder the company and its subsidiaries from meeting their obligations in the short and long terms.

Consolidated cash-flow statement, SEK million

	Full-year 2018	Full-year 2017
Operating activities		
Net operating income	1,574	1,495
Central administration	-54	-55
Net financial expense	-110	-118
Reversal, change in prices	-3	6
Reversal of depreciation	3	3
Income tax paid	-175	-152
Cash flow from operating activities before changes in working capital	1,235	1,179
Change in working capital		
Change in receivables	-8	115
Change in other current liabilities	51	16
Total change in working capital	43	131
Cash flow from operating activities	1,278	1,310
Investing activities		
Acquisition of investment properties	-58	-670
Investment in investment properties	-824	-709
Disposal of investment properties	1	235
Acquisition of property, plant and equipment	-2	0
Disposal of property, plant and equipment	0	0
Cash flow from investing activities	-883	-1,144
Financing activities		
Investment, covered bonds	116	-148
Borrowings	16,782	17,514
Repayments of borrowings	-17,186	-16,574
Dividend paid to Parent Company's shareholder	-560	-497
Cash flow from financing activities	-848	295
Cash flow for the year	-453	461
Opening cash and cash equivalents	465	4
Closing cash and cash equivalents	12	465
Interest		
Interest received	4	17
Interest paid	100	108

Cash flow

Group cash flow from operating activities before investments totalled SEK 1,278 million (1,310) during the period. Net investments in non-current assets amounted to a cash outflow of SEK 883 million (outflow: 1,144), which generated a positive cash flow after investments of SEK 395 million (166). A cash outflow of SEK 560 million (outflow: 497) was used for dividends, and investments in covered bonds amounted to an inflow of SEK 116 million (outflow: 148). Borrowings after repayments totalled an outflow of SEK 404 million (inflow: 940). The item, Investment, covered bonds, pertained solely to the investment of cash and cash equivalents and is part of long-term investments, where the company has chosen to retain liquidity instead of repaying borrowings.

Consolidated five-year summary

The financial progress of the Group in summary. For definitions of key performance indicators, see page 117.

Property related	2014	2015	2016	2017	2018
Income from property management, SEK million	1,872	1,867	1,912	2,028	2,138
Occupancy rate, %	98.3	98.7	98.6	99.0	99.0
Investments including property acquisitions, SEK million	371	419	1,288	1,398	882
Market value, investment properties, SEK million	20,271	20,919	22,999	25,002	27,288
Floor space, sq m, thousand	1,066	1,058	1,088	1,079	1,094
Yield, %	7.3	6.8	6.5	6.2	6.0
Total assets, SEK million	20,571	22,012	24,372	26,842	28,558
Equity, SEK million	8,475	6,652	7,844	9,066	10,929
Property management related					
Rental income, SEK/sq m	1,600	1,618	1,644	1,700	1,793
Property operations, SEK/sq m ¹	283	288	271	300	315
Maintenance expenses, SEK/sq m ^{1 and 2}	198	207	265	266	268
Net operating income, SEK/sq m	1,347	1,322	1,324	1,377	1,443
Administrative expenses, SEK/sq m	56	62	57	50	49
Finance related					
EBT, SEK million	1,782	1,474	2,100	2,165	2,825
Net profit for the year, SEK million	1,390	1,178	1,638	1,719	2,423
Cash flow before investments, SEK million	1,119	844	1,317	1,310	1,278
Surplus ratio, %	77.6	75.0	73.7	73.7	73.6
Interest coverage ratio, cash-flow based ^{3 and 5}	5.3	6.6	8.7	8.5	10.2
Return on equity, % ⁴	17.3	15.6	22.6	20.3	24.2
Adjusted return on equity, % ^{4 and 5}	10.8	11.8	13.7	12.8	13.0
Return on total capital, % ³	10.4	8.1	10.1	9.3	10.8
Loan-to-value ratio, %	44.4	57.8	55.9	53.3	49.1
Equity/assets ratio, %	41.2	30.2	32.2	33.8	38.3
Dividend, SEK million	3,000 ⁶	446	497	560	555

1) For the 2014-2016 period, the cost of property managers was included in maintenance expenses. This item was moved to Property operations in 2017. We have restated the years from 2014-2016, so that the cost is included in Property operations for all years, thus enabling a fair comparison.

2) Of which capitalised: SEK 154/sq m for 2014, SEK 139/sq m for 2015, SEK 177/sq m for 2016, SEK 195/sq m for 2017 and SEK 185/sq m for 2018.

3) From 2017, we have changed the calculation of the Interest coverage ratio and Return on total capital. We have also restated these key performance indicators retroactively.

4) From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity. We have also restated these key performance indicators retroactively.

5) These key performance indicators have been restated pursuant to a new policy from 2018 pertaining to currency derivatives.

6) Which comprised a dividend of SEK 929 million and a repayment of share capital of SEK 2,071 million.

Note 1 Group accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee (IFRIC), as adopted by the EU. Moreover, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Corporate Groups, has been applied.

The Group's eight limited companies are registered in Linköping (Sweden). The Parent Company is called Specialfastigheter Sverige AB (556537-5945). Specialfastigheter has a joint head office with offices located at the following visiting addresses: Borggården, SE-581 07 Linköping and Alströmergatan 14, SE-112 93 Stockholm. The Group's subsidiaries own and manage real property, manage construction projects, own and manage movable property and pursue related business activities. Refer also to Note 15 for the Parent Company.

Valuation principles applied in the preparation of the Parent Company's and the Group's financial statements

Assets and liabilities are recognised at cost, other than investment properties and derivatives, which are measured at fair value.

Non-current assets held for sale are recognised at the lower of the carrying amount and the fair value less selling expenses.

Functional currency and presentation currency

The Parent Company's functional currency is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. This means that the financial statements are presented in SEK. Specialfastigheter Sverige AB only operates on the Swedish market. All sums, unless otherwise stated, are rounded to the nearest million kronor.

Estimations and assessments in the financial statements

Preparing the financial statements in accordance with IFRS requires the management to make estimations and assessments which influence the application of accounting policies and the recognised amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimations and assessments.

The estimations and assessments are reviewed regularly. Changes to estimates are recognised in the period in which the change occurs if the change has only affected this period, or in the period in which the change is made and future periods if the change impacts both the current and future periods.

Assessments made by the company management in applying the IFRS that have a significant effect on the financial statements and estimates made, which may result in material adjustments in subsequent years' financial statements, are described in more detail in notes 9, 16 and 19 to the consolidated financial statements.

An assessment must be made of each acquisition to classify whether it is a business combination or an asset acquisition. A business combination comprises resources and assets that can result in production. On the acquisition of a company, the method of accounting to be used for the acquisition is assessed using criteria including the following: the presence of employees, the company's assets and the complexity of internal processes. Moreover, the assessment also takes into consideration the number of operations and the existence of agreements with various degrees of complexity. Acquisitions with high fulfilment of these criteria are classified as business combinations and acquisitions with low fulfilment are classified as asset acquisitions.

When acquisitions of subsidiaries entail the acquisition of non-business combination assets, the cost of these assets and liabilities is allocated according to their relative fair values at the acquisition date. However, if the assessment resulted in classification as a business combination, this would have entailed a higher value for the initial property value recognised and a higher deferred tax liability and, in all likelihood, a higher goodwill amount.

Accounting policies applied

The accounting policies specified below, with exceptions described in more detail, have been consistently applied to all periods presented in the consolidated financial statements. The Group's accounting policies have been consistently applied in the reporting and consolidation of the Parent Company and subsidiaries.

Changes in accounting policies

New standards and interpretations that entered force in 2018 have not had any impact on the financial statements other than certain supplementary disclosures.

IFRS 9 Financial instruments

Since the majority of Specialfastigheter's customers are from the public sector, with extremely strong payment capacity and minimal credit risk, the standard does not have any material impact on its financial statements. From a historical perspective, the company has also had extremely limited credit losses.

The application of IFRS 9 has had no impact on the carrying amounts for the Group's assets and liabilities. The policy for provisions for expected credit losses (ECLs) is applied for assets measured at amortised cost. The effect of applying ECLs has no material significance for the Group. For this reason, no further provision was made on the transition, and accordingly, the carrying amounts for assets recognised at amortised cost have not been affected.

IFRS 15 Revenue from Contracts with Customers

Specialfastigheter's leases only comprise rental payments, which are not encompassed by IFRS 15 and instead come under IAS 17, and from 2019, IFRS 16. Remuneration for the company's undertakings pursuant to leases, such as supplying premises with heating, cooling, snow clearance and garbage collection, for example, are included in the rent. Tenants cannot influence the choice of supplier or frequency, or have any other impact on the supplier, in the properties owned by the company. Moreover, some of these undertakings fall under a general responsibility for the property. Accordingly, the introduction of the standard has no material impact on the financial statements.

Amendments to the IFRS and interpretations not yet adopted (IFRIC) have not been applied in advance.

Standards	To be applied from the financial year starting:
IFRS 16 Leases	1 January 2019

IFRS 16 replaces IAS 17. Specialfastigheter is the lessee for leasehold agreements, property leases, service vehicles and company cars, which are defined as lease contracts under IFRS 16, however, the company has a limited number. Specialfastigheter's assessment is that the new standard will entail increased disclosure requirements but, otherwise, will have extremely limited impact on the financial statements. As a result of the transition to IFRS 16, the costs for ground rents will be recognised in full as financial expenses, which differs from the current policy whereby these are recognised as an operating expense. Specialfastigheter will start to apply IFRS 16 from 1 January 2019, but will not apply the standard retroactively.

Classifications, etc.

Non-current assets and non-current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid after more than twelve months from the balance-sheet date. Current assets and current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid within twelve months of the balance-sheet date.

Consolidation principles

Subsidiaries

An investor has controlling influence over the investment object when the investor is exposed to or is entitled to variable returns from its holding in the investment object, and when it can influence these returns through exercising its controlling influence over the investment object.

Subsidiaries are reported in accordance with the acquisition method. Under this method, an acquisition is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The cost to the Group is determined through an acquisition analysis at the time of the acquisition. In this analysis, the cost of the business combination is established, as are the fair values on the acquisition date of acquired identifiable assets as well as assumed liabilities and contingent liabilities. The cost of the subsidiary's shares consist of the fair values at the acquisition date for the assets acquired, assumed or acquired liabilities, and transaction costs directly attributable to the acquisition. Transaction costs are expensed in the Group. Consolidations of subsidiaries' financial statements are entered in the consolidated financial statements from the date of the acquisition until the date when controlling influence ceases.

Transactions eliminated on consolidation

Intra-Group receivables and liabilities, income or expenses, and unrealised gains or losses arising from intra-Group transactions are eliminated in the preparation of the consolidated financial statements.

Income

Revenue recognition

The Group's recognised income pertains mainly to rental income. Advance invoices generate rental income and car-parking income, which are therefore allocated to periods so that only the rent for the respective period is recognised as income. Revenue is usually recognised on a straight-line basis over the term of the lease, apart from in exceptional cases where a different method better reflects how financial benefits accrue to the Group. Interest income is recognised as revenue spread over the term by the application of the effective-interest method. Dividend income is recognised when the right to receive payment has been established.

The proportion of our rental income that is attributable to the state is 99.5% (99.3), where the Swedish Prison and Probation Service accounts for the major portion.

Income from property sales

Income from property sales is normally recognised on the contract date unless the risks and benefits were transferred to the purchaser on an earlier occasion. Control of the asset may have been transferred prior to the occupancy date and, if so, the property sale is recognised as income at this earlier date. Agreements between the parties with respect to the risks, benefits and involvement in day-to-day administration are taken into account when estimating the timing of revenue recognition. Moreover, any circumstances that may affect the outcome of the transaction and which are beyond the control of the seller and/or purchaser are also taken into consideration.

Operating expenses and financial income and expenses

Operating leases

Expenses in respect of operating leases are recognised in profit or loss on a straight-line basis over the lease term. Benefits obtained in connection with the signing of a lease are recognised in profit or loss as a decrease in lease charges on a straight-line basis over the period of the lease. Variable charges are expensed in the periods in which they arise.

Financial income and expenses

Financial income and expenses comprise interest income from bank funds, investments, receivables, interest expense on loans, translation of currency loans and unrealised and realised gains and losses on derivatives used in financial operations.

Interest income on receivables and interest expenses on liabilities are calculated using the effective-interest method. Effective interest is the rate of interest which makes the current value of all estimated future inflows and outflows during the expected fixed-interest period equal to the carrying amount of the asset or liability. Interest income from purchased covered bonds is recognised in the period during which interest is paid.

Interest income and interest expenses include accrued amounts for transaction expenses and differences between the initial carrying amount of the receivable or liability and the amount settled on maturity.

Borrowing costs are charged against earnings in the period to which they relate except to the extent that they are included in the cost of an asset. An asset for which interest can be included in the cost is, by necessity, an asset that takes significant time to complete for its intended use or sale.

Taxes

Income taxes comprise current tax and deferred tax. Current tax is tax to be paid or received for the current year, with the application of the tax rates that are adopted or established in practice as of the balance-sheet date, which also includes adjustment of current tax attributable to previous periods. Income tax is recognised in profit or loss except when the underlying transaction is recognised directly in equity and where the associated tax effect is recognised in equity. Deferred tax is calculated using the balance-sheet method based on temporary differences between the carrying amounts and fiscal values of assets and liabilities. The IFRS 3 rule on the classification of acquisitions as business combinations or asset acquisitions is based on making a separate assessment for each individual transaction. On the acquisition of a business, the method of accounting to be used for the acquisition is assessed using the following criteria: the presence of employees and the complexity of internal processes. Moreover, the assessment also takes into consideration the number of operations and the existence of agreements with various degrees of complexity. Acquisitions with high fulfilment of these criteria are classified as business combinations and acquisitions with low fulfilment are classified as asset acquisitions. Temporary differences in assets and liabilities that, at the transaction date, do not affect recognised or taxable profit are not recognised for asset acquisitions. All companies acquired in 2018 have been classified as asset acquisitions. Those properties that are acquired as company transactions are assessed as clear asset acquisitions. Furthermore, temporary differences attributable to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account. When acquisitions of subsidiaries entail the acquisition of non-business combination assets, the cost of these assets and liabilities is allocated according to their relative fair values at the acquisition date. The valuation of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realised or settled.

Deferred tax is calculated in accordance with the tax rates and tax rules that were adopted or established in practice as of the balance-sheet date. Deferred tax assets concerning deductible temporary differences are only recognised to the extent that it is likely that these will be used. The value of deferred tax assets is reduced when it is no longer considered likely that they can be used.

Other disclosures pertaining to deferred tax are available in Note 10 to the consolidated financial statements.

Investment properties

Investment properties are properties held with the objective of generating rental income and/or value growth. Investment properties are initially recognised at cost, which includes all expenses directly attributable to the acquisition. Investment properties are recognised on the balance sheet at fair value. For further information, see Note 10 to the consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are recognised in the consolidated financial statements at cost less accumulated depreciation. Cost includes the purchase price and expenses directly attributable to an asset in order to bring it to the location and condition necessary for it to be utilised in line with the aim of the acquisition.

The carrying amount of property, plant and equipment is removed from the balance sheet on the asset's disposal or sale, or when no future economic benefits are expected from the use, disposal or sale of the asset. Profit or loss that arises on the sale or disposal of an asset comprises the difference between the sale price and the carrying amount of the asset less direct selling expenses. Profit and loss are recognised under other operating income/expense.

Leased assets

Leases are classified in the consolidated financial statements as either financial or operating leases. A financial lease exists when the economic risks and benefits associated with ownership have substantially been transferred to the lessee; otherwise it is classified as an operating lease. Specialfastigheter Sverige AB has classified all lease agreements as operating leases. Charges for operating leases are expensed over the term of the leases based on their utilization, which may differ from what has de facto been paid in lease charges during the year.

Depreciation principles

Depreciation is calculated on a straight-line basis over an asset's estimated useful life.

Estimated useful lives, plant and equipment

The depreciation methods applied and the assets' residual values and useful lives are reviewed at the end of each year.

Impairment losses

The carrying amounts of Group assets are reviewed at each balance-sheet date to assess whether any indication exists of an impairment loss. IAS 36 is applied for testing the need for impairment for assets other than financial assets (which are tested in accordance with IAS 39), assets held for sale, disposal groups recognised in accordance with IFRS 5, investment properties recognised at fair value in accordance with IAS 40 and deferred tax assets. For assets excepted under the above, carrying amounts are tested in accordance with the standard concerned.

Reversal of impairments

An impairment is reversed if there is both an indication that the impairment loss no longer exists and if a change has taken place in the assumptions on which the calculation of the recoverable amount was based. However, impairment of goodwill is never reversed. A reversal is only made to the extent that the recognised value of the asset after reversal does not exceed the carrying amount that would have been recognised, less amortisation or depreciation where applicable, had no impairment been made.

Impairment testing of property, plant and equipment

When an impairment loss is indicated, the asset's recoverable amount is calculated in accordance with IAS 36 (see below). If an essentially independent cash flow cannot be established for an individual asset, assets are grouped at the lowest level possible for identification of an essentially independent cash flow (a cash-generating unit) for the assessment of any impairment need. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit (CGU) exceeds the recoverable amount. Impairment losses are recognised in profit or loss. Impairment of assets attributable to a CGU is allocated in the first instance to goodwill. Proportional impairments are then made of other assets included in the CGU.

The recoverable amount is the higher of fair value less selling expenses and value in use. When calculating value in use, future cash flows are discounted by a factor that takes into account the risk-free interest rate and the risk associated with the specific asset.

Financial instruments

Debt instruments: the classification of financial assets that comprise debt instruments is based on the Group's business model for managing the asset and the character and nature of the asset's contractual cash flows.

The instrument is classified at:

- amortised cost
- fair value through other comprehensive income (FVTOCI), or
- fair value through profit or loss (FVTPL)

Financial assets classified at amortised cost are measured initially at fair value plus transaction costs. Trade receivables and lease receivables are measured initially at the invoiced amount. Following initial recognition, the assets are measured using the effective-interest method. Assets classified at amortised cost are held under the business model to collect contractual cash flows that solely encompass

payments of the principal and interest on the principal outstanding. The assets are encompassed by a loss allowance for expected credit losses.

FVTPL is applied to debt instruments that are not measured at amortised cost. Financial instruments in this category are initially measured at fair value with changes in value recognised in profit or loss.

The Group's debt instruments are classified at amortised cost, with the exception of covered bonds, which are classified at FVTPL.

Equity instruments: classified at FVTPL with the exception of those that are not held for trading, since an irrevocable choice can be made to measure these at FVTOCI with no consequent reclassification to profit or loss. The Group classifies equity instruments at FVTPL.

Derivatives: classified at FVTPL. The Group does not apply hedge accounting.

Fair value is established as described in Note 19.

Classification and valuation of financial liabilities

Financial liabilities are classified at amortised cost, with the exception of derivatives. Financial liabilities classified at amortised cost are measured initially at fair value including transaction costs. Following initial recognition, these are measured at amortised cost using the effective-interest method.

Derivatives are classified at FVTPL. The Group does not apply hedge accounting.

Fair value is established as described in Note 19.

Other financial liabilities

Loan financing

All loan financing is initially recognised at cost, net after transaction expenses. Borrowing is then recognised at amortised cost and any difference between the amount received and the repayment amount is recognised in net financial items over the loan term by application of the effective-interest method. Borrowing in foreign currency is translated to SEK at the balance-sheet date exchange rate and the effects recognised in net financial items.

The Group applies IAS 23 Borrowing Costs. IAS 23 means that the Group capitalises interest expenses attributable to investment properties under construction. Capitalised interest expenses impact net financial items positively and changes in market value negatively by a corresponding amount. Interest expenses are capitalised monthly at an interest rate equivalent to the average six-month Stibor plus a surcharge.

Impairment of financial assets

The Group's financial assets, with the exception of those classified at FVTPL or equity instruments at FVTOCI, are subject to impairment for expected credit losses (ECLs). Under IFRS 9, the impairment of ECLs adopts a forward-looking approach and a loss allowance is for exposures to credit risk, normally on initial recognition. ECLs reflect the present value of all shortfalls in cash flow attributable to default, either over the next 12 months (12 month ECL) or for the entire remaining life of the financial instrument (lifetime ECL), depending on the type of asset and any impairment of the credit following initial recognition. The ECL reflects an objective, probability-based outcome that takes into consideration a number of scenarios based on reasonable and verifiable projections.

The simplified approach is applied for trade receivables, contract assets and lease receivables. A loss allowance is recognised under the simplified approach for the remaining term of the receivable or asset.

For other items encompassed by ECLs, a three-stage impairment model is applied. Initially, and at each balance-sheet date, a loss allowance is recognised for the forthcoming 12 months, or alternatively for a shorter time period depending on the remaining duration (Stage 1). If there has been a significant increase in credit risk compared with initial recognition, a loss allowance is recognised for the

remaining term of the asset (Stage 2). For any assets assessed as credit impaired, a loss allowance continues to be made for ECLs for the remaining term (Stage 3). For credit-impaired assets and receivables, the calculation of interest income is based on the asset's carrying amount, net of the loss allowance, as opposed to the gross amount used in the earlier stages.

The measurement of ECLs is based on and written down pursuant to a rating-based method through external credit ratings. ECLs are measured as the product of the probability of default, loss given default and the exposure at default. For credit-impaired assets and receivables, individual assessments take into consideration historical, current and forward-looking data. The measurement of ECLs takes into consideration any collateral posted or other credit enhancements in the form of guarantees.

The financial assets are recognised in the balance sheet at amortised cost, that is the net of the gross value and the loss allowance. Any changes in the loss allowance are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash and immediately accessible balances at banks and equivalent institutions, and short-term investments of liquidity with tenors of less than three months from the acquisition date. Cash and cash equivalents are encompassed by the loss allowance requirement for expected credit losses.

Comparative year under IAS 39

Financial instruments are recognised in accordance with IAS 39 for the comparative year 2017. IAS 39 had different classification categories than IFRS 9. Under IAS 39, the classification categories still entailed corresponding recognition at amortised cost and fair value in profit or loss or other comprehensive income.

Moreover, IAS 39 applied another method for expected credit loss provisions, which entailed making a provision in the event of a confirmed credit loss, unlike the method under IFRS 9, where a provision is made for ECLs. Otherwise, there are no differences in the standards for the Group. The transition from IAS 39 to IFRS 9 had no material impact for the Group.

IFRS 9 - Parent Company

The Parent Company applies the exception of not measuring financial guarantee commitments that benefit subsidiaries or associated companies pursuant to the rules under IFRS 9 and instead applies the measurement policies under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Derivatives

The Group's derivative instruments were acquired to hedge the interest-rate and currency risks to which the Group is exposed. Derivatives are initially recognised at cost on the transaction date, which means that transaction expenses are charged against earnings for the period. After the initial recognition, derivatives are measured at fair value and changes in value are recognised as described below. Hedge accounting is not applied by the Group.

Derivatives measured at fair value

Interest-rate derivatives comprise a financial asset or liability measured at fair value with changes in value recognised in profit or loss. Using interest-rate derivatives may give rise to changes in value due to changes in the market interest rate and the time factor. Interest-rate derivatives are initially recognised at cost in the balance sheet, and are subsequently measured at fair value together with changes in value in profit or loss.

Exchange rates are hedged with the aid of currency derivatives (currency swaps combined with interest-rate swaps). Derivatives are measured at fair value at the balance-sheet date's exchange rate and interest rate, and meet the currency effects from the translation of the loans at the balance-sheet date's exchange rate.

Closing-date market prices and generally accepted calculation methods are used to determine the fair value of interest-rate and currency derivatives, which means that fair value is established according to levels 1 and 2. Currency translation to Swedish kronor is conducted at listed exchange rates on the closing date. Interest-rate swaps are measured by discounting future cash flows to their present value. When financing in foreign currency, all future payment flows are hedged so that no currency risk remains.

Derivative instruments are used to hedge forecast electricity expenses and the derivatives are recognised at fair value in profit or loss. The fair value of electricity derivatives is based on balance-sheet date market values, according to Level 1, as provided by electricity suppliers that purchase electricity derivatives from Nord Pool. Electricity derivatives are raised to hedge electricity prices. Special-fastigheter passes on the major part of electricity expenses by invoicing tenants.

Remuneration to employees

Pension plans

All personnel are employed in the Parent Company. The pension plans principally comprise retirement pensions, disability pensions and family pensions in the form of alternative ITPs (Supplementary Pensions for Salaried Employees). Retirement pension commitments for salaried employees are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this comprises a multi-employer defined-benefit plan. Since the company has not had access to information which would have made it possible to report the pension plan as a defined-benefit plan, it has also been reported as a defined-contribution plan. Commitments regarding contributions to defined-contribution plans are recognised as expenses in profit or loss as they arise.

Short-term employee benefits

Short-term employee benefits are calculated on an undiscounted basis and recognised as an expense when the related services are received.

Contingent liabilities

A contingent liability is recognised when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence of one or more uncertain future events or when there is an obligation that is not recognised as a liability or provision because it is not likely that an outflow of resources will be required.

Cash-flow statement

The cash-flow statement was prepared using the indirect method. The recognised cash flow includes only those transactions that entail inflows and outflows. Balances at banks are classified as cash and cash equivalents.

Rounding

Amounts in this annual report are expressed in SEK million without decimal places. Where amounts are less than SEK 1 million and rounded down, this is represented by a zero (0). In cases where the outcome is actually zero, this is represented by a dash.

Note 2 Other income

	2018	2017
Invoiced energy and fuel expenses	76	72
Invoiced services	100	103
Compensation received	5	7
Other	1	0
Total	182	182

Refer to Note 1, IFRS 15 Revenue from Contracts with Customers

Note 3 Property expenses

	2018	2017
Energy, fuel and water	151	143
Property operations	281	272
Property tax	41	41
Maintenance	91	77
Total	564	533

Note 4 Administration

	2018	2017
Payroll expenses	45	42
Depreciation of plant and equipment	2	3
Other expenses (Inspections, consultants' fees, other)	7	10
Total	54	55

Refer to Note 7 to the consolidated financial statements, to see the total payroll expenses. Unallocated administrative expenses are reported in this note.

Note 5 Auditors' fees, SEK thousand

	2018	2017
Ernst & Young		
Audit assignment	600	571
Audit activities other than the audit assignment	56	72
Tax advice	122	44
Other services	-	45
Total	778	732

The audit assignment refers to the examination of the annual report, the accounting records and the administration by the Board and CEO. This also includes a fee for audit advice provided in connection with the audit assignment. Audit activities refers to the examination of the administration or of financial information arising from statutes, the Articles of Association, regulations or agreements that result in a report or other document also intended to form the basis for an assessment by persons other than the principal as well as advice or other assistance brought about by observations during the review assignment. Other services include advice that is not attributable to any of the above types of service and which do not concern taxes. The auditors Ernst & Young AB were elected at the 2014, 2015, 2016, 2017 and 2018 AGMs.

Note 6 Financial income and expenses

	SEK million		%	
Composition of net financial items	2018	2017	2018	2017
Interest expense, loans	-97	-99	-0.87	-0.86
Exchange-rate changes on foreign loans	-35	45	-0.31	0.39
Change in value, currency derivatives	35	-45	0.31	-0.39
Net interest income, derivatives	-5	-9	-0.05	-0.08
Exchange rate changes on investments	2	-12	0.02	-0.10
Other interest income and expenses	3	17	0.03	0.15
Other financial expenses	-15	-16	-0.14	-0.15
Capitalised interest expense, projects	2	1	0.02	0.01
Recognised net financial items	-110	-118	-0.99	-1.03
Change in value of financial derivatives	10	-18	0.09	-0.15
Total net financial items	-100	-136	-0.90	-1.18

During the year SEK 2 million (1) in interest was capitalised in respect of investments in buildings under construction. Interest equivalent to six months' Stibor plus a surcharge was used when capitalising.

Net financial items recognised according to classification category

Financial income	2018	2017
<i>Financial assets measured at FVTPL</i>		
Interest income, covered bonds	3	17
Net gains, derivatives	35	-
Net losses, derivatives	-	-
Total recognised in profit or loss (net financial items)	38	17
<i>Financial assets measured at amortised cost</i>		
Interest income, tax account	0	0
Interest income, other	-	0
Other financial income	0	-
Total interest income using effective-interest method	0	0
Exchange-rate changes on foreign loans	0	45
Exchange rate changes on investments	2	2
Total financial income	40	64
Financial expenses		
<i>Financial liabilities measured at FVTPL</i>		
Interest expense, interest-rate derivatives	-5	-9
Change in value, currency derivatives	-	-45
Total recognised in profit or loss (net financial items)	-5	-54

The table continues on the next page.

continued Note 6 Financial income and expenses

Financial expenses, Cont.	2018	2017	Change in value of financial derivatives recognised by category and classification	2018	2017
<i>Financial liabilities measured at amortised cost</i>					
Interest expenses, bonds	-112	-112	Changes in value on financial assets		
Interest expense, commercial paper	14	13	Derivatives measured at fair value	12	8
Interest expense, whole loan repos	1	0	Changes in value on financial liabilities		
Interest expense, non-current loans	-	-	Derivatives measured at fair value	-2	-26
Other financial expenses	-13	-16	Total change in value of financial derivatives	10	-18
Total interest expense with the effective-interest method	-110	-115			
Exchange-rate changes on foreign loans	-35	-			
Exchange rate changes on investments	0	-13			
ECLs on financial assets	-	-			
Total financial expenses	-150	-182			
Total recognised net financial items	-110	-118			

Note 7 Employees, payroll expenses and Board fees, SEK thousand

Parent Company total			Pension expenses		
	2018	2017		2018	2017
Number of employees	144	144	Chairman of the Board	-	-
Of whom women	25.69%	29.17%	Other Board members	-	-
Of whom men	74.31%	70.83%	Total	-	-
<i>The subsidiaries have no employees</i>					
Parent Company including the Board and senior executives			Senior executives		
	2018	2017		2018	2017
Salaries and other remuneration	84,458	76,724	Salaries and other remuneration		
Social security expenses ¹	43,975	39,145	Chief Executive Officer	2,446	2,354
1) Of which, pension expenses	14,018	12,148	Other senior executives	7,710	7,409
			Total	10,156	9,763
Board of Directors			Pension expenses		
	2018	2017		2018	2017
Salaries and other remuneration			Chief Executive Officer	743	723
Chairman of the Board	273	258	Other senior executives	2,405	2,305
Other Board members	757	720	Total	3,148	3,028
Total	1,030	978			

Specification of remuneration to Board members¹

	2018		2017	
	Salaries and other remuneration	Other benefits	Salaries and other remuneration	Other benefits
Eva Landén ²	273	-	160	-
Bo Lundgren ³	65	-	258	-
Jan Berg	154	-	150	-
Carin Götblad	134	-	130	-
Mikael Lundström	134	-	130	-
Ulrika Nordström ³	-	-	-	-
Erik Tranaeus ⁴	-	-	-	-
Maj-Charlotte Wallin	154	-	150	-
Åsa Wiren ⁵	116	-	-	-
Total	1,030	-	978	-

1) The 2018 AGM resolved that annual Board fees would be payable in an amount of SEK 260,000 to the Chairman of the Board and SEK 125,000 each to other Board members. In addition to the ordinary Board fees, a fee of SEK 30,000 per year was paid to each member of the Audit and Finance Committee and SEK 10,000 per year to each member of the Remuneration Committee. A fee of SEK 40,000 per year was paid to the Chairman of the Audit and Finance Committee and SEK 10,000 per year to the Chairman of the Remuneration Committee. Fees are only paid to members elected by the AGM, not employees of Specialfastigheter or the Government Offices of Sweden. No remuneration over and above that decided by the AGM has been paid to the Chairman of the Board or any Board member. Board fees have been paid as salary, but in two cases were invoiced in Q1 2018 within the framework of the operations conducted in the Board members' companies.

2) Elected to the Board at the 2018 AGM.

3) Stepped down in conjunction with the 2018 AGM.

4) Co-opted Board member for Ulrika Nordström from June 2017 until the 2018 AGM. Elected to the Board at the 2018 AGM.

5) Elected to the Board at the 2018 AGM.

continued, Note 7 Employees, payroll expenses and Board fees, SEK thousand

Specification of remuneration to senior executives⁶

	Salaries and other remuneration		Other benefits ⁷		Pension expenses ⁸		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
CEO, Åsa Hedenberg	2,446	2,354	48	49	743	723	3,237	3,126
Business Director Sweden, Torbjörn Blücher	1,187	1,184	61	59	377	357	1,625	1,600
Deputy CEO/CFO, Kristina Ferenius	1,470	1,299	63	59	450	428	1,983	1,786
Projects and Development Director, Göran Cumlin	1,231	1,193	59	46	383	382	1,673	1,621
Director of Operations Support, Henrik Nyström	936	908	35	35	318	293	1,289	1,236
Property Management Director, Åsa Welander	1,061	1,039	48	52	281	277	1,390	1,368
HR Director, Christina Burlin	1,039	1,017	2	0	382	363	1,423	1,380
Communication Director, Hanna Janson	786	769	1	0	214	205	1,001	974
Total	10,156	9,763	317	300	3,148	3,028	13,621	13,091

6) There are no individual management contracts or terms relating to severance payments for any senior executives other than the CEO. Notice periods mainly follow collective agreements. There are some individual contracts with mutual 3- or 6-month notice periods. Pensions follow an ITP plan with a retirement age of 65.

7) Company car, subsidised meals and other benefits such as healthcare insurance.

8) Any voluntary salary sacrifice arrangement is included in the total.

Total for the Parent Company including the Board and senior executives

The Board, including alternates, comprises 11 (11) members; of whom five (five) are women and six (six) are men. Seven members are elected at the AGM and four members are appointed by employee organisations. The executive management team, which includes the CEO, is made up of eight (eight) individuals; of whom five are women and three are men. No variable remuneration or agreements on financial instruments apply for senior executives. Retirement pension and family pension commitments for salaried employees in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this comprises a multi-employer defined-benefit plan. For the 2018 financial year, the company did not have access to information that

would have enabled it to recognise this plan as a defined-benefit plan. Accordingly, the ITP pension plan secured via insurance with Alecta was recognised as a defined-contribution plan. Fees for the year for pension insurance policies provided by Alecta were approximately SEK 5 million (5). Alecta's surplus may be distributed to the policy owners and/or the insured. At year-end 2018, Alecta's surpluses in the form of the collective consolidation level was 142% (154). The collective consolidation level is the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial commitments, which do not correspond with IAS 19.

Sick leave, % of total working hours

	2018		2017	
	Sick leave/ Reg. hours, %	Long-term sick leave/Total sick leave, %	Sick leave/ Reg. hours, %	Long-term sick leave/Total sick leave, %
Women	1.88	26.90	1.05	0.00
Men	1.86	20.74	3.44	59.92
Employees under 30	*	*	*	*
Employees aged 30-49	1.63	17.46	2.52	39.19
Employees over 49	2.10	28.50	3.03	66.69
All employees	1.87	22.47	2.73	53.06

*) No data is provided as the group is less than 10 people.

Note 8 Realised gain/loss on property sales

	2018	2017
Proceeds, properties sold	3	112
Fair value, properties sold	-2	-82
Selling expenses	0	-1
Total	1	29

Note 9 Investment properties

Investment properties are recognised using the fair-value method (IAS 40)

2018	Acquisition (+)/Disposals (-) properties	Properties owned for the full year	Total 2018
Opening fair value	-	25,002	25,002
Investments regarding post-acquisition expenditure	-	822	822
Capitalised interest expenses	-	2	2
Acquisitions (+)	58	-	58
Divestments (-)	-	-	-
Unrealised changes in value	-	1,404	1,404
Closing fair value	58	27,230	27,288

2017	Acquisition (+)/Disposals (-) properties	Properties owned for the full year	Total 2017
Opening fair value	-	22,999	22,999
Investments regarding post-acquisition expenditure	-	727	727
Capitalised interest expenses	-	1	1
Acquisitions (+)	670	-	670
Divestments (-)	-227	-	-227
Unrealised changes in value	-	832	832
Closing fair value	443	24,559	25,002

Tax assessment value	2018	2017	Fiscal residual values	2018	2017
Buildings	3,152	3,077	Buildings	7,784	7,745
Land	1,010	1,007	Land	1,536	1,480
Total	4,162	4,084	Total	9,320	9,225

Investment properties

Investment properties are properties held with the objective of generating rental income and/or value growth. Investment properties are initially recognised at cost, which includes all expenses directly attributable to the acquisition. Investment properties are recognised on the balance sheet at fair value. Fair value is based principally on valuations carried out by company personnel. Valuations are cross-checked against valuations carried out by independent, external appraisers with recognised qualifications and appropriate skills for valuing properties of the types and locations in question. External valuations take place every six months according to a rolling schedule.

Fair value is based on the market value, which is the estimated amount that would be obtained in a transaction at the valuation date between knowledgeable, independent parties who have an interest in the transaction being carried out after customary marketing in which both parties are assumed to have acted with insight, common sense and without coercion. Both unrealised and realised changes in value are recognised in profit or loss. Rental income and income from property sales are recognised in line with the principles described in the Revenue recognition section; see Note 1 to the consolidated financial statements.

Subsequent expenditures – Investment properties recognised using the fair-value method

Subsequent expenditures that entail a future financial advantage for the company, that is, which are value enhancing and can be calculated in a reliable manner, are capitalised as assets. Other expenditures, repairs and maintenance are expensed during the period in which they arise.

Under IFRS 13, valuations of property holdings are categorised according to one of three levels. There are different degrees of uncertainty in the valuation depending on the level used. Specialfastigheter uses Level 3, where the degree of uncertainty is greatest as there is insufficient transaction/market data to allow using another level.

Level 1	Prices quoted in active markets
Level 2	Observable data other than data in Level 1
Level 3	Unobservable data

Valuation method

The estimated values of Specialfastigheter's investment properties are determined by means of an internal valuation based on actual data in respect of rents and operating expenses. In order to assure the quality of the internal evaluation, it is cross-checked against an external evaluation of 50 (48) objects, equivalent to 90% (87) of the total value.

External valuations take place according to a rolling schedule. The difference between the external and internal evaluations amounts to less than 3% (3). Specialfastigheter applies a value below that obtained from the external valuations. The market's required yield is used principally when calculating residual values, that is the property's estimated market value at the end of the calculation period.

The calculations are performed on a nominal basis using inflation of 2.0% (2.0) for the first year and 2.0% (2.0) per year for the remaining years in the calculation. The valuation properties generally have relatively long rental agreements with tenants who are considered to be reliable payers. Therefore, it is appropriate to use a differentiated cost of capital for net operating income and residual value in connection with the calculation of yield value. With regard to reliable rental income, the estimated cost of capital over the contract period was mainly between 5.00% and 5.25%. The cost of capital in 2017 was between 5.00% and 5.25%. The required yield ranges mostly from 4.65% to 9.70% depending on property location. The required yield in 2017 was between 5.25% and 9.70%. The average yield was 5.78% (6.51). We note continued substantial market interest in our type of properties, known as public sector properties.

The operations and maintenance expense levels used in the cash-flow statements are derived from normalised values based on current maintenance plans. Current rental terms have been used as the basis in the cash-flow statements. The values take into account the best and maximum use of the properties.

Estimated market rents have been applied in the cash-flow statements from the moment when the current rental period expires. We obtained current market yield requirements and costs of capital from an external appraiser for use as supporting data in valuation calculations. The appraiser has carried out various investigations and analyses regarding the property category concerned. This included examining various property transactions completed.

continued, Note 9 Investment properties

Rental income for the year totalled SEK 1,956 million (1,846). Future rents attributable to non-terminable operational leases mature as shown below.

Maturity Profile, SEK million	2018	2017
Within 1 year		
Properties	44	56
Housing	3	3
Between 1 and 5 years		
Properties	535	457
Beyond 5 years		
Properties	1,534	1,495
Total	2,116	2,011

Sensitivity analysis, variable	Percentage point change	Annualised earnings impact, SEK million	
		2018	2017
Rental income	+/-1%	17.0	16.1
Property operations and utilities excl. electricity	+/-1%	4.0	3.9
Maintenance expenses ¹	+/-1%	2.9	2.9
Interest	+/-1%	48.6	45.6
Market rates, derivative instruments ²	+/-1%	23.2	24.9
Price change, purchased covered bond ³	+/-1%	24.2	30.4
Cost of capital ⁴	+0.25%	-354	-314
Cost of capital ⁴	-0.25%	250	324
Yield ⁴	+0.25%	-850	-584
Yield ⁴	-0.25%	832	643

Each variable in the above table has been tested individually.

1) Includes capitalised maintenance expenses according to IFRS.

2) Impact on earnings relates to the change in value of derivative instruments.

3) The impact on earnings relates to momentary changes in deposited covered bonds as of 31 December 2018 with a nominal value of SEK 900 million.

4) Impact on earnings relates to change in value of investment properties.

Note 10 Taxes

Recognised in profit or loss	2018	2017
Current tax	145	157
Deferred tax expense	257	289
Total recognised consolidated tax expense	402	446
Reconciliation of effective tax		
Recognised EBT	2,825	2,165
Swedish income tax rate, 22%	621	476
Tax-exempt income		0
Non-deductible expenses		1
Adjusted sale proceeds		-32
Standard interest tax allocation reserve	1	1
Accumulated deferred tax, restated with an income tax rate of 20.6%	-220	-
Total	402	446

continued, Note 10 Taxes

Recognised in the balance sheet	2018	2017
Deferred tax liability	-3,247	-2,990
Current tax liability	1	-28
Total	-3,246	-3,018

Deferred tax assets and liabilities

Investment properties	-2,933	-2,681
Financial assets	10	21
Tax allocation reserve	-243	-244
Accelerated depreciation	-81	-86
Total	-3,247	-2,990

Deferred tax has been calculated with a tax rate of 20.6% in 2018 due to a reduction in corporation tax for 2019 and 2021. No deferred tax has been recognised in equity.

Note 11 Other property plant and equipment

Plant and equipment	2018	2017
Opening cost	25	25
Purchases	2	0
Sales and disposals	0	0
Closing accumulated cost	27	25
Opening depreciation	19	16
Sales and disposals	0	0
Depreciation for the year	2	3
Closing accumulated depreciation	21	19
Closing residual value according to plan	6	6

Note 12 Financial investments

Derivatives	2018	2017
Non-current investments		
Interest-rate and currency derivatives measured at FVTPL	20	49
Electricity derivatives measured at FVTPL	12	5
Total	32	54
Current investments		
Interest-rate and currency derivatives measured at FVTPL	6	0
Electricity derivatives measured at FVTPL	17	3
Total	23	3
Other financial investments		
Non-current investments		
CSA deposits	64	74
Covered bonds	926	1,040
Other shares and participations	0	0
Total	990	1,114

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. As of 31 December 2018, the Group had lodged collateral totalling SEK 64 million (74). One deposit of SEK 20 million regarding Nomura, one deposit of SEK 33 million for Nordea and one deposit of SEK 11 million for SEB. Collateral was lodged in the form of seven (eight) covered bonds. As of 31 December 2018, the collateral amounted to SEK 926 million (1,040).

Note 13 Other receivables

	2018	2017
Non-current receivables		
Value-added tax for adjustment	6	13
Total	6	13
Current receivables		
Opening suspended VAT	22	12
Other receivables	1	0
Total	23	12

Note 14 Prepaid expenses and accrued income

	2018	2017
Prepaid energy expenses	3	4
Other interim receivables	21	25
Total	24	29

Note 15 Cash and cash equivalents

	2018	2017
Bank balances	12	465
Total	12	465

Note 16 Interest-bearing liabilities

	2018	2017
Non-current liabilities		
Loans	8,510	9,464
Current liabilities		
Loans	4,891	4,317
Total	13,401	13,781

Of the Group's and the Parent Company's non-current loan liabilities, SEK 2,589 million (2,442) matures more than five years after the balance-sheet date.

Foreign currency bonds are translated to the balance-sheet date SEK exchange rate. The fair value of derivatives corresponds to the translated amounts of the bonds, thus largely neutralizing the foreign exchange effects. The market value of foreign currency bonds is translated to the balance-sheet date exchange rate and recognised in the tables in SEK. Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity pursuant to level 2, IFRS 13. The fair value of foreign currency bonds is measured by discounting future cash flows at listed market interest rates and exchange rates for the respective maturity at the balance-sheet date.

Funding is distributed as follows
Category – Financial liabilities measured at amortised cost

2018	Carrying amount	Nominal amount	Fair value
Overdraft facility	-	-	-
CSA deposits	-	-	-
Commercial paper	3,041	3,040	3,043
Fixed-interest bonds	7,399	7,405	7,697
Floating-rate bonds	2,329	2,320	2,321
Inflation-linked bonds	189	190	189
Foreign currency bonds	443	456	444
Total	13,401	13,411	13,694

2017	Carrying amount	Nominal amount	Fair value
Overdraft facility	-	-	-
CSA deposits	-	-	-
Commercial paper	2,867	2,865	2,868
Fixed-interest bonds	7,647	7,655	7,914
Floating-rate bonds	2,674	2,670	2,671
Inflation-linked bonds	184	190	184
Foreign currency bonds	409	456	418
Total	13,781	13,836	14,055

Maturity profile

2018	Carrying amount	Nominal amount	Fair value	2017	Carrying amount	Nominal amount	Fair value
2018	-	-	-	2018	4,317	4,315	4,323
2019	4,891	4,890	4,905	2019	1,851	1,850	1,885
2020	1,120	1,120	1,136	2020	1,120	1,120	1,146
2021	1,700	1,700	1,746	2021	1,700	1,700	1,763
2022	2,351	2,350	2,378	2022	2,351	2,350	2,375
2023	750	756	744	2023	409	456	418
2024	976	980	1,043	2024	975	980	1,043
2025	500	500	524	2025	500	500	521
2026	374	375	400	2026	374	375	397
2027	-	-	-	2027	-	-	-
2028	-	-	-	2028	-	-	-
2029	-	-	-	2029	-	-	-
2030 and beyond	739	740	818	2030 and beyond	184	190	184
Total	13,401	13,411	13,694	Total	13,781	13,836	14,055

continued, Note 16 Interest-bearing liabilities

Group financing in foreign currency at the balance-sheet date

2018					
Currency	Nominal	Interest %	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
USD	25,000,000	2.56	0.34	227,790,000	221,675,000
USD	25,000,000	2.59	0.37	227,790,000	221,675,000

2017					
Currency	Nominal	Interest %	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
USD	25,000,000	2.56	-0.03	227,790,000	204,395,000
USD	25,000,000	2.59	0.00	227,790,000	204,395,000

Significant contractual conditions

The Group’s loan agreements include an ownership clause which entitles lenders to call in a loan early if the state’s ownership level falls below 100%.

Hedge accounting

Hedge accounting is not applied by the Group.

Currency distribution

When funding in foreign currency, all future payment flows are hedged so that currency risks are eliminated. All interest payments and future repayments are hedged through currency swaps.

The table “Group financing in foreign currency at the balance-sheet date” shows foreign currency at the balance-sheet date by original currency and after taking currency swaps into account. Foreign currency loans are translated at the closing-date exchange rate and the exchange-rate change is reported in net financial items.

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. The Group has not received any collateral as of 31 December 2018 but has provided collateral in three cases. Refer to Note 12 to the consolidated financial statements.

Note 17 Other liabilities

Other liabilities	2018	2017
Customer advances	0	0
VAT	109	104
Other liabilities	2	3
Total	111	107

Note 18 Accrued expenses and deferred income

	2018	2017
Deferred rental income	525	496
Accrued energy expenses	14	16
Accrued interest expenses	37	40
Accrued social-security expenses	2	-
Accrued holiday pay	9	8
Accrued payroll tax	3	3
Other items	11	12
Total	601	575

Note 19 Financial risks and financial policy

The Group and Parent Company are exposed to various types of financial risk through their business operations. The term financial risks means fluctuations in the company's performance and cash flow due to the effect of interest-rate, financing, credit, currency and electricity price risk. All Group financial risks are brought into the Parent Company and managed from there. The Group's financial risks comprise the financial operations of the Parent Company. The Group's financial policy for managing financial risk has been adopted by the Board and comprises a framework of guidelines and rules in the form of risk mandates and limits for financial operations. The policy is designed to ensure that the owner's required return on equity is achieved in the safest way possible. The overall objective of treasury operations is to provide cost-effective funding and to minimise the adverse effects of market fluctuations on the Group's earnings.

Financial operations

The Parent Company's financial department manages the Group's financial transactions and risks centrally. The company's Finance Manager deals with operational activities.

Rating

The credit rating institute Standard & Poor's (S&P) has rated the company's long-term funding with an AA+/Stable outlook and retained A-1+ for short-term funding. S&P raised the rating from AA to AA+ in 2005 given the continued long-term ownership aims of the Swedish government and the company's long-term ability to achieve the owner's return requirement. S&P confirmed the AA+ rating on 19 December 2018. When S&P assesses Specialfastigheter's stand-alone credit-worthiness – the company's ability to stand-alone without Swedish state ownership – we receive an AA- credit rating.

Interest-rate risk

Interest-rate risk refers to the risk of negative effects on interest expenses for existing and future financing due to interest-rate changes. Specialfastigheter's interest-rate exposure is governed by limiting the proportion maturing within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest period should be within a range of 1–5 years. On the closing date, the average fixed-interest period was 3.2 years (3.2). The fixed-interest period shows how quickly a change in interest rates will impact in the form of increased borrowing expenses. The objective of interest-rate risk management is to achieve low interest expenses over time while adapting the interest-rate profile to underlying business possibilities. At 31 December 2018, the portfolio's average interest rate for loans and derivatives was 0.85% (0.82). Inflation-linked bonds were issued for SEK 190 million (190) to protect inflation-linked items in the income statement, such as rental income and, operating and maintenance expenses.

The company's financial policy permits the use of derivatives. The main derivatives used are interest-rate swaps. The risk exposure of the total portfolio is governed by limits for fixed-interest periods. This leads to the limitation of the total risk effect of the derivatives portfolio. The company conducts derivative transactions to cost effectively manage the whole financial portfolio's allocation of interest-rate exposure over time. The derivatives portfolio has created a redistribution of interest-rate exposure from shorter to longer terms; refer to the "Fixed-interest maturity structure and loan-to-maturity." The volume for loan-to-maturity includes loans and investments in covered bonds. The fixed-interest volume includes loans, derivatives and investments in covered bonds. The loan liability is calculated as a net liability, after taking into account any positive balances and investments.

Financing risk

Financing risk refers to the risk that existing financing cannot be replaced or only at exceptionally high cost. The risk to Specialfastigheter also includes not being able to secure financing, for example in connection with a major acquisition. To limit financing risk, Specialfastigheter strives to raise credits with long maturities and even maturity profiles for commercial paper and bonds issued. To further reduce financing risk, there are also guaranteed loan commitments and overdrafts totalling SEK 5,550 million (4,750).

On the balance-sheet date, unutilised guaranteed loan commitments, and cash and cash equivalents amounted to SEK 5,562 million (5,215) covering the refinancing risk for the next 18 months' (17) maturity.

No special undertakings are included in loan commitments other than ownership clauses and disclosure commitments. Three loan commitments totalling SEK 2,500 million increase the margin on loans drawn from the facility if the company's rating falls below AA-. The maturity of financial liabilities has been spread over time to limit refinancing risk. As of 31 December 2018, loan-to-maturity was 3.8 years (3.4), and taking unutilised guaranteed loan commitments into consideration, loan-to-maturity was 4.8 (4.3) years.

During the year, we decreased investments in covered bonds by SEK 100 million to a total nominal amount of SEK 900 million (1,000) with a medium-term maturity; these investments are used as collateral for raising whole loan repos.

The company's nominal gross financial liability totalled SEK 13,411 million (13,836) at year end. Further reductions of the refinancing risk are achieved by diversifying funding sources; refer to the "Credit facilities" table. Borrowing is conducted in the Swedish and international credit markets through bond and commercial paper programmes and in the Swedish and international banking markets. Specialfastigheter conducts borrowing against the balance sheet without pledging properties. The company's loan contracts have included an ownership clause ever since 1999, which strengthens lenders' positions. The clause means that lenders are entitled to call a loan in early if state ownership falls below 100%.

The "Liquidity risk" table on page 95 shows agreed undiscounted cash flows, which include all financial liabilities including interest payments. Where the future variable interest rate is unknown, it has been estimated with the aid of implicit forward interest rates. Rental income is used to meet the future commitments presented in the table. Credit risk is assessed as negligible for rental income.

Credit risks and counterparty risks in financial operations

Financial credit risk refers primarily to counterparty risks in connection with receivables from banks and other counterparties. The risk arises in derivatives trading or the investment of cash and cash equivalents. Specialfastigheter's policy to reduce credit risk is that the investment of cash and cash equivalents and entering into of derivative contracts may only be carried out with a limited number of counterparties and within approved limits. Cash and cash equivalents are used in practice to repay loans. Derivative counterparties are banks with high credit ratings.

The company's counterparty risk in derivative contracts totalled SEK 55 million (57) as of 31 December 2018; this corresponds to the company's total receivables from unrealised derivatives with positive values.

CSA deposits are in the form of cash deposits.

The credit risk in daily business operations is limited by advance invoicing of rents, long leases and by tenants having a strong connection to the Swedish state.

Receivables mainly comprise lease receivables for which the Group has chosen to apply the simplified approach for ECL recognition. This entails making ECL provisions for the remaining lifetimes, which are expected to be less than one year for all receivables. The Group applies a rating-based method for calculating ECLs based on probability of default, expected loss and exposure at default. The Group defines default as when receivables are 90 days or more past-due, or if other factors indicate that a suspension of payments applies. The Group has essentially one counterparty, namely the Swedish state. At present, the counterparty's credit rating is AAA, which means that the risk of credit losses is deemed negligible. Therefore, the Group has not made any provision for ECLs.

continued, Note 19 Financial risks and financial policy

The Parent Company applies the general approach for ECL provisions on intra-Group receivables. The Parent Company applies a rating-based method for calculating ECLs based on probability of default, expected loss and exposure at default. At the balance-sheet date, the Group had a credit rating of AA+ from Standard & Poor's. The risk nature of subsidiaries' operations and types of properties are comparable to that of the Parent Company and, accordingly, the subsidiaries are assumed to have comparable credit ratings. The Parent Company defines default as when receivables are 90 days or more past-due, or if other factors indicate that a suspension of payments applies. At the balance-sheet date, no material increase in credit risk is assessed as applying for any intra-Group receivables. Based on the Parent Company's assessments using the above approach and taking into consideration other known information and forward-looking factors, ECLs are not expected to be material and therefore no provision has been made.

Financial items that have matured for payment at the year end, SEK million

	2018	2017
Financial assets	91	79
Financial liabilities	2	3

An impairment of SEK 0 million (0) was carried out on the balance-sheet date. SEK 1 million (1) of trade receivables were unpaid at 31 January 2019. Trade payables of SEK 1 million (2) were unpaid in January.

Credit rating, financial assets, SEK million

2018	Simplified approach	General approach	Total
	Trade receivables	Stage 1	
Credit rating			
No credit rating/trade receivables	2	-	2
AAA	151	-	-
AA	-	1	152
A	-	11	11
BBB	-	-	-
Total	153	12	165

Currency risk

Foreign currency borrowing outside the Swedish market takes place if it is advantageous from an overall cost or diversification perspective. Foreign currency exposures must be hedged if they exceed a value equivalent to SEK 5 million. Foreign currency hedging refers to the use of financial derivatives or matching between assets and liabilities. Since the Group's activities are exclusively denominated in Swedish krona, all currency risks in connection with financing in foreign currencies have been eliminated through currency derivatives. Because currency exposure also occurs when financial electricity derivatives are taken up, they are hedged by means of currency derivatives. The effects of the unrealised change in value are reported under "Change in value of financial instruments, unrealised" in the income statement, while foreign currency loans are translated at the balance-sheet date exchange rate and reported in net financial items.

The following table shows the Group's borrowing and hedging in foreign currency.

Nominal amounts (SEK) per business day

2018			
Original currency	Loan	Derivatives	Total
USD	456.0	-456.0	0

2017			
Original currency	Loan	Derivatives	Total
USD	456.0	-456.0	0

Electricity price risk

Electricity price risk refers to the risk of fluctuations in the future price of electricity adversely affecting the company's operating expenses. As a consequence of this, the company has established an electricity price policy with a long-term price-hedging strategy; refer to the "Hedged portion of future electricity consumption" table. To limit the electricity price risk for estimated electricity consumption, the company buys price-hedging contracts in the form of electricity futures. These are managed through day-to-day analysis of the electricity market and the company's own portfolio. Price hedging is done in sub items to reduce the risk of undertaking large price hedges in expensive circumstances. In this way the hedged portion increases as the consumption date approaches. By the time a budgeted price is to be given for the coming year, a large portion has been price-hedged.

Specialfastigheter passes on most of the electricity cost to its tenants, which means the price risk to the company is negligible.

Derivatives

Specialfastigheter uses derivative instruments to manage interest-rate risk and to thereby achieve the desired fixed-rate structure and to manage currency risk and to hedge loans in foreign currencies.

Over time, changes in value may arise in the derivatives portfolio owing to changes in market interest rates and exchange rates. These unrealised changes in value are recognised in profit or loss. Electricity derivatives are measured at fair value and recognised in profit or loss. The electricity consumption expense is recognised on an ongoing basis in profit or loss. Financial interest-rate derivatives are measured at fair value according to the closing interest rate as of the balance-sheet date.

Financial instruments measured at fair value

The fair value of financial instruments can be determined in various ways.

- Level 1 Fair value determined by prices quoted in an active market for the same instrument.
- Level 2 Fair value determined either by directly or indirectly observable market data not included in Level 1.
- Level 3 Fair value determined based on data that is not observable in the market.

The table on page 95 describes how fair value was determined for the company's financial instruments.

continued, Note 19 Financial risks and financial policy

Financial instruments – Measured at fair value

2018	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	-	-50	-	-50
Currency swaps	-	-23	-	-23
Electricity futures	28	-	-	28
Net	28	-73	-	-45

2017	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	-	-40	-	-40
Currency swaps	-	-56	-	-56
Electricity futures	6	-	-	6
Net	6	-96	-	-90

Credit facilities

	Loan limit		Utilised	
	2018	2017	2018	2017
CSA deposits	-	-	-64	-74
Group overdraft	800	1,000	-12	-465
Guaranteed loan commitments	4,750	3,750	-	-
Commercial paper	5,000	4,000	3,040	2,865
MTN programme	13,000	13,000	9,725	10,325
Private Placements	956	956	646	646
Whole loan repos	900	1,000	-	-
Investments	-900	-1,000	-900	-1,000
Total	24,506	22,706	12,435	12,297

Liquidity risk

2018	Loan	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-1,663	0	-4	-4	-169
Between 3 and 12 months	-3,359	28	-16	12	-
Between 1 and 3 years	-5,458	56	-59	-3	-
Between 3 and 5 years	-2,368	24	-28	-4	-
Total	-12,848	108	-107	1	-169

2017	Loan	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-2,280	2	-7	-5	-148
Between 3 and 12 months	-2,156	27	-17	10	-
Between 1 and 3 years	-4,967	66	-62	4	-
Between 3 and 5 years	-3,919	43	-50	-7	-
Total	-13,322	138	-136	2	-148

Exposure to counterparty risks distributed across different rating categories

Institute with long rating, 2018	Asset	Liability	Securities received/paid	Net exposure
AA-	20	-57	33	-4
A+	6	-19	11	-2
A	-	-23	20	-3
BBB+	-	-	-	-
Electricity derivatives	29	-1	-	28
Total	55	-100	64	19

Institute with long rating, 2017	Asset	Liability	Securities received/paid	Net exposure
AA-	22	-57	33	-2
A+	18	-23	-	-5
A	9	-65	41	-15
BBB+	-	-	-	-
Electricity derivatives	8	-2	-	6
Total	57	-147	74	-16

continued, Note 19 Financial risks and financial policy

Hedged portion of future electricity consumption

2018					2017				
Year	GWh	Min. limit	Max. limit	Proportion	Year	GWh	Min. limit	Max. limit	Proportion
2019	102	70%	100%	78%	2018	102	70%	100%	79%
2020	102	40%	100%	45%	2019	102	40%	100%	60%
2021	102	20%	100%	45%	2020	102	20%	100%	30%
2022	102	0%	100%	20%	2021	102	0%	100%	25%

Maturity profile for electricity derivatives

2018			2017		
Year	GWh	Market value	Year	GWh	Market value
2019	79	16	2018	80	2
2020	46	7	2019	61	2
2021	46	5	2020	31	1
2022	20	0	2021	26	1
2023	0	-	2022	0	0
Total	191	28	Total	198	6

Derivative portfolio's market value

	2018			2017		
	Nominal value	Positive value	Negative value	Nominal value	Positive value	Negative value
Currency swaps	456	0	23	456	9	65
Interest-rate swaps	1,797	26	76	3,104	40	80
Electricity futures	-	29	1	-	8	2
Total	2,253	55	100	3,560	57	147

Sensitivity analysis

Change	Pre-tax change in profit or loss	Change in equity after tax
Change in net financial items if market rate increases 1%, annual expense change	Earnings decrease SEK 49 million (46)	Equity decreases SEK 39 million (36)
Change in value of financial derivatives if market rate increases 1%	Earnings increase SEK 23 million (25)	Equity increases SEK 18 million (19)
Currency risk is hedged by currency swaps, which removes the effect of exchange-rate changes	No change	No change
Electricity price risk – electricity futures reduce price volatility. The majority of electricity expenses are then passed on to the tenants.	No change	No change

Fixed-interest maturity structure and loan-to-maturity

	Fixed-interest		Loan-to-maturity	
	2018	2017	2018	2017
2018	-	5,514 ¹	-	4,243 ¹
2019	5,713 ¹	598 ²	4,828 ¹	1,176 ²
2020	399 ²	394 ²	799 ²	807 ²
2021	1,696 ²	1,695 ²	1,390 ²	1,389 ²
2022	1,846 ²	1,846 ²	2,145 ²	2,146 ²
2023	186 ²	153	648 ²	409
2024	846	845	976	975
2025	500	500	500	500
2026	374	374	374	374
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030 and beyond	839	284	739	184
Total	12,399	12,203	12,399	12,203

1) Includes CSA deposits given and received.

2) Includes investments in covered bonds.

continued, Note 19 Financial risks and financial policy

Carrying amount per category

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at FVTPL				
Interest-rate derivatives	26	26	40	40
Currency derivatives	-	-	9	9
Electricity derivatives	29	29	8	8
Covered bonds	926	926	1,040	1,040
Shares and participations	0	0	0	0
Financial assets measured at amortised cost				
Trade receivables	153	153 ¹	144	144 ¹
CSA deposits	64	64 ¹	74	74 ¹
Accrued interest income	-	-	-	-
Cash and cash equivalents	12	12	465	465
Financial liabilities measured at FVTPL				
Interest-rate derivatives	76	76	80	80
Currency derivatives	23	23	65	65
Electricity derivatives	1	1	2	2
Financial liabilities measured at amortised cost				
Commercial paper	3,041	3,043 ²	2,867	2,868 ²
Fixed-interest bonds	7,399	7,697 ²	7,647	7,914 ²
Floating-rate bonds	2,329	2,321 ²	2,674	2,671 ²
Inflation-linked bonds	189	189 ²	184	184 ²
Foreign currency bonds	443	444 ²	409	418 ²
Trade payables	169	169 ¹	148	148 ¹
CSA deposits	-	-	-	-
Accrued interest expenses	37	37 ¹	40	40 ¹

1) Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity. The fair value of bonds in foreign currency is measured by discounting future cash flows at the balance-sheet date exchange rate for the respective maturity.

At the balance-sheet date there were no material differences between carrying amounts and fair values for trade receivables and trade payables.

2) Market quotations and generally accepted Level 2 calculation methods are used to determine fair value on the closing date.

The Group's maximum credit risk comprises the net amounts in the above table. The Group has not received any pledged collateral for the net financial assets.

The financial assets encompassed by an ECL provision pursuant to the general approach consist of cash and cash equivalents, CSA deposits and accrued interest income. Specialfastigheter applies a rating-based approach in combination with other known information and forward-looking factors to assess ECLs. The Group defines default as when receivables are 90 days or more past-due, or if other factors indicate that a suspension of payments applies. In those instances where amounts are not assessed as negligible, an ECL provision is recognised even for these financial instruments.

Financial assets and liabilities that are offset or covered by a general netting arrangement

2018	Gross amount	Offset amount	Net amount in balance sheet	Amounts covered by a general or similar netting agreement ¹		
				Financial instruments	Financial collateral, received/paid	Net amount
Derivative assets	55	-	55	-55	-	0
Derivative liabilities	-100	-	-100	55	64	19
Total	-45	-	-45	-	64	19

2017	Gross amount	Offset amount	Net amount in balance sheet	Amounts covered by a general or similar netting agreement ¹		
				Financial instruments	Financial collateral, received/paid	Net amount
Derivative assets	57	-	57	-57	-	-
Derivative liabilities	-147	-	-147	57	74	-16
Total	-90	-	-90	-	74	-16

1) These financial assets and liabilities are only offset in the case of insolvency or upon suspension of payments by either party. These also include arrangements where the Group has no intention of divesting the instruments concurrently.

continued, Note 19 Financial risks and financial policy

Summary of liabilities attributable to financing activities

	Cash flow items			Non-cash items			Closing balance 2018
	Closing balance 2017	Cash flow from financing activities	Accounting effects	Effect of changed exchange rate	Change in fair value	Price change	
Interest-bearing liabilities	13,781	-404	-10	35	-	-1	13,401
Non-interest-bearing liabilities	107	4	-	-	-	-	111
Interest-rate and cross-currency swaps, fair value hedges	145	0	-	-35	-11	-	99
Electricity futures, fair value hedges	2	-	-	-	-1	-	1
Total liabilities attributable to financing activities	14,035	-400	-10	0	-12	-1	13,612

	Cash flow items			Non-cash items			Closing balance 2017
	Closing balance 2016	Cash flow from financing activities	Accounting effects	Effect of changed exchange rate	Change in fair value	Price change	
Interest-bearing liabilities	12,861	940	22	-45	-	3	13,781
Non-interest-bearing liabilities	120	-13	-	-	-	-	107
Interest-rate and cross-currency swaps, fair value hedges	114	-	-	45	-14	-	145
Electricity futures, fair value hedges	3	-	-	-	-1	-	2
Total liabilities attributable to financing activities	13,098	927	22	-	-15	3	14,035

Note 20 Related parties

Related-party transactions

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2018	2017	2018	2017
Intra-Group income	-	-	7	5
Intra-Group expenses	-	-	-	-
Current intra-Group receivables	-	-	5	3
Non-current intra-Group receivables	-	-	596	394
Short-term intra-Group liability during winding-up proceedings	-	-	-259	-

Transactions with the shareholder

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2018	2017	2018	2017
Dividend	-	-	560	497

No ECLs on financial assets exist within the Group.

There are no dealings with the owner, the Swedish State, other than those stipulated by law. The Parent Company, Specialfastigheter Sverige AB, company registration number 556537-5945, has a close relationship with its subsidiaries; refer to Note 15 for the Parent Company. For more information on salaries and other remuneration, expenses and commitments with respect to pensions and similar benefits of the Board, CEO and other senior executives, as well as contracts concerning severance payments, see Note 7 to the consolidated financial statements.

Note 21 Pledged assets and contingent liabilities

	2018	2017
Pledged assets	None	None
Contingent liabilities	None	None

Note 22 Events after the balance-sheet date

No significant events have taken place after the end of the period.

Parent Company income statement, SEK million

	Note	Full-year 2018	Full-year 2017
Rental income		1,857	1,768
Other income	2	172	181
Net sales		2,029	1,949
Operating expenses	3	-531	-518
Depreciation of investment properties		-672	-609
Gross profit		826	822
Central administration	4, 5	-61	-55
Gain/loss on property sales	6	1	86
Operating profit	7	766	853
Profit/loss from financial investments			
Other interest income and similar profit/loss items	8	58	74
Interest expense and similar profit/loss items	8	-152	-208
Profit/loss after financial items		672	719
Appropriations	9	-59	-100
Tax on profit for the year	10	-87	-137
Net profit for the year	11	526	482
Of which attributable to the Parent Company's shareholder		526	482

Parent Company – Statement of comprehensive income, SEK million

	Full-year 2018	Full-year 2017
Net profit for the year	526	482
Total other comprehensive income for the year, net after tax	-	-
Total comprehensive income for the year	526	482
Of which attributable to the Parent Company's shareholder	526	482

Since the Parent Company's and the Consolidated income statements and balance sheets largely correspond, we have issued no separate comments for the Parent Company.

Parent Company – Balance sheet, SEK million

	Note	2018	2017
ASSETS			
Non-current assets			
Investment properties	12, 13	15,198	15,000
Plant and equipment	14	6	6
Financial assets	15	2,316	2,267
Total non-current assets		17,520	17,273
Current assets			
Trade receivables		146	144
Tax assets		5	-
Current investments	16	23	3
Current receivables	17	27	15
Prepaid expenses and accrued income	18	23	28
Cash and bank balances	19	12	465
Total current assets		236	655
Total assets		17,756	17,928
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (2,000,000 shares)		200	200
Statutory reserve		42	42
Total restricted equity		242	242
Non-restricted equity			
Retained earnings		124	202
Net profit for the year		526	482
Total non-restricted equity		650	684
Total equity		892	926
Untaxed reserves	20	1,539	1,480
Liabilities			
Interest-bearing liabilities			
Green bonds	21	1,244	1,244
Other loan liabilities	21	12,416	12,537
Non-interest-bearing liabilities			
Tax liability	10	-	24
Other liabilities	22	371	396
Deferred tax liabilities	10	724	775
Accrued expenses and deferred income	23	570	546
Total liabilities		15,325	15,522
Total equity and liabilities		17,756	17,928

Parent Company – Changes in equity, SEK million

Attributable to the Parent Company's shareholder

	Restricted equity	Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	
2018				
Opening balance, 1 January 2018	200	42	684	926
Comprehensive income				
Net profit for the year	-	-	526	526
Other comprehensive income	-	-	-	-
Total	200	42	1,210	1,452
Transactions with the shareholder				
Dividend	-	-	-560	-560
Total transactions with the shareholder	-	-	-560	-560
Closing balance, 31 December 2018	200	42	650	892

	Restricted equity	Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	
2017				
Opening balance, 1 January 2017	200	42	699	941
Comprehensive income				
Net profit for the year	-	-	482	482
Other comprehensive income	-	-	-	-
Total	200	42	1,181	1,423
Transactions with the shareholder				
Dividend	-	-	-497	-497
Total transactions with the shareholder	-	-	-497	-497
Closing balance, 31 December 2017	200	42	684	926

Parent Company – Cash-flow statement, SEK million

	Full-year 2018	Full-year 2017
Operating activities		
Gross profit	826	822
Central administration	-61	-55
Net financial expense	-94	-134
Reversal, change in value of financial investments	-45	63
Reversal, change in prices	32	-39
Reversal of depreciation	674	612
Income tax paid	-166	-149
Cash flow from operating activities before changes in working capital	1,166	1,120
Change in working capital		
Change in receivables	-2	121
Change in other current liabilities	46	-5
Total change in working capital	44	116
Cash flow from operating activities	1,210	1,236
Investing activities		
Acquisition of investment properties	-58	0
Investment in investment properties	-1,015	-1,166
Disposal of investment properties	1	86
Acquisition of property, plant and equipment	-2	0
Disposal of property, plant and equipment	0	0
Cash flow from investing activities	-1,074	-1,080
Financing activities		
Investment, covered bonds	116	-148
Borrowings	17,041	17,514
Repayments of borrowings	-17,186	-16,564
Dividend paid to Parent Company's shareholder	-560	-497
Cash flow from financing activities	-589	305
Cash flow for the year	-453	461
Opening cash and cash equivalents	465	4
Closing cash and cash equivalents	12	465
Interest		
Interest received	9	19
Interest paid	100	108

Note 1 Parent Company accounting policies

The Parent Company applies the same accounting policies as the Group, except in the cases specified below. The deviations between the Parent Company's and the Group's policies arise from limitations in the Parent Company's ability to apply IFRS as a result of provisions in the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and in certain cases for tax reasons.

Parent Company accounting policies

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 of the Swedish Financial Reporting Board, Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board applicable to listed companies are also applied. RFR 2 means that the Parent Company must apply all EU-approved IFRSs and interpretations insofar as this is possible under the provisions of the Annual Accounts Act, the Swedish Pension Obligations Vesting Act and with due consideration to the relationship between accounting and taxation.

Changes in accounting policies

New standards and interpretations that entered force in 2018 have not had any impact on the financial statements.

Classification and structure

The Parent Company's income statement and balance sheet follow the structure of the Annual Accounts Act. The principal difference in comparison with IAS 1 Presentation of Financial Statements applied in the layout of the Group's financial statements is the presentation of operating profit, financial income and expenses, non-current assets, equity and the occurrence of provisions as separate headings in the balance sheet.

Subsidiaries

Participations in subsidiaries are recognised in the Parent Company in accordance with the cost method. Acquisition-related expenses for subsidiaries are included in the cost of the shares in the subsidiary. Dividends received are recognised as income.

Depreciation

Earnings in the income statement have been charged with depreciation according to plan. In the case of plant and equipment, the difference between fiscal and planned depreciation is reported as an appropriation, and accumulated accelerated depreciation as untaxed reserves. A review of economic lives of buildings was carried out during the year. Since the maximum fiscal rate falls short of planned depreciation, a deferred tax asset arises. The company includes the deferred tax asset in its total recognised deferred tax liability.

Planned depreciation is based on an asset's cost and estimated economic life.

The following depreciation rates were used:

Building fixtures and fittings	10% per year
Buildings	2–7% per year
In ground fixtures and fittings	5% per year
Land improvements	5% per year

Buildings

Buildings in the Parent Company are recognised at cost less accumulated depreciation. Cost consists of the acquisition cost, land registration costs and value enhancing improvements. Only expenses that generate lasting value enhancement to a property are capitalised. Interest expenses are also capitalised during the production period in the case of major new builds, extensions and redevelopments.

In conjunction with the review of the economic useful life as described in the Depreciation section above, the company is having all properties valued using the model described in Note 9 to the consolidated financial statements. If the value of a property thus estimated falls significantly below the carrying amount, an impairment loss is recognised for the property. No impairments were recognised in 2018. At 31 December 2018, the Parent Company's property holdings were valued at SEK 25,651 million.

Plant and equipment

Plant and equipment in the Parent Company are reported at cost less accumulated depreciation and any impairment losses in the same way as for the Group, but with the addition of possible positive revaluations.

Leased assets

For further information, see Note 1 to the consolidated financial statements.

Taxes

Untaxed reserves including deferred tax liabilities are recognised in the Parent Company. However, in the consolidated financial statements untaxed reserves are divided into deferred tax liabilities and equity.

Group contributions and shareholder contributions for legal entities

The recipient recognises shareholder's contributions directly in equity and the donor capitalises contributions in shares and participations, to the extent that impairment is not required. A Group contribution received by the Parent Company from a subsidiary is recognised applying the same principles as customary dividends from subsidiaries and are recognised as financial income. Group contributions paid by the Parent Company to subsidiaries are recognised as an increase in the carrying amount of the participations in the subsidiary. No Group contributions were paid during 2018.

Financial risk management

For further information, see notes 6, 12, 16 and 19 to the consolidated financial statements.

Note 2 Other income

	2018	2017
Invoiced energy and fuel expenses	67	67
Invoiced services	93	102
Invoiced services within the Group	7	5
Compensation received	5	7
Other	0	0
Total	172	181

Note 3 Operating expenses

	2018	2017
Energy, fuel and water	142	139
Property operations	262	265
Property tax	40	39
Maintenance	87	75
Total	531	518

Note 4 Administration

	2018	2017
Payroll expenses	52	42
Depreciation of plant and equipment	2	3
Other expenses (Inspections, consultants' fees, other)	7	10
Total	61	55

Note 5 Auditors' fees

Refer to Note 5 to the consolidated financial statements.

Note 6 Gain/loss on property sales

	2018	2017
Proceeds, properties sold	3	112
Book value, properties sold	-2	-25
Selling expenses	0	-1
Total	1	86

Note 7 Employees, payroll expenses and Board fees

Refer to Note 7 to the consolidated financial statements.

Note 8 Net financial items

	2018	2017
Interest income, subsidiaries	5	2
Interest income, covered bonds	3	17
Other interest income	1	0
Investment gains	2	47
Changes in value on revaluation of financial derivatives	47	8
Financial income	58	74
Interest expenses, bonds	111	112
Other interest expenses	-9	-4
Investment losses	34	13
Other financial expenses	16	17
Capitalisation of interest, projects in progress	-2	-1
Changes in value on revaluation of financial derivatives	2	71
Financial expenses	152	208
Net financial expense	94	134

Note 9 Appropriations

	2018	2017
Difference between book depreciation and depreciation according to plan:		
Plant and equipment	0	-27
Provision to tax allocation reserve	209	227
Reversal from tax allocation reserve	-150	-100
Total	59	100

Note 10 Taxes

Recognised in profit or loss	2018	2017
Current tax expense	138	149
Deferred tax expense	-51	-12
Total recognised tax	87	137

Reconciliation of effective tax	2018	2017
Recognised EBT	613	619
Swedish income tax rate, 22%	135	136
Tax-exempt income	0	0
Non-deductible expenses	0	0
Adjusted sale proceeds	0	0
Standard interest tax allocation reserve	1	1
Accumulated deferred tax, restated with an income tax rate of 20.6%	-49	-
	87	137

Recognised in the balance sheet	2018	2017
Liabilities		
Deferred tax liability	-724	-775
Current tax asset/liability	5	-24
Total	-719	-799

Deferred tax assets and liabilities	2018	2017
Financial assets	10	21
Capitalised maintenance expenses	-163	-141
Property depreciation, revaluation	-571	-655
Total	-724	-775

Deferred tax has been calculated with a tax rate of 20.6% in 2018 due to a reduction in corporation tax for 2019 and 2021. No deferred tax has been recognised in equity.

Note 11 Appropriation of profits and dividend

The dividend paid to the shareholder in May 2018 totalled SEK 560,000,000 (SEK 497,000,000) and comprised an ordinary dividend, as defined in the dividend policy. The dividend per share was SEK 280 (248.50). Regarding the dividend for this year, the Board proposes that a dividend of SEK 277.50 per share be paid to the shareholder. A resolution will be taken by the shareholder regarding the dividend at the AGM. The dividend has not been taken up as a liability in the annual accounts. The dividend is estimated to total SEK 555,000,000.

Non-restricted equity, Parent Company:

Retained earnings	124,196,816
Net profit for the year	525,669,863
Total	649,866,679

The Board and CEO propose that earnings be appropriated as follows:

Dividend payable to the shareholder	555,000,000
To be carried forward	94,866,679
Total	649,866,679

Note 12 Buildings, building fixtures and fittings, land, land improvements, in ground fixtures and fittings

Buildings	2018	2017
Opening cost	12,617	12,460
Purchases	4	-
Projects completed	477	108
Capitalised maintenance expenses	191	131
Sales and disposals	-1	-82
Closing accumulated cost	13,288	12,617
Opening depreciation	4,663	4,363
Sales and disposals	-1	-76
Depreciation for the year	410	376
Closing accumulated depreciation	5,072	4,663
Opening revaluations	4,274	4,274
Revaluations for the year	-	-
Closing accumulated revaluations	4,274	4,274
Opening depreciation on revalued amounts	467	335
Depreciation for the year on revalued amounts	132	132
Closing accumulated depreciation on revalued amounts	599	467
Opening impairment charges	94	94
Impairment charges for the year	-	-
Closing accumulated impairment charges	94	94
Closing residual value according to plan	11,797	11,667
Tax assessment value, properties in Sweden	3,000	2,925
Building fixtures and fittings		
Opening cost	881	866
Projects completed	279	16
Sales and disposals	-	-1
Closing accumulated cost	1,160	881
Opening depreciation	639	569
Sales and disposals	-	-1
Depreciation for the year	95	71
Closing accumulated depreciation	734	639
Closing residual value according to plan	426	242

Land	2018	2017
Opening cost	1,371	1,388
Purchases	57	-
Sales and disposals	0	-17
Closing accumulated cost	1,428	1,371
Closing residual value according to plan	1,428	1,371
Tax assessment value, properties in Sweden	977	974
Land improvements		
Opening cost	292	267
Projects completed	63	27
Sales and disposals	-	-2
Closing accumulated cost	355	292
Opening depreciation	139	127
Sales and disposals	-	-2
Depreciation for the year	16	14
Closing accumulated depreciation	155	139
Closing residual value according to plan	200	153
In ground fixtures and fittings		
Opening cost	353	312
Projects completed	46	42
Sales and disposals	-	-1
Closing accumulated cost	399	353
Opening depreciation	151	134
Sales and disposals	-	0
Depreciation for the year	19	17
Closing accumulated depreciation	170	151
Closing residual value according to plan	229	202
Total		
Opening cost	15,514	15,293
Purchases	61	-
Projects completed	865	193
Capitalised maintenance expenses	191	131
Sales and disposals	-1	-103
Closing accumulated cost	16,630	15,514
Opening depreciation	5,592	5,193
Sales and disposals	-1	-79
Depreciation for the year	540	478
Closing accumulated depreciation	6,131	5,592
Opening revaluations	4,274	4,274
Revaluations for the year	-	-
Closing accumulated revaluations	4,274	4,274
Opening depreciation on revalued amounts	467	335
Depreciation for the year on revalued amounts	132	132
Closing accumulated depreciation on revalued amounts	599	467
Opening impairment charges	94	94
Impairment charges for the year	-	-
Closing accumulated impairment charges	94	94
Closing residual value according to plan	14,080	13,635
Tax assessment value, properties in Sweden	3,977	3,899

Note 13 Construction in progress

	2018	2017
Opening balance	1,365	959
Accrued expenses for the year	809	730
Capitalised maintenance expenses	-191	-131
Projects completed	-865	-193
Closing balance	1,118	1,365

Note 14 Plant and equipment

	2018	2017
Opening cost	25	25
Purchases	2	0
Sales and disposals	0	0
Closing accumulated cost	27	25
Opening depreciation	19	16
Sales and disposals	0	0
Depreciation for the year	2	3
Closing accumulated depreciation	21	19
Closing residual value according to plan	6	6

Note 15 Financial assets

	2018	2017
Shares in subsidiaries	692	692
Other shares	0	0
Receivables from subsidiaries	596	394
Derivatives measured at FVTPL	32	54
CSA deposits	64	74
Covered bonds	926	1,040
Value-added tax for adjustment	6	13
Total	2,316	2,267

Shares in subsidiaries 2018

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Specialfastigheter Lejonet 11 AB	100%	100%	500	294,402
Specialfastigheter F-öarna 6 AB	100%	100%	1,000	281,609
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB (in winding-up process)	100%	100%	500	50
Västrike Fastighets AB (dormant company)	100%	100%	500	50
Carrying amount of shares in subsidiaries 2018				692,242

Shares in subsidiaries 2017

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Specialfastigheter Lejonet 11 AB	100%	100%	500	294,402
Specialfastigheter F-öarna 6 AB	100%	100%	1,000	281,609
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB	100%	100%	500	50
Västrike Fastighets AB	100%	100%	500	50
Carrying amount of shares in subsidiaries 2017				692,242

continued, Note 15 Financial assets**Shares, indirectly owned subsidiaries 2018**

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
<i>Owned by Västrike Fastighets AB</i>				
Västrike 2 Fastighets AB (dormant company)	100%	100%	500	50
Säkerhetsfastigheter Sverige AB (dormant company)	100%	100%	500	50
Carrying amount of shares in subsidiaries 2018				100

Shares, indirectly owned subsidiaries 2017

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
<i>Owned by Västrike Fastighets AB</i>				
Västrike 2 Fastighets AB (dormant company)	100%	100%	500	50
Säkerhetsfastigheter Sverige AB (dormant company)	100%	100%	500	50
Carrying amount of shares in subsidiaries 2017				100

Information on company registration numbers and registered offices, 2018

Subsidiary	Co. Reg. No.	Registered office
Specialfastigheter Lejonet AB	559077-3015	Linköping
Specialfastigheter F-öarna 6 AB	556661-1447	Linköping
Specialfastigheter Gärdet AB	556910-1370	Linköping
Nordrike Fastighets AB (in winding-up process)	556832-2290	Linköping
Västrike Fastighets AB (dormant company)	556963-5187	Linköping
Indirectly owned subsidiaries	Co. Reg. No.	Registered office
Nordrike 2 Fastighets AB	556938-3929	Linköping
Västrike 2 Fastighets AB (dormant company)	556963-5179	Linköping
Säkerhetsfastigheter Sverige AB (dormant company)	556963-5161	Linköping

Note 16 Current investments

	2018	2017
Derivatives measured at FVTPL	23	3
Total	23	3

Note 17 Current receivables

	2018	2017
Receivables from subsidiaries	5	3
Opening suspended VAT	22	12
Other receivables	0	0
Total	27	15

Note 18 Prepaid expenses and accrued income

	2018	2017
Prepaid energy expenses	3	3
Other interim receivables	20	25
Total	23	28

Note 19 Cash and cash equivalents

	2018	2017
Bank balances	12	465
Total	12	465

Note 20 Untaxed reserves

	2018	2017
Accumulated difference between reported depreciations and depreciations according to plan	391	391
Tax allocation reserve	1,148	1,089
Total	1,539	1,480

Note 21 Interest-bearing liabilities

Refer to Note 16 to the consolidated financial statements.

Note 22 Other liabilities

	2018	2017
Customer advances	0	0
Trade payables	164	147
Derivatives measured at FVTPL	100	147
VAT	104	99
Other liabilities	3	3
Total non-interest-bearing liabilities	371	396

Note 23 Accrued expenses and deferred income

	2018	2017
Deferred rental income	496	469
Accrued energy expenses	13	14
Accrued interest expenses	37	40
Accrued social-security expenses	2	-
Accrued holiday pay	9	8
Accrued payroll tax	3	3
Other items	10	12
Total	570	546

Note 24 Related parties

Refer to Note 20 to the consolidated financial statements.

Note 25 Pledged assets and contingent liabilities

	2018	2017
Pledged assets	None	None
Contingent liabilities	None	None

Note 26 Events after the balance-sheet date

No significant events have taken place after the end of the period.

Declaration by the Board

The consolidated financial statements and annual accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and good accounting practice and present a true and fair view of the position and results of the Group and the Parent Company.

The Administration Report for the Group and the Parent Company presents a true and fair overview of the activities, financial position and results of the Group and the Parent Company and describes material risks and uncertainties faced by the Parent Company and the companies contained in the Group.

Stockholm, 18 March 2019

Eva Landén
Chairman

Åsa Hedenberg
CEO

Jan Berg

Carin Götblad

Mikael Lundström

Erik Tranaeus

Maj-Charlotte Wallin

Åsa Wirén

Masoomeh Antonsson
Employee Representative

Roger Törngren
Employee Representative

Our Auditor's Report was submitted on 18 March 2019
Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant, Ernst & Young AB

Auditor's report

To the general meeting of the shareholders of Specialfastigheter Sverige AB (publ), corporate identity number 556537-5945

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Specialfastigheter Sverige AB (publ) except for the corporate governance statement on pages 62-69 and the statutory sustainability report on pages 52-60 for the 2018 financial year. The annual accounts and consolidated accounts of the company are included on pages 6-109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 62-69 and the statutory sustainability report on pages 52-60. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for opinions

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

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of investment properties

Description of key audit matter

- At 31 December 2018, the fair value of Specialfastigheter's properties amounted to SEK 27,288 million and the change in value to SEK 2,286 million. Unrealised changes in value amounted to SEK 1,404 million and realised changes in value totalled SEK 882 million. A description of the appraisal of the property holdings has been provided in Note 9.
- Each quarter, Specialfastigheter conducts an internal valuation of its entire property holdings and, moreover, in Q2 and Q4, control validations are performed by external appraisers of a number of properties. This means that in 2018, 90% of the market value, corresponding to 50 objects, were valued by external appraisers.
- The valuations are based on the return using cash-flow approach, which entails forecasting future cash flows. The required yield is assessed based on each property's unique risks and on market transactions completed for objects of a similar nature, since few directly comparable transactions occur. Changes in unobservable input data applied in the appraisals are analysed at each balance-sheet date by the company management against internally available information, completed or planned transactions as well as information from the external appraisers. Given the numerous assumptions and judgments that occur in connection with appraisals; we believe that this area should be considered a key audit matter.

How our audit addressed this key audit matter

- We have evaluated and examined the management's procedures for valuing properties through measures, including evaluating the appraisal method and appraisal input data. We have also carried out comparisons against known market data. With support from our valuation specialists, we have examined the company's internal valuation model. We have also examined, with our valuation specialists' support, the reasonableness of assumptions in terms of required yield, vacancy rate, rental income and operating expenses. We have assessed the appropriateness of the disclosures provided in the annual accounts.

Income taxes

Description of key audit matter

- The tax expense in the income statement amounted to SEK 402 million. In addition, Specialfastigheter reported a deferred tax liability of SEK 3,247 million. Note 10 contains a description of the tax calculation.
- The calculation and reporting of current and deferred tax are complex processes and, to a high degree, are comprised of judgements and assumptions. These judgements and assumptions include, inter alia, decision data for fiscal depreciation, directly deductible redevelopment expenditure, sales of properties separately or as companies as well as changes in the value of properties and derivatives. Given the numerous assumptions and judgments that occur in connection with the calculation of taxes, we believe that this area should be considered a key audit matter.

How our audit addressed this key audit matter

- Our audit evaluated and examined the management's procedure for calculating current and deferred tax as well as examined the calculations against verification data. With support from our tax specialists, we have assessed the application in terms of the applicable tax legislation.
- We have assessed the appropriateness of the disclosures provided in the annual accounts.

Other information than the annual accounts and the consolidated accounts

This document also contains other information than the annual accounts and the consolidated accounts and can be found on pages 1-5, 52-60 and 114-118. The Board of Directors and the Chief Executive Officer are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

Among other tasks, the Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, oversee the company's financial reporting process.

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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

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

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

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

Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Chief Executive Officer of Specialfastigheter Sverige AB (publ) for the 2018 financial year and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for the preparation of the corporate governance statement on pages 62–69 in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement was conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A Corporate Governance Report has been prepared. Disclosures in accordance with Chapter 6 Section 6 the second paragraph points 2-6 of the Annual Accounts Act and Chapter 7 Section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 52-60, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Ernst & Young, Jakobsbergsgatan 24, 111 44 Stockholm, was appointed auditor of Specialfastigheter Sverige AB by the general meeting of the shareholders on the 17 April 2018 and has been the company's auditor since the 19 April 2012.

Stockholm, 18 March 2019
Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant

Property holdings

Specialfastigheter owns and manages a total of 99 (96) properties divided among three business areas. The buildings are spread geographically across the country.

	Number of buildings	Land area, sq m	Owned floor space, sq m
Prison and Probation Service business area	512	8,422,273	407,147
Defence and Judicial System business area	29	523,825	417,364
Institutional Care and Other Special Operations business area	602	8,269,351	269,335
Total:	1,143	17,215,449	1,093,846

Prison and Probation Service business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Asptuna	LINDHOV 15:19, 15:3	Norsborg	BOTKYRKA	18	125,582	4,828
Beateberg	KASSETTEN 1, VÄSTRA SKOGÅS 1:5	Trångsund	HUDDINGE	4	26,584	3,754
Borås	PROVAREN 2	Borås	BORÅS	7	55,720	5,558
Brinkeberg	RESTAD 3:13	Vänersborg	VÄNERSBORG	3	48,049	7,412
Fosie	FORNLÄMNINGEN 1	Malmö	MALMÖ	3	33,109	7,661
Färingsö	SVARTSJÖ 1:59	Svartsjö	EKERÖ	8	47,559	4,722
Gruvberget	GRUVBERGET 1:4-29, 1:31-34, 1:36-40, 2:1, 3:1, 5:2	Åmotsbruk	BOLLNÄS	32	106,054	4,511
Gävle	KÄLLÖ 46:1	Gävle	GÄVLE	5	40,113	7,850
Hall	HALL 4:15	Södertälje	SÖDERTÄLJE	18	588,803	29,732
Halldalen	HALL 4:14, 4:3, 4:5	Södertälje	SÖDERTÄLJE	36	635,882	8,496
Halmstad	EKETÅNGA 4:5	Halmstad	HALMSTAD	5	42,579	5,457
Haparanda	BOJAN 2	Haparanda	HAPARANDA	5	21,631	3,075
Helsingborg	KAVALLERISTEN 10	Helsingborg	HELSINGBORG	8	31,077	4,645
Hinseberg	HINSEBERG 1:8	Frövi	LINDESBERG	20	372,932	11,530
Huddinge	ROTORN 3	Huddinge	HUDDINGE	1	8,016	8,970
Hällby	TUMBO-BERGA 1:3, 1:5	Kvicksund	ESKILSTUNA	20	258,596	8,975
Högsbo	HÖGSBO 31:1	Västra Frölunda	GOTHENBURG	7	35,588	7,445
Kalmar	RAVELINEN 1	Kalmar	KALMAR	3	4,857	2,993
Karlskoga	SURPUSSEN 1	Karlskoga	KARLSKOGA	8	79,485	5,811
Kristianstad	VÅ 147:3	Kristianstad	KRISTIANSTAD	6	43,019	6,961
Kumla	LÖVSÅNGAREN 1, 2	Kumla	KUMLA	32	520,310	51,215
Ljustadalen	FILLA 8:5	Sundsbruk	SUNDSVALL	4	37,555	1,371
Luleå	PORSÖN 1:401	Luleå	LULEÅ	4	27,085	3,944
Mariefred	GRIPSHOLM 4:4	Mariefred	STRÅNGNÄS	18	150,080	8,604
Norrtälje	SKOGEN 1	Norrtälje	NORRTÄLJE	16	191,228	18,581
Nya Saltvik	SALTVIK 2:64	Härnösand	HÄRNÖSAND	10	295,597	23,911
Nyköping	MODELLEN 1	Nyköping	NYKÖPING	3	23,144	6,464
Rödjan	MARIEHOLM 1:8	Mariestad	MARIESTAD	20	323,753	5,436

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Sagsjön, Lindome	ANNESTORP 4:74	Lindome	MÖLNDAL	9	60,000	3,639
Skenäs	SKENÄS 1:19	Vikbolandet	NORRKÖPING	18	1,637,649	7,350
Skogome	SKOGOME 2:2	Hisings Backa	GOTHENBURG	14	275,307	12,868
Skänninge	ÖSTANÅ 6	Skänninge	MJÖLBY	14	146,508	16,353
Storboda	ROSERSBERG 2:7	Rosersberg	SIGTUNA	6	88,466	6,536
Svartsjö	SVARTSJÖ 1:60	Svartsjö	EKERÖ	9	47,688	4,721
Svartsjö Bostäder	SVARTSJÖ 1:60	Svartsjö	EKERÖ	7	7,000	909
Sörbyn	SÖRBYN 9:2	Hörnefors	UMEÅ	22	861,265	8,770
Tidaholm	RAMSTORP 4:10	Tidaholm	TIDAHOLM	17	277,255	15,315
Tillberga	HUBBO-SÖRBY 9:48	Västerås	VÄSTERÅS	8	64,251	13,502
Tygelsjö	PILE 1:7, 1:10	Tygelsjö	MALMÖ	18	120,662	10,489
Täby	RÖNNINGE 3:4	Täby	TÄBY	3	25,288	3,978
Umeå, Ersboda	TEGLET 1	Umeå	UMEÅ	4	38,034	3,902
Ystad	TERMOSTATEN 1	Ystad	YSTAD	7	59,550	8,198
Åby	FUNBO-ÅBY 9:1	Uppsala	UPPSALA	25	134,363	5,026
Österåker	PRÄSTGÅRDEN 1:11	Åkersberga	ÖSTERÅKER	7	405,000	15,679
Total, Prison and Probation Service				512	8,422,273	407,147

Defence and Judicial System business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
FOI	ARMERINGEN 1	Umeå	UMEÅ	4	290,535	13,575
Formgivaren	FORMGIVAREN 1	Stockholm	SOLNA	1	9,169	34,967
Försv N Undreg	BERGNÄSET 3:53	Luleå	LULEÅ	4	22,000	3,949
Kista	FÄRÖARNA 6	Kista	STOCKHOLM	1	6,559	24,658
Kolpenäs	KOLPENÄS 1:9	Södertälje	SÖDERTÄLJE	0	4,028	0
Kristallen	KRISTALLEN 2	Lund	LUND	1	2,647	10,423
Kronoberg	KRONOBERG 18	Stockholm	STOCKHOLM	7	42,358	163,000
Lejonet	LEJONET 11	Luleå	LULEÅ	2	10,596	21,800
Rådhuset	FRUKTKORGEN1	Stockholm	STOCKHOLM	1	13,595	22,765
Tegeludden	TEGELUDDEN 8	Stockholm	STOCKHOLM	1	3,504	14,812
Tre Vapen	TRE VAPEN 4	Stockholm	STOCKHOLM	3	94,224	66,458
Öb Högkvarteret	KAVALLERISTEN 3	Stockholm	STOCKHOLM	4	24,610	40,958
Total, Defence and Judicial System				29	523,825	417,364

Institutional Care and Other Special Operations business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Bergsmansgården	BROTORP 1:7	Fjugesta	LEKEBERG	7	21,400	3,452
Björkbacken	BERGSJÖN 21:1	Gothenburg	GOTHENBURG	5	18,680	2,906
Brättegården	BRÄTTE 1:2	Vänersborg	VÄNERSBORG	17	98,300	4,549
Bärby	FUNBO-BROBY 1:3	Uppsala	UPPSALA	21	191,907	7,872
Ekebylund	EKEBY 5:4	Rosersberg	SIGTUNA	12	12,180	2,289
Eknäs	EKNÄS 2:2	Enköping	ENKÖPING	11	65,870	4,938
Fagared	FAGERED 3:1	Lindome	MÖLNDAL	15	378,805	7,029
Flygvapenmuseum	MALMEN 2:8	Linköping	LINKÖPING	5	71,853	17,296
Folåsa	FÅLÅSA 12:1	Vikingstad	LINKÖPING	18	153,604	5,689
Fortunagården	LÄKAREN 2	Värnamo	VÄRNAMO	5	19,043	1,901
Granhult	GRANHULT 2:4	Ramsberg	LINDESBERG	9	37,222	2,161
Gudhem	GUDHEM 12:3, HOLMÄNGEN 7:1	Gudhem	FALKÖPING	18	217,084	11,066
Hessleby	HÄSSLEBY 2:2	Mariannelund	EKSJÖ	15	500,060	7,189
Hornö	HORNÖ 1:1, 1:8	Enköping	ENKÖPING	18	398,223	4,056
Håga	HALL 4:4, 4:7, 4:8, 4:10, 4:12, 4:13, TYSSLINGE 1:30, 1:31	Södertälje	SÖDERTÄLJE	9	174,795	5,586
Hässleholm	FRIDHEM 9	Hässleholm	HÄSSLEHOLM	2	16,116	1,305
Johannisberg	GRYTNÄS 2:1, GRYTNÄS 2:11	Kalix	KALIX	9	130,922	5,253
Karlsvik	BOSJÖKLOSTER 1:716	Höör	HÖÖR	13	96,879	3,606
Klarälvsgården	ORRETORP 2:2	Deje	FORSHAGA	6	243,800	2,590
Ljungaskog	LJUNGASKOG 15:28	Örkelljunga	ÖRSELLJUNGA	12	281,202	4,808
Ljungbacken	GRÄSKÄRR 1:1, OLIDAN 3:17, OLIDAN 4:9	Uddevalla	UDDEVALLA	25	276,152	7,001
Lunden	KLOSTERGÅRDEN 2:10	Lund	LUND	1	26,391	4,621
Långanäs	LÅNGANÄS 1:1	Eksjö	EKSJÖ	30	434,995	8,946
Lövsta	LÖVSTA 1:33, 1:67	Vagnhärad	TROSA	37	500,628	9,247
Mosslegården	LÄKAREN 4	Värnamo	VÄRNAMO	6	18,002	2,144
Nereby	NEREBY 1:1	Härestad	KUNGÄLV	19	162,660	3,601
Perstorp	UGGLAN 1	Perstorp	PERSTORP	4	4,264	1,000
Rebecka	TROXHAMMAR 8:2	Skå	EKERÖ	23	220,995	6,457
Renforsen	DEGERFORS 38:9, SLAK- TAREN 1	Vindeln	VINDELN	7	34,098	3,183
Revinge	REVIINGE 1:14	Lund	LUND	22	472,000	17,912
Rpk Gothenburg	BACKA 866:772	Hisings Backa	GOTHENBURG	1	25,417	4,462
Runnagården	KRUSBÄRSBUSKEN 10	Örebro	ÖREBRO	13	77,522	4,198
Ryds Brunn	RYD 1:143	Ryd	TINGSRYD	7	21,620	4,852
Råby	STORA RÅBY 32:6, 32:21, 32:23	Lund	LUND	4	0	3,770
Rällsögården	DAMMEN 1:11-15, 1:37, 3:1, 3:2, RÄLLSÖN 1:1-4	Kopparberg	LJUSNARS- BERG	19	1,297,250	6,602
Sandoskolan	SANDÖ 1:4, 1:5, 2:5	Sandöverken	KRAMFORS	38	433,348	30,830
Stigby	STIGBY 1:9, 7:3	Visingsö	JÖNKÖPING	18	78,146	7,215
Sundbo	SUNDBO 7:106, 7:107, 7:109, 7:63	Fagersta	FAGERSTA	30	385,423	9,630
Vemyra	VEMYRA 3:1, 3:2	Sollefteå	SOLLEFTEÅ	12	173,400	4,293
Åstorp	BULTEN 2	Åstorp	ÅSTORP	2	17,939	5,007
Älvgården	YTTERNORA 2:6, 2:7	Hedemora	HEDEMORA	20	75,600	6,995
Östfora	ÖSTFORA 1:30	Järlåsa	UPPSALA	21	290,915	5,149
Öxnevalla	BRÄNNARED 2:3	Öxnevalla	LAND	16	114,641	6,681
Total, Institutional Care and Other Special Operations				602	8,269,351	269,335

Definitions

Adjusted return on equity, %

Net profit/loss, after including changes in value and associated deferred tax, in relation to average equity.

Carbon dioxide, CO₂

Fossil fuels are the largest source of emissions of the greenhouse gas carbon dioxide, which contributes to climate changes.

Equity, SEK million

Recognised equity.

Equity/assets ratio, %

Adjusted equity on the balance-sheet date as a percentage of total assets.

Floor space, sq m

Estimated lettable floor space in square metres.

Green appendices

Specialfastigheter's green appendices (also known as green leases) are a standardised template developed by the Swedish Property Federation for reducing the environmental impact from premises. The agreement sets out the landlord's responsibilities, the tenant's responsibilities and shared responsibilities, and details the measures agreed by the landlord and tenant to reduce environmental impact through information and collaboration in terms of energy and indoor environment, material selection and waste management.

Green bonds

Bonds intended to finance environmentally sustainable projects. Our framework is based on the Green Bond Principles.

Greenhouse gases

Greenhouse gases is an umbrella term for many different gases that increase the greenhouse effect.

Interest coverage ratio, cash-flow based

Profit/loss before tax after adding financial expenses, changes in value and gains/losses from property sales, divided by financial expenses excluding changes in value of financial derivatives.

Loan-to-value ratio, %

Interest-bearing net loan liabilities in relation to the closing value of investment properties.

Net operating income, SEK million

Income from property management less property expenses.

Occupancy rate, %

Total floor space of let premises in relation to total lettable floor space.

Operating net financial items, SEK million

Interest expense less interest income for the year.

Profit from property management, SEK million

Profit from property management is a specific earnings metric commonly used in the property sector to facilitate comparability in the sector. It is calculated as the sum of net operating income, administrative expenses and net financial items.

Rent per sq m, SEK

Annual rent divided by the lettable floor space in square metres at the end of the year.

Return on equity, %

Net profit for the year in relation to average equity.

Return on total capital, %

Net profit for the year plus financial expenses in relation to average total assets.

Secure facilities

Properties that have been adapted for operations with security requirements in terms of operational, personal, information or physical security.

Surplus ratio, %

Net operating income divided by income from property management.

Whistle-blowing

This is the term and the function that we use to enable anyone to anonymously state their suspicions regarding cases of corruption or other improprieties.

Yield, %

Net operating income divided by the average market value of investment properties.

Specialfastigheter has selected the above key performance indicators based on established practices in the real estate sector and our own governance.

Reporting calendar

Interim report January–March 2019
12 April 2019

Interim Report January–June 2019
10 July 2019

Interim Report January–September 2019
16 October 2019

Annual General Meeting

12 April 2019, 11 a.m.,
Alströmergatan 14,
Stockholm, Sweden



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