



VASAKRONAN

Annual Report
2018



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Vasakronan in

VASAKRONAN'S ASSIGNMENT

is to generate a high, risk-weighted return for our owners the First, Second, Third and Fourth Swedish National Pension Funds, though never at the expense of the environment and people. A return that will benefit Sweden's current and future pensioners.

HOW WE CREATE VALUE

To accomplish our assignment, we must create value in the business. This is achieved through **good property management** and **development**, and supplemented by **active transactions**. Our strategies build on our having attractive properties, being a good landlord and attracting the best employees. Moreover, sustainability is in focus throughout our operations.





OUR AMBITION IS TO BE SWEDEN'S LEADING PROPERTY COMPANY

Vasakronan is Sweden's largest property company with a portfolio comprising 174 properties with a total area of 2.4 million sq. m.

We own, manage and develop centrally located office and retail properties in Stockholm, Gothenburg, Malmö and Uppsala. The majority of the portfolio is located in Stockholm.

The market value of our property portfolio amounts to approximately SEK 139 billion.

The number of employees is 309.

WE WILL ACHIEVE THIS BY:

- **Generating a high total yield**, that should also exceed that of the industry in general.
- **Being the preferred choice** for tenants looking for office or retail premises.
- **Being perceived as** the most attractive employer in the industry.
- **Assuming social responsibility** and striving for long-term sustainable development.

OUR VISION IS
to create future-proof
cities for everyone,
where people and
companies thrive.



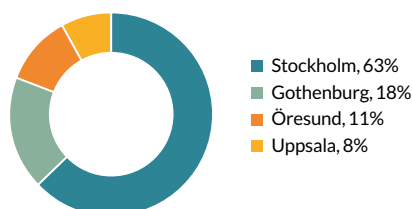
Property values increase due to rising market rents

SEK **139** BILLION SEK **13** BILLION

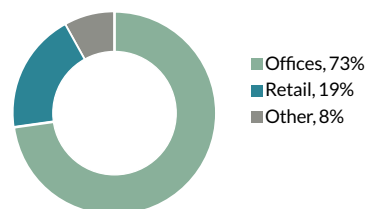
The value of the property portfolio increased 8.5% and totalled SEK 139 billion.

Profit after tax amounted to SEK 12,902 million (9,269).

Contracted rent by geographic market



Contracted rent by property type

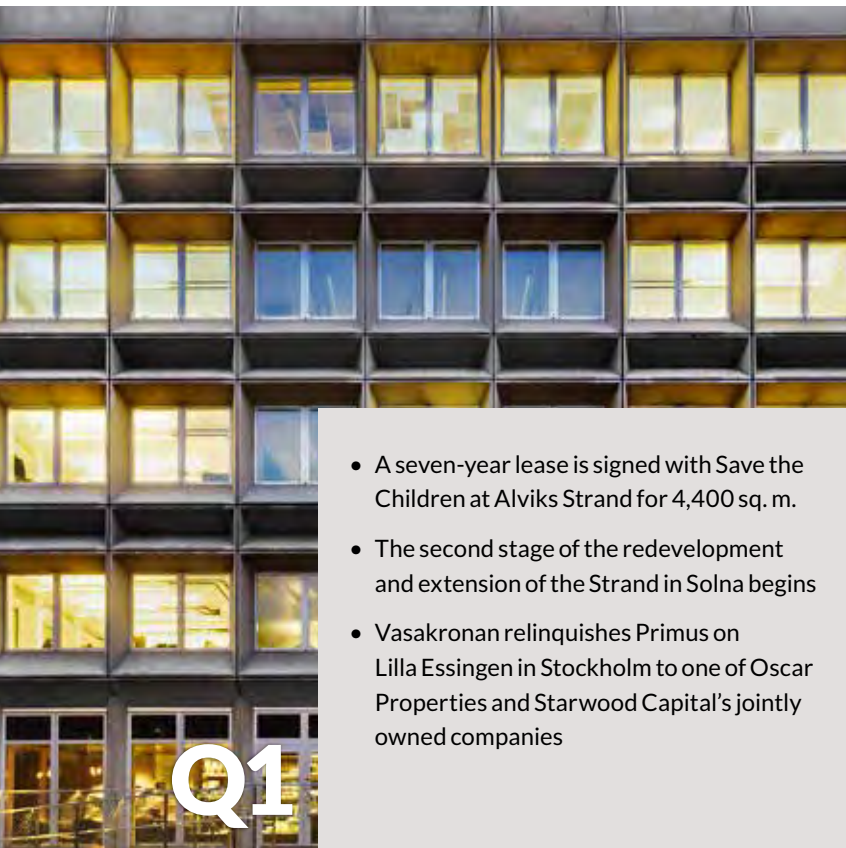


Vasakronan in brief

SEK m	2018	2017
Rental revenue	6,718	6,490
Net operating income	4,869	4,678
Profit before value changes and tax	3,884	3,413
Net interest	-1,043	-1,165
Change in property values	10,651	7,973
Change in value of financial instruments	13	468
Profit for the year	12,902	9,269

Market value of property, SEK bn	139	127
Contracted rent, SEK m	6,854	6,638
Occupancy rate, %	93.1	93.1
Interest coverage ratio, multiple	4.7	3.9
Loan-to-value ratio, %	41	43
Number of properties	174	177
Area, thousand sq. m.	2,372	2,430
Environmental certification, %	85	84
Energy consumption, kWh/sq. m.	103	100
Number of employees	309	349

Vasakronan's ambition is to run its entire business in a sustainable manner. Consequently, reporting of our sustainability agenda has been integrated into the company's annual report. A summary of how we govern, set targets and follow up our significant sustainability topics is on pages 112-126.



Q1

- A seven-year lease is signed with Save the Children at Alviks Strand for 4,400 sq. m.
- The second stage of the redevelopment and extension of the Strand in Solna begins
- Vasakronan relinquishes Primus on Lilla Essingen in Stockholm to one of Oscar Properties and Starwood Capital's jointly owned companies



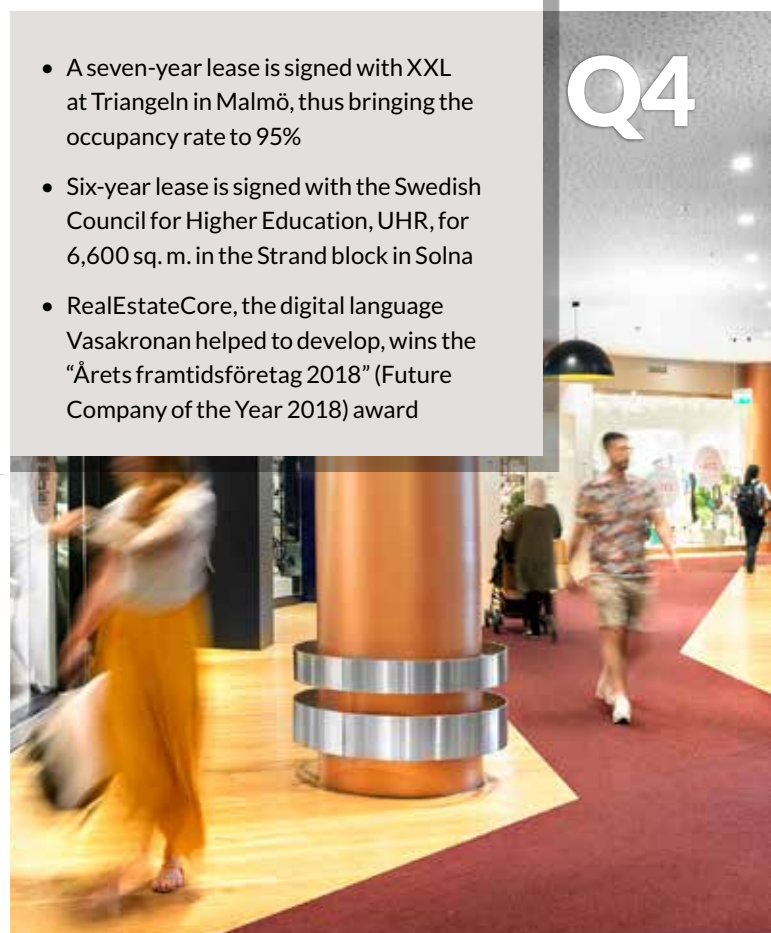
Q3

- The annual Global Real Estate Sustainability Benchmark,GRESB, ranks Vasakronan as the most sustainable property company in Europe within the office segment
- Vasakronan issues the world's first green commercial paper
- The Gårda 18:23 and Gårda 18:24 properties in Gothenburg are valued at over SEK 1,000 million as part of the divestment to Platzer



Q2

- The leases with the Swedish Medical Products Agency at Uppsala Science Park are extended for a total of 19,000 sq. m.
- The fully let Fenixhuset in central Uppsala is acquired at a property value of SEK 284 million
- Vasakronan obtains a public rating from Moody's with the score A3, stable outlook, thus opening up new funding opportunities



Q4

- A seven-year lease is signed with XXL at Triangeln in Malmö, thus bringing the occupancy rate to 95%
- Six-year lease is signed with the Swedish Council for Higher Education, UHR, for 6,600 sq. m. in the Strand block in Solna
- RealEstateCore, the digital language Vasakronan helped to develop, wins the "Årets framtidsföretag 2018" (Future Company of the Year 2018) award

Best results ever

Rising rental revenue and the continued steady increase in property values laid the foundations for our best results ever. At the same time, conditions within the office and retail markets changed at an ever-accelerating pace. In 2020, we will meet the needs of our customers by way of our own co-working concept – Vasakronan Arena, explains Fredrik Wirdenius, CEO of Vasakronan.

2018 was another year with a strong economy, a robust labour market and high demand for office premises in attractive, central locations. What does this mean for Vasakronan?

“Market rents have continued to rise. In absolute prime locations in central Stockholm, individual contracts have been signed for as high as SEK 10,000 per square metre for modern office premises. High market rents have in turn driven up property values which, combined with growing rental revenue, means we have posted our highest profits ever: SEK 12.9 billion. After nine consecutive years of rising property values, the value of our portfolio has now reached SEK 139 billion.”

You mentioned the strong rental trend in central Stockholm. What is the situation in other sub-markets?

“In general, rents have trended positively in most of our sub-markets. Some Stockholm suburbs have even performed extremely well. In Solna, we rented offices to the Swedish Council for Higher Education in the newly remodelled Strand block during the year, and after the end of the financial year, the Swedish Tax Agency signed a lease for the Nya Kronan block in neighbouring Sundbyberg, which consists of both newly built and renovated properties.”

“The rental trend was also positive in Gothenburg, while in Malmö, the major addition of new office premises contributed to rent levels remaining constant. In Uppsala, where our tenants are generally less sensitive to economic changes as they include government agencies, universities and pharmaceutical companies, the rental market remains stable.”

So another successful year for Vasakronan, it seems. But also one that entailed major changes and challenges, wouldn't you say?

“Yes, absolutely! Several major and parallel trends are influencing every part of society and thus the property sector and us, too. Essentially, it is digitisation that has radically changed both how we work and how we make purchases. The rapid

rate of change has led to companies having to be flexible and to adapt quickly to new circumstances and patterns of demand. This entails customers no longer requesting offices with long leases, rather new types of offices that can be quickly adapted to higher or lower numbers of employees and new forms of collaboration.”

“In the same way, the enormous growth of e-commerce has totally changed the preconditions for stores and shopping centres. All of these aspects affect us at Vasakronan and mean we have to consistently reassess and renew our offering.”

What are the strongest drivers in the office rental market?

“Office tenants are continuing to demand ever-smaller spaces. This trend is becoming more pronounced and we have seen examples where office space has been cut by half following the renegotiation of a lease. Meanwhile, the location of premises is growing in importance. Competition for labour has intensified during this extended economic boom and modern premises in central locations have become increasingly important in terms of attracting the most sought-after employees.”

“However, despite the fact that rent levels calculated per square metre have increased for several years in a row, many tenants currently have a lower rent per employee thanks to efficient use of space and smart IT solutions. The winners in this market are property owners who, like Vasakronan, are able to offer effective premises in the best locations and thus extract rents at profitable levels.”

Tenants are also requesting greater flexibility.

How is Vasakronan satisfying that wish?

“When it comes to developing office environments in such a way that they can serve as a tool and stimulate greater productivity, target fulfilment, health and well-being, we have long been at the forefront. We were pioneers in designing activity-based offices, while a few years ago we introduced the highly-rated “Smart & klart” concept, which offers tenants the



“We are now taking the next step and adding yet another customer offering that renders us more interesting and relevant to the rental market – Vasakronan Arena”

FREDRIK WIRDENIUS, CEO OF VASAKRONAN

opportunity to move in to completed and fully furnished office premises at very short notice.”

“We are now taking the next step and adding yet another customer offering that renders us more interesting and relevant to the rental market. The new “Vasakronan Arena” concept offers our tenants a co-working alternative using our unique method. Based on our large customer base, the best locations, our far-reaching sustainability approach and our experience of developing offices, we are able to offer a co-working concept that places the focus on efficiency and productivity. IT, ergonomics, ventilation and environment – all of these aspects will maintain the highest standards.”

“Thanks to our size, we are able to combine traditional office rentals, Smart & klart and co-working in a way that most of our competitors are unable to. The full range of products will enable the different rental types to support each other and our customers will have the opportunity to move between our local offerings over time.”

When and where will you initially offer the Vasakronan Arena concept?

“We are not going to launch Vasakronan Arena to great fanfare; we will instead introduce it gradually into all of our markets. One of the first properties to be furnished with the Arena concept will be the new Sergelhuset in the middle of Stockholm City, which will be completed in 2020. The new Arena office will become a neighbour of our own head office, which will be moving into Sergelhuset next year.”

“At Vasakronan we have a tradition of moving our head office to newly remodelled properties and using our own office as an example and inspiration to our tenants when designing their new office premises. In line with this, we will be collocating our office with the new Arena office. We envisage that we too will be able to take advantage of the co-working opportunities if we need to expand or want to create an adjacent space for our partners.”

Is Sergelhuset currently the largest development project?

“Yes, together with other new-build and renovation projects in the area surrounding Sergels torg. Our assessment is that there is still a lack of modern and efficient office premises, particularly in Stockholm but also in Gothenburg and Uppsala. This is why we are stepping up investments in project development and will have project volumes totalling some SEK 4 billion per year in the near future.”

“The renovation projects in central Stockholm also represent

important progress in relation to our sustainability efforts. Our view is that there is enormous potential for greater sustainability in how work is undertaken on new construction and redevelopment of properties. When renovating Sergelhuset, we actively sought to exploit and reuse old materials and building elements, such as windows and doors. We also refined our planning in conjunction with the contractors in order to manage the often extensive waste that occurs during new-build projects. Lastly, we also ensured that all transport to and from our construction sites around Sergels torg are fossil-free.”

What is the next stage of your sustainability efforts?

“We feel that the way to create an even more sustainable property sector is to develop building methods and, above all, building materials that have less impact on the climate. One such climate-friendly building material we have in excess in this country is wood. Wood has become increasingly common in the construction of multi-family dwellings over the past decade, and in the coming years wooden frames will also begin making an appearance in office and retail properties.”

“When we begin the construction of the new Magasin X property in Uppsala later this year, it will be one of Sweden’s largest office properties with a frame made entirely of wood. Magasin X will have a clear sustainability profile and will be environmentally certified in line with LEED to the highest rating: Platinum.”

Will rapid technological developments also contribute to a more sustainable property sector?

“Definitely. That said, rapid technological developments will not just affect the sector from a sustainability perspective, it will change the entire business through and through. The new digital RealEstateCore “language” means all the different technical installations in a property can communicate with each other for the very first time. This will enable people to manage and optimise the systems governing ventilation, heating and lighting, for example, so they can improve the indoor climate while also saving energy.”

What opportunities will be created by this new digital language?

“When combined with artificial intelligence, or AI, RealEstateCore will lead to a large share of property monitoring being done automatically, without the need for property technicians. Using knowledge about how many people are in a property and where they are within it, it would, for example, be possible

to adjust access to facilities such as toilets and thus reduce the need for cleaning and maintenance. Over the next few years, we expect RealEstateCore to create the conditions for a range of new technical applications that both we and our customers will find highly beneficial.”

“The development of RealEstateCore, which was done in collaboration with other players in the sector, has given Vasakronan a prominent position within technological developments in the property world. It is in our nature to be curious about and want to exploit the newest developments – not least in order to recruit and retain skilled employees. Our experience is that many people want to work at a company at the forefront of developments and where new things are happening all the time.”

Nine years have passed since Vasakronan signed the first green lease. Are you still the leading property company in the field of sustainability?

“Since we and CGI – known then as Logica – signed the first green lease for their office in Nacka Strand just outside Stockholm, many other property companies have followed in our footsteps. Despite this, I feel that we have maintained our lead in relation to directing the property sector in a sustainable direction over the long term.”

“85% of our properties were environmentally certified by the end of 2018, and during the year Vasakronan’s climate targets were approved by the Science Based Targets Initiative – a collaboration involving the United Nations Global Compact, among others. Science Based Targets is a scientific method of ensuring that approved companies have climate targets in line with the Paris agreement’s aim to limit global warming to two degrees Celsius. Vasakronan was also named Europe’s most sustainable office company and the ninth most sustainable in the world in the eminent international Global Real Estate Sustainability Benchmark, or GRESB.”

“During the year we revised and broadened our framework for green financing and supplemented our bond programme with green commercial paper. For the very first time, Vasakronan also obtained a rating from the credit rating agency Moody’s, thus giving us access to sources of financing from across the globe. This creates the conditions for more cost-effective borrowing with longer tenors, as well as financing that helps us reach our goal of achieving entirely green borrowing in the long term.”

You noted earlier how the growth of e-commerce has affected stores. What does this entail for Vasakronan?

“The extensive structural overhaul of the retail sector continued unabated in 2018. The market share of e-commerce increased while internet-based sales became established within new product areas. This has led to some stores being knocked out, while many others have reduced the size of their sales areas.”

“For Vasakronan, which has a large share of retail premises, this intensified competition from e-commerce poses a major challenge. Over the past few years and in collaboration with

shoppers, we have tested various options to strengthen the attractiveness of stores and commercial districts. Södra Förstadsgatan in Malmö and Vallgatan in Gothenburg are successful examples of places where we have created an interesting mix of different stores, brands, eateries and experiences that attract many visitors and customers. Another example is Hamngatan in Stockholm, where Vasakronan created an attractive street full of stores with a range of strong international brands such as Uniqlo, Starbucks and Victoria’s Secret.”

Why is Uniqlo’s establishment in Stockholm particularly significant?

“The Japanese fashion brand Uniqlo opened a flagship store in the autumn in Sverigehuset. This establishment shows that it has become increasingly important for companies that use the internet as their primary sales channel to also meet their customers in physical stores. Over the past few years, an increasing number of Swedes have bought clothes from Uniqlo online, and the company decided it was time to establish a physical presence in Sweden too. To date, the opening has exceeded the company’s expectations by a long way.”

“The entire area around Sergels torg in central Stockholm will receive a real boost over the coming years. This very year we began work on an upgrade to Sergelgatan and in 2020, Sergelhuset and the surrounding properties will be ready for occupancy, while Urban Escape on the other side of Hamngatan will be completed and the esteemed NK department store will be given a facelift. A range of new restaurants and stores with strong brands will be opened to attract visitors to streets that have previously not been known as entertainment, eating or shopping areas. The major investments of the last few years will have an effect and many global chains are showing increasing interest in Stockholm, which also has a strong standing internationally.”

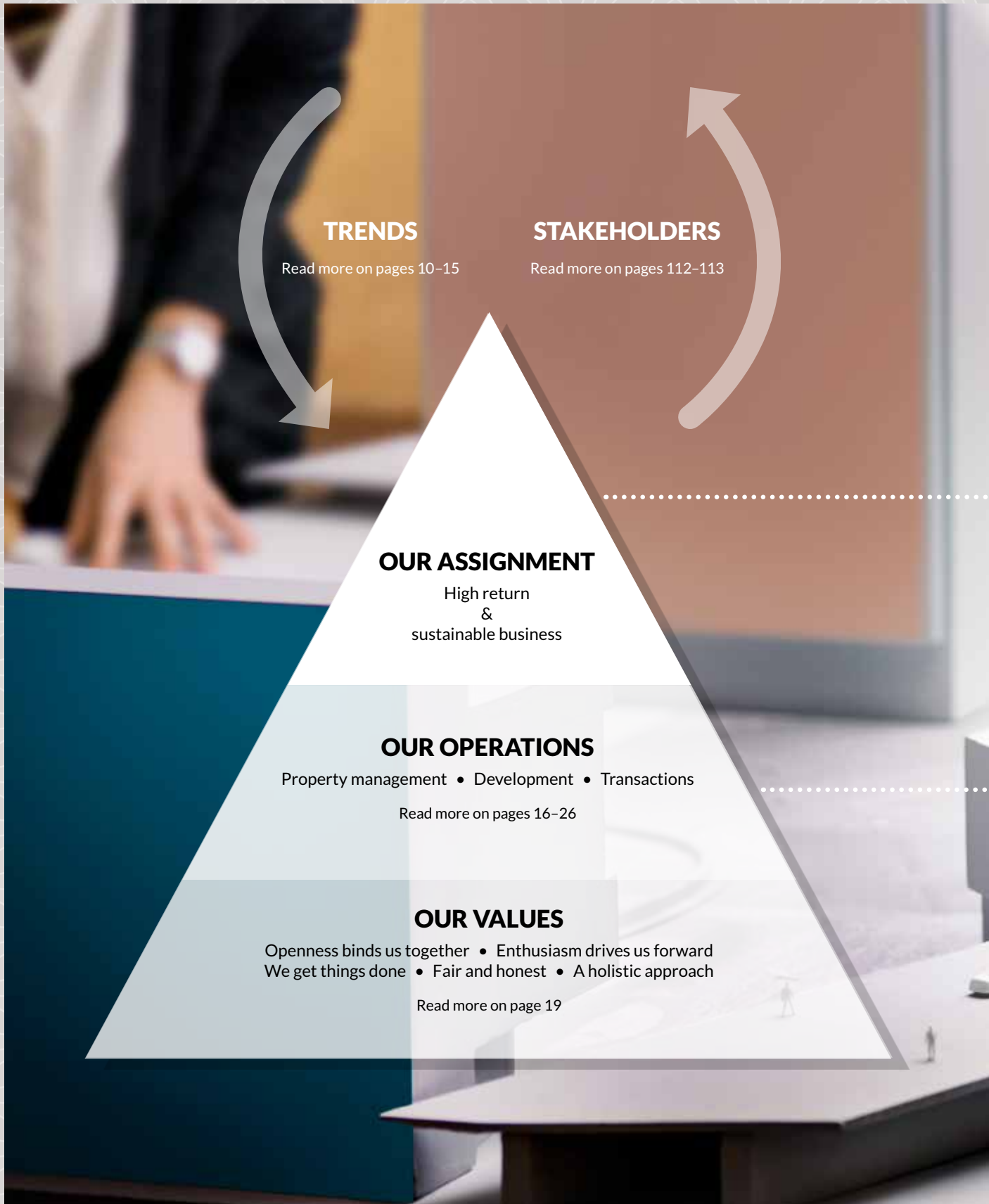
What are your expectations as we enter 2019?

“The outlook remains bright. However, sooner or later the economy will dip, and we know from experience that the next downturn will not take the same shape as the previous ones. That said, we are well equipped for the future – in all sub-markets and in terms of both retail and office premises.”

“Our properties are “survivors” that never have high vacancy rates, even during an economic downturn. We have reliable, long-term customers, of whom many are government agencies or companies less exposed to economic fluctuations. Over the past few years we have gradually reduced our sensitivity in terms of financing by moving over to borrowing with longer tenors. All in all, our assessment is that we are as ready as we can be.”

Stockholm, March 2019

Fredrik Wirdenius
Chief Executive Officer



TRENDS

Read more on pages 10-15

STAKEHOLDERS

Read more on pages 112-113

OUR ASSIGNMENT

High return
&
sustainable business

OUR OPERATIONS

Property management • Development • Transactions

Read more on pages 16-26

OUR VALUES

Openness binds us together • Enthusiasm drives us forward
We get things done • Fair and honest • A holistic approach

Read more on page 19

Future-proof cities

FOR EVERYONE, WHERE PEOPLE AND COMPANIES THRIVE

STRATEGIES

- Investment strategy
- Customer strategy
- Technology strategy
- Employee strategy
- Financing strategy

Read more on page 15

GOALS

- Financial
- Environmental
- Social

Read more on page 15, 134–135

Increasingly rapid rate of change

Our operating environment is changing at an increasingly rapid rate, creating both opportunities and challenges. By gaining an understanding of trends and underlying drivers, we can develop our business and satisfy emerging needs.

Understanding which trends will affect us over the coming years is of utmost importance if we are to develop the business in the right way and focus on the right aspects. Competitive intelligence is a continuous and integrated part of Vasakronan's business, as are efforts to constantly challenge and develop the organisation. Vasakronan's aim is to adopt the role of leader in terms of tackling the changes affecting the sector.

There are primarily three trends currently affecting the property market: digitisation, expanding e-commerce and new patterns of demand for offices. Parallel to these three aspects, the sector – along with society as a whole – is also affected by a greater focus on sustainability topics, first and foremost driven by the increasingly obvious effects of ongoing climate change.

Increasing interest in health issues, not least how employees' health is affected by workplace conditions and environment, is also having a greater influence on how property companies plan premises and their surrounding urban environments. All in all, this rapid development within several different areas means the property sector has an acute need to bring new skills into the mix. Over the coming years, property companies will need to recruit new employees who have

both digital and behavioural skills, while also ensuring that existing employees develop their skill sets.

A broad sustainability perspective

Increasing awareness of the risks linked to ongoing climate change has led to the property sector taking measures in a range of areas to reduce the sector's negative impact on the environment. Over the past few years, a greater number of property companies have realised the importance of adapting their businesses in a way that reduces their carbon footprint. The commercial grounds for ensuring this green transition have also gradually become clearer. A growing number of companies and authorities are demanding environmental certification and the chance to add green-related services when selecting a landlord; a development that will likely gather pace over the next few years.

The property sector accounts for almost 40% of society's energy consumption. It is therefore natural that the property sector's focus would be on reducing energy consumption and solely using renewable energy sources. Active efforts relating to heating, ventilation and insulation have already led to major reductions in emissions, and as more and more older buildings are replaced with



newly built, climate-smart properties, the carbon impact will fall even further. The installation of solar photovoltaic panels has so far played a small but growing role in climate initiatives, as these reduce properties' needs for externally transmitted energy.

Even ten years ago, Vasakronan identified the need to move its business in a more environmentally friendly direction. By way of various measures to enhance energy efficiency and a transition to renewable energy sources, Vasakronan has reduced its direct GHG emissions by some 98% since 2006. This reduction in energy consumption has also led to considerable improvements in net operating income and increased property values.

In late 2018, Vasakronan's climate targets were analysed and approved by the Science Based Targets Initiative. This approval testifies that the company's climate targets are



For companies whose most important sales channel is e-commerce, it has become increasingly important to also meet their customers in physical stores. In the autumn fashion brand Uniqlo opened a flagship store in Sverigehuset in Stockholm.

enough to achieve the goal of the Paris climate agreement to keep the average global temperature rise well below 2 degrees Celsius. During the year the company was also ranked the most sustainable office company in Europe as well as number nine globally by the Global Real Estate Sustainability Benchmark, or GRESB.

Selection of building materials increasingly vital

As CO₂ emissions from energy consumption at properties have fallen, interest has turned to other parts of the business that have a major impact on the environment and climate. One such area is waste management. This involves both the receiving and transporting of waste produced by tenants' day-to-day operations, such as the large amounts of waste created during new construction, demolition and redevelopment. Vasakronan

takes active steps to reduce the amount of waste in society by supporting its tenants in their own aims to reduce their waste, sort and recycle materials and, as far as possible, reuse furniture and other equipment. In terms of major redevelopment and new construction projects, Vasakronan attempts to reuse as much material as possible.

Building materials are often made from non-renewable raw materials, and their production is often energy-intensive and leads to high levels of CO₂ emissions. An important part of our climate efforts is thus to shift as far as possible over to building materials produced from renewable or recycled raw materials. Wood, a renewable and climate-smart building material, is being used increasingly in construction. The planned Magasin X office property in central Uppsala will be Vasakronan's first construction project using a wooden frame.

TRENDS THAT IMPACT VASAKRONAN'S BUSINESS

Climate change

Perhaps the most vital and all-encompassing issue in our future is climate change. The challenges posed by climate change affect our business model and the way we assess our operations in a range of different ways.

Flexibility, simplicity and freedom

In rapidly changing times, customers demand the ability to prioritise their own challenges and operations. These needs can vary quickly over time and the need for service and other complementary services has increased. Customers are thus increasingly requesting flexibility, simplicity and freedom in their rental conditions.

Health and ill health

Interest in health and the significance of a property on employees' health is increasing among our customers. This issue of health has a major impact on how we design offices and retail stores, as well as on how we design the surrounding urban environment.

Technological developments

Technology is playing an increasing role in our daily lives and is creating entirely new opportunities and challenges for all property sector participants. We must be at the forefront of these developments and have the right expertise to take advantage of trends in a smart way.

Changes in commerce

E-commerce is altering the conditions for the retail sector as a whole. It also places requirements on us to support retail companies in renovating their stores and making shopping centres and commercial streets attractive to more customers. We also need to develop new and interesting uses for freed-up floor space in stores.

Displacement of skills

More and more work assignments are being automated and new assignments entail requirements for new skills. Employees with new skills need to be recruited while existing employees' skills require further development.



“The number of workplaces required can vary wildly over time and demands for service and related services have increased.”

Major growth in co-working

One area in which changes have occurred rapidly is the demand from tenants for office premises. The main trend of the past decade – that customers are demanding modern premises that make efficient use of space, have good IT infrastructure and are centrally located – is definitely holding firm. At the same time, however, demand for greater flexibility, simplicity and a wider range of services has also grown. The number of workplaces required can vary wildly over time and demands for service and related services have increased. This trend is being driven by small companies, start-ups and freelance groups as well as larger organisations that are increasingly less inclined to plan in the long-term way a multi-year lease requires them to. Co-working has largely been seen as the response to this shifting demand, that is, a tenant sharing premises with other companies. Instead of a normal lease for a specific premises, they sign up for a kind of membership that offers access to a number of workplaces, meeting rooms and a range of related services. This co-working trend has seen explosive growth in just a few short years, and in Stockholm there is currently a total of 200,000 square metres of co-working offices, according to a report from the Swedish Property Federation. This trend has not progressed as quickly in Gothenburg and Malmö, but the establishment of new co-working companies is under way in these cities too.

Until now, co-working workplaces were largely supplied by service companies who rented premises and then developed the range of services offered to the end customer. This rapid demand is placing property companies at a crossroads. They can either rent to such service companies who develop and offer co-working workplaces, thus missing out on the rental premium that a service offering entails, or the property companies

can develop co-working options themselves, based on their own skills and experience.

Comprehensive office space offering

In 2020, Vasakronan will expand its office space offering to include a proprietary co-working alternative. This project will use Vasakronan’s extensive experience of innovation in relation to offices and workplaces, for example its pioneering work to develop activity-based offices and the Smart & klart concept, that is, fully equipped offices with everything people need already in place. Co-working is not a limited concept in Vasakronan’s view, rather it forms part of a comprehensive offering in which traditional office rentals and Smart & klart represent the fundamental elements. Vasakronan’s overall expertise and extensive range put it in a position to offer tenants a long-term partnership in which the proportions of the different elements can vary over time. The offering now being introduced by Vasakronan – “co-working our way” – builds on extensive expertise relating to styles of working and methods to optimise office environments, with the aim of contributing to tenants’ productivity, health and well-being. Naturally, Vasakronan should offer top-quality performance when it comes to ventilation, ergonomics, IT infrastructure and other major aspects of the work environment. This concept, Vasakronan Arena, will initially be introduced in the redeveloped Sergelhuset in Stockholm. ●



Johanna Skogestig
SVP, CIO

Leases are becoming ever shorter.

Why is this?

“We currently have a labour market in which companies require the organisation to be able to change at any moment – a development driven largely by digital technology. This means many tenants need flexibility and service from property owners in order to manage their rapid changes. Traditional leases with long durations and extensive responsibility placed on tenants for the premises no longer match this trend – a trend we can see in many of Europe’s major cities.”

How are you meeting this trend?

“To a large extent it is a question of how we develop our properties, whether existing or new. For example, we are now creating solutions whereby our tenants have the option to combine their own office, which they decorate and equip themselves, with fully completed spaces for which we take full responsibility. From 2020; we will also be offering spaces or rooms in Vasakronan’s own co-working arenas. Long leases are stable, it’s true, but shorter leases and greater mobility enable us to pinpoint optimal solutions that benefit both us and our customers.”

How is this trend affecting Vasakronan’s property values?

“The winners will be the property companies who, like us, have a high-quality property portfolio with properties in excellent central locations. Tenants in these areas are willing to pay well for flexibility and service. The effect will be that market rents in these types of properties will rise more than others. A clear trend is that the differences in rents and property values have increased and will likely continue to do so between the “A” and “B” locations, but also “A” and “B” properties.”



“Tougher competition from e-commerce is forcing city retailers to find totally new ways to attract customers.”

Growing competition from e-commerce

The last decade has proved to be revolutionary for the retail sector. E-commerce has grown rapidly and even captured significant market shares in certain retail segments. Many commentators think this will have clearly negative consequences for physical stores, since e-commerce accounts for 15% or more of total sales. The line has already been crossed in terms of electronics, fashion and books, and now e-commerce is making its largest increases in market shares in areas such as sport and leisure, DIY and home decor. The challenges posed by online retail have had various consequences for physical stores. Relatively few have been totally out-competed, but most have had to rejuvenate and adapt to the new reality.

Property companies with a large share of retail premises have also faced challenges due to these shifting conditions. The hardest hit have been owners of shopping centres far removed from city centres, where customers come by car and where the range of stores is in itself the centre's main attraction. That said, stores lining centrally located streets with heavy footfall have also seen their turnover fall. Many stores have reduced their floorspace to keep costs down and compensate for falling revenue. At the same time, several e-commerce companies have established physical stores where focus is placed on overall turnover rather than the turnover of the physical store.

Focus on all-round experiences

The past few years have seen a wide range of changes and innovative approaches to strengthen the competitiveness of physical retail and differentiate it from e-commerce. The dominant trend has been to increase the proportion of restaurants, fast-food outlets and cafés in order to offer visitors an all-round experience. Other new concepts have included pop-up stores where retail players are able to market their goods and services

for a limited period, as well as showrooms whereby stores whose main sales channel is online are able to give customers the opportunity to see and feel the goods. These centrally located showrooms have also offered companies that typically sell their products in retail premises far away from city centres, for example car dealers and furniture warehouses, the chance to get closer to customers. Major shopping centres and pedestrian areas close to city centres with heavy footfall have enhanced their competitiveness through ambitious investments in other types of local services, such as food courts, cinemas and gyms.

There is every indication that the rate of change within the retail sector will continue to increase over the coming few years, as e-commerce continues to gain ground and expand into new areas. The number of companies offering experiences is also expected to increase, while less attractive retail locations will be converted into offices, gyms and premises for other activities where location is not as crucial. Hybrid premises are another phenomenon likely to become increasingly common. These premises bring stores, restaurants, showrooms, healthcare facilities and offices together in a single premises, thus attracting different types of visitor who can enrich each other's experience. Closely related to this are micro department stores where the property owner is responsible for its operation and guarantees an exciting mix of fashion collections, new culinary experiences, fitness, yoga, hairdressing and more. Some companies will be located in the micro department store permanently, while others will be there temporarily and in different formats

Successful collaboration

Vasakronan works continuously to rejuvenate the retail sector. For a number of years, we have collaborated successfully with other property owners on the retail street Södra



Jesper Örtengren
Business Development Manager for Retail

Online shopping is ever increasing and many see an end to stores. What is your view?

“Competition from e-commerce is of course a challenge for physical stores. However, we can also see that stores have the right conditions to retake their important role through smart combinations of physical presence and digital offerings. I see an increasing need for flagship stores coupled with fewer stores overall. Two such openings are Uniqlo, with its first Nordic store in Kungsträdgården in the middle of Stockholm City, and Rum21/RoyalDesign on Kungsgatan.”

What other openings do you want to highlight?

“In Malmö we signed leases with XXL and Ica in Triangeln shopping centre, both of whom make a fine contribution to the whole. Södra Förstadsgatan has made good progress, with all premises now fully let. Another area that has performed strongly is Fredstan in Gothenburg, with Holy Greens, Barry's Bootcamp, Boss and Chanel all establishing themselves there. H&M reopened its redeveloped store on Svartbäcksgatan in Uppsala – the only one of its kind in Sweden and a great addition to the area.”

During the year a new pop-up concept was offered to tenants. What does this involve?

“We have a number of permanent pop-up premises that we refer to as 'Perm Pop's'. Increasingly, brands want visibility in physical stores in central locations, and this enables such exposure for a short period. One exciting example is The Fitting Room, which opened in Nordstan in Gothenburg for six weeks. People could try on clothes and shoes before ordering them online. Though only 63 square metres, it managed to hold an extremely large range.”

In your view, how will the retail sector develop in the future?

“I believe that new brands, combinations and partnerships will be created. Companies increasingly want central locations and as property companies, we have to meet these new needs. We can do this by continuing to develop our offering of shared premises for tenants.”

Förstadsgatan in Malmö, among others. This close collaboration has led to the creation of a mix of different stores, brands, eateries and experiences and turned Södra Förstadsgatan into an attractive street that attracts many visitors. Thanks to consistent development efforts in Gothenburg, Vasakronan has turned Vallgatan into an obvious meeting place for the city's residents. High quality restaurants and cafés, and a range of strong, local brands has helped build Vallgatan's trendy status.

The overall experience will be emphasised in Sergelstan when Vasakronan redevelops Sergelhuset and upgrades Sergelgatan. The company plans to create the optimal composition of attractive stores, restaurants and other activities. Stockholm City's focal point is being shifted to the area around Sergels torg and new, interesting locations with high visitor flows are being created. Former side streets, such as Mäster Samuelsgatan and Malmskillnadsgatan, will be opened up to become light and inviting for pedestrians with a large people flows. ●



“It will be possible to monitor, manage and optimise the operation of our properties.”

Common digital language

Rapid digital developments are in the process of creating entirely new conditions for the property sector. As more and more functions within management, operation and maintenance become digitised, opportunities will be created to enhance efficiency and coordination. Up until recently, this progress was held back by the fact that each property's system was unique and incompatible with other systems. Only once the systems governing such things as heating, ventilation, IT infrastructure and monitoring are able to communicate with each other in a uniform, digital format can

these coordination benefits be realised.

Together with a number of other players, Vasakronan has taken the lead in terms of this trend by developing a common digital language. The new language, RealEstateCore, makes it possible for the properties' different systems to communicate with and understand each other. It will be possible to monitor, manage and optimise the operation of our properties and thus save energy, create a better indoor climate or detect faults and shortcomings early, allowing us to proactively remedy them. When combined with various pre-programmed measures, operations can be managed automatically without property technicians needing to take any manual action. RealEstateCore will also create the opportunity in the relatively near future to connect external suppliers' digital systems, which will help ensure more efficient energy supplies, waste management, property cleaning and transportation to and from a property.

The development of new digital opportunities and services within the property sector, known as Property Technology or in short “PropTech”, is still in its infancy. However, many sector commentators expect PropTech to lead to changes in the property sector as major as the ones fintech (Financial Technology) caused for banks, insurance companies and other financial institutions. In collaboration with artificial intelligence (AI), RealEstateCore could create the opportunity to collect information that ranges beyond the walls of an individual property. Instant information about the number of pedestrians walking along a pedestrian street could, for example, offer restaurants and cafés the chance to adapt their offering and the amount of food to prepare. Information about which items in the store window attract the greatest interest could help a store owner set prices or decide how goods are presented within the store. ●



Sandra Jonsson
Technical development and Services Manager, Stockholm and Uppsala

In early 2018 you unveiled a new technical organisation. Why was this?

“A lot is happening in our operating environment. Digital developments within the property sector are moving at lightning speed, to name one aspect. We can also see that our tenants are beginning to demand advisory services, for example in relation to technical issues. In order to take advantage of all these opportunities, we needed to create an organisation designed to tackle and manage these changes. It has employees who manage the organisation as a whole in terms of day-to-day operations as well as employees whose task is to pinpoint and test new technologies.”

How well has the organisation worked?

“It always takes a little time before all the

pieces fall into place, but during the year the organisation found its feet and is now working well. Of course, the record heat during the summer was a major challenge, but the commitment and desire to solve the problems that arose was enormous. We learnt a lot and are now better equipped if it were ever to happen again.”

Together with other property owners, Vasakronan has developed a new common digital language, RealEstateCore.

What does this involve?

“RealEstateCore gives us an entirely new type of control over all the data generated by properties. You could call it a digital language for properties. Our “Idun” platform is then able to receive, store and analyse the data.”

What does this entail for your tenants?

“It will mean we can optimise operations and make the properties even more energy-efficient and smart, but also that we will be able to offer and develop new digital services. Right now a number of pilot projects are under way. For example, we are testing energy optimisation using artificial intelligence, visualisation and analysis of the indoor climate and visualisation of how premises are used. In the long term, it is matter of creating flexible, efficient and ever-smarter workplaces.”

Creating sustainable value in a changing world

Trends affect strategies

To ensure that Vasakronan lives up to the assignment set by its owners while also managing the conditions in the market, the Board annually adopts a strategic plan. The plan is preceded by an analysis of the market trends assessed to have the greatest impact on the company and its operation over a five-year period. The trends identified in this year's strategic plan are described in more detail on pages 10–14. The direction the company will pursue over the coming 1–3 years is established based on this trend analysis. The long-term direction is managed by five strategies.

Business planning at every level

Planning, control and follow-up of the operations are in line with the organisational structure, with a clear delegation of responsibilities and authorities. To make the company's overall goals and strategies tangible, business plans are prepared annually for the units that answer to the CEO.

The business plan establishes the unit's focus areas for the year and is then broken down into activities. All employees within each unit are involved in the production of the business plans, which leads to increased commitment and greater understanding of how each unit contributes to the company as a whole. The plans are then followed up regularly during the year. Business planning is a dynamic process, which means the approach to it differs from year to year depending on the needs and issues of that period.

Long-term goals

Financial

- A total yield of at least 6.5% per year (rolling average over 10 years)
- A total yield of at least 0.5 percentage points higher than the industry

Environment

- Our properties are self-sufficient and do not require any energy to be purchased
- We have halved our power requirements
- Our business and those of our customers generate no waste that is unable to be recycled or reused
- Our business is climate-neutral
- We build our properties using renewable, recycled or reused materials
- All of our financing is green
- In the top 10 globally of the GRESB sustainability survey

Social

- All employees act in accordance with our values and our Code of Conduct
- We have a positive work environment free from negative stress
- Discrimination and harassment do not occur at our workplaces
- The design of our properties contributes to the security, safety and health of those both inside and outside them
- Suppliers work in accordance with our Code of Conduct for suppliers
- We reflect the society in which we work in terms of gender, ethnicity and age
- We have no workplace accidents at our construction sites

Investment strategy

- Property holdings focused on offices and city retail in Nordic growth areas
- Active investors in new construction and the existing portfolio
- Properties that satisfy high sustainability requirements and are located in excellent and accessible locations

Customer strategy

- Flexible solutions that can be adapted to the customer's development and challenges
- Comprehensive responsibility for delivering functions, service and related services
- Efforts to raise customers' awareness of how they can optimise their use of resources

Technology strategy

- Connected properties with a high level of security and full control over all data at the property
- Clear energy strategy – reduce, organise, select
- Combining expertise and data to deliver new services

Employee strategy

- Extensive opportunities for employees to influence their work life and take responsibility for their own development
- Managers who enable development by providing clear objectives
- Strong values that guide us in our work

Financing strategy

- Access to financing from several sources with spread-out loan maturities
- Driving green financing forward
- Healthy margins in relation to the financial policy's framework

New opportunities create flexible solutions

Thanks to property solutions such as Smart & klart and Pop-up, expanded service, maintained focus on environmental initiatives and rapid technological developments, Vasakronan is creating new opportunities – both for properties and for tenants.

The way people work today has changed. Work is not always linked to the office, which makes the design of the workplace even more important. The premises should serve as a tool to change, influence and inspire, instead of simply representing a certain number of square metres. Vasakronan offers a broad selection of attractive premises in prime locations for offices and retail, which gives us excellent opportunities to meet the needs of both potential and existing tenants and to offer flexible solutions in line with each customer's development. Vasakronan also provides strategic and specialist workplace strategy consultancy services. We can make recommendations when it comes to selecting and designing premises that will take the workplace to the next level.

Another change is the greater need our customers have for flexibility. Businesses can change rapidly and the need to move to new premises can arise suddenly. Our Smart & klart office concept makes it easy to find a quick and convenient solution. Smart & klart means that tenants do not have to deal with all the practical issues such as IT, workplaces, fittings and kitchens. In principle, the tenant can move in the day after the agreement is signed. Furthermore, the lease is easy to

understand, can be signed digitally and a move can be arranged at short notice. For retail tenants, Vasakronan offers pop-up shops that include everything needed in the form of fittings, check-outs, payment solutions, convenient lease conditions and even store staff.

Everyday service

To facilitate our customers' day-to-day work, Vasakronan offers several different services. With help from our partners, we can help with everything from porters and cleaning to fruit baskets and dry cleaning. Opting for green services also allows us to reduce our environmental impact in multiple ways, including by offering an environmentally certified range of office products, waste sorting and transportation via green vehicles and bicycle messengers.

Particularly good local service is provided in premises where Vasakronan owns all or most of the surrounding area and can therefore design comprehensive solutions that suit its tenants. For example, these properties offer receptions, restaurants, conference facilities and gyms. Tenants are offered high-quality office solutions, and the option to utilise the various resources with others.

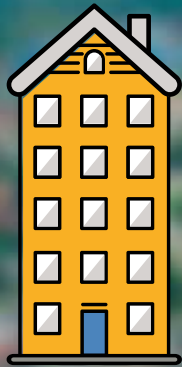
New technology

The technology used in Vasakronan's properties is being increasingly integrated with IT – a development that is progressing rapidly and becoming ever more complex. It is opening up new opportunities while placing new demands on the organisation. To meet this development head on and exploit it more effectively, Vasakronan introduced a change to its technical organisation during the year. This change entailed the creation of new roles and clarification of the distribution of responsibilities between property operations and property development. A new central function for technical developments was created with the task of pinpointing, testing and developing new technologies. At the same time, Vasakronan expanded and deepened its collaboration with Coor, which was given greater responsibility for property operations.

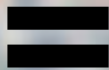
New energy solutions

The property sector accounts for almost 40% of society's energy consumption. Therefore, reducing our energy consumption and using renewable energy is an important issue. Low energy consumption is also a prerequisite for buildings attaining environmental

REAL ESTATE CORE



RealEstateCore



Smart City



PROPERTIES CAN NOW COMMUNICATE WITH EACH OTHER. Digital developments relating to property management, operation and maintenance are moving at lightning speed. Modern properties generate large amounts of data. To control and maximise the usefulness of this information, a uniform digital language is required. In collaboration with other property owners, Vasakronan has developed just that: RealEstateCore.

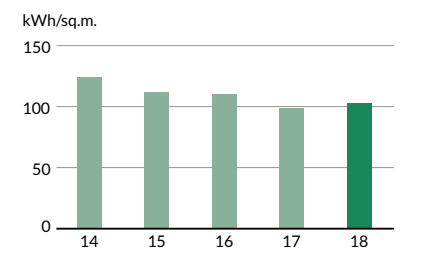
The language is published in open source format and is thus free and open to all who want to use it and contribute. RealEstateCore means that properties can start communicating with and understanding each other – and will, in the long term, involve other players such as energy providers.

The new digital language simplifies management, monitoring and communication. It will become simpler to share data, for example to optimise operations and make properties even more energy efficient. A com-

mon language is also a prerequisite for developing new services for tenants, suppliers and the property sector. RealEstateCore offers opportunities to develop properties that are more desirable to own, manage, spend time in and are better for their surrounding environment – a major contribution to the “smart city”, quite simply.

RealEstateCore is a collaboration between Vasakronan, Akademiska Hus AB, Jönköping University, Klipsk AB, RISE and Willhem AB. There is intense interest both at home and internationally. While a number of pilot projects are run by Vasakronan and Akademiska Hus, discussions are also being held with Nordic, European and US players about the next steps to take. RealEstateCore was designated “Årets framtidsföretag 2018” (Future Company of the Year). The corporate union that promotes energy efficiency, Energieffektiviseringsföretagen (EEF) was behind the nomination. ●

Energy intensity



certification with high ratings and a prerequisite for green financing.

With the help of different technological solutions and an effective, knowledgeable organisation, Vasakronan conducts continuous improvements aimed at reducing energy consumption as far as possible. There is also close collaboration with tenants, particularly via the leases, to identify more ways to reduce energy consumption. The energy intensity of our portfolio has more than halved since 2009. However, the energy intensity of our portfolio increased during the year to an average of 103 kWh/sq. m. (100), while at year end, 47% (56) of the buildings had an energy intensity below 100 kWh/sq. m. This increase in energy intensity can be explained by the extremely hot summer and cold winter.

Efforts to increase our own energy production continued, particularly via solar photovoltaic panels, and at year-end a total of 55 solar photovoltaic systems (49) were in operation, estimated to generate a total of 3,700 MWh each year. Vasakronan is also planning to begin using other solar photovoltaic technologies such as roofing tiles with integrated solar photovoltaic panels and thin-film solar cells on windows. In addition to this, we are testing the storage of any surplus generated by the solar photovoltaic panels by way of different storage solutions and distributing it locally via direct current grids.

To further enhance energy efficiency, geothermal energy solutions are being exploited via aquifers. This means that groundwater tables in the earth are used to heat and cool properties. This process is currently used in Sergelhuset in central Stockholm and in the Triangeln shopping centre in central Malmö.

Certification requirements

Environmental certification of both existing and new build properties is important from

several perspectives. For example, it provides independent evidence of our properties' low environmental impact. It also means that we can fulfil our tenants' growing environmental specifications. That our buildings are environmentally certified is also paramount for our green bond financing.

Environmental certification requirements are set from the start for all new construction and acquisitions. However, to meet all of our tenants' demands for environmentally certified premises, even our existing properties must be certified. Achieving this requires a structured property management approach and clear procedures for our environmental agenda. At year end, 85% (84) of the portfolio was environmentally certified.

Reduced emissions

In recent years, Vasakronan has placed intense focus on direct climate emissions to reduce the company's environmental impact. However, the results of our annual climate calculations show that our focus in the future should primarily be on reducing indirect emissions. One of the largest sources of indirect emissions is tenants' private electricity consumption, and since 2017 we have added a provision to all new leases concerning the choice of green energy. Another cause of indirect emissions is waste, both from our tenants and our own projects. Vasakronan is therefore taking active steps to make it easier for its tenants to recycle waste. For example, a central agreement was signed with Ragn-Sells with the objective of recycling a larger share of tenants' waste. In terms of waste from our project activities, Vasakronan has a considerable ability to influence both the amount of waste and the proportion of it that can be reused.

Another facet of our work to reduce emissions is creating the conditions for sustainable transportation to and from our properties. Among other options, Vasakronan provides electric vehicle charging stations and car pools so that tenants can travel sustainably to and from work. Another example is our Cykel & service concept that makes it easier for tenants to ride their bikes to work.

As part of the "Älskade stad" (Love your city) initiative, Vasakronan collaborates with Ragn-Sells, Bring and the City of Stockholm to set up urban consolidation centres in the heart of the city. In this way, distribution of goods to stores can be coordinated using

electric vehicles, thereby reducing the strain on the environment and streets. Another way to minimise emissions is to ensure that the properties we own are in prime locations with good access to public transport. Vasakronan actively tries to improve the frequency of services and the location of public transport stops.

Vasakronan undertakes climate compensation for the remaining direct emissions – as well as certain indirect emissions – by purchasing shares in compensation projects. Compensation is conducted annually, in arrears. For a summary of Vasakronan's total greenhouse gas emissions, see page 119.

To ensure that our efforts to reduce our environmental impact are sufficient and in line with requirements specified by the Paris climate agreement's goal to limit global warming to two degrees, we have allowed the Science Based Targets Initiative to evaluate our climate targets. The Science Based Targets Initiative is a collaboration between the World Wide Fund for Nature (WWF), the United Nations Global Compact, the Carbon Disclosure Project (CDP) and the World Resources Institute (WRI), and its aim is to ensure that climate targets set by companies are based on scientific evidence.

During the year the company was also ranked the most sustainable office company in Europe as well as number nine globally by the Global Real Estate Sustainability Benchmark, GRESB.

Long-term relationships

The management organisation is decentralised into four regions and a separate, centrally coordinated Technical Operations & Development Unit that is staffed in each city in order to create close relationships with our tenants. The rest of the operations is organised into specialist units. This enables each part of the organisation to become the best in their fields and support management. The properties are managed with our own staff in all business-critical areas and with continuity in staffing. This facilitates the long-term work of maintenance, investments and active supervision of the properties to discover and rectify any irregularities in time.

Personal contact makes a difference for tenants and cultivates long-term relationships. The tenants interact with personnel with extensive knowledge about the premises and the tenants' needs. They can also contact

a central customer service desk for a rapid response when filing a complaint.

To accomplish our mandate to generate high, long-term returns, excellent customer satisfaction is a must. Customer satisfaction surveys are carried out regularly to monitor how satisfied our tenants are and to identify areas for improvement. Vasakronan conducts a customer satisfaction survey, Tyck om Vasakronan, at the beginning of every year. The latest survey was performed at the start of 2019, and the score was 76 (76) for office and 73 (75) for retail. The scale of the survey is from 1 to 100, where a score of at least 80 corresponds to a grade of Very good.

A more secure city

It is important for everyone to feel safe and secure in their local surroundings. As employers, our tenants want to ensure that their employees have a safe workplace and a safe journey to and from work. Vasakronan regularly implements measures aimed at creating a safe and secure environment in and around our properties. An important part of this work is creating a mix of offices, commerce and leisure, thereby creating a more lively environment during the evenings as well. In addition, measures are taken in

administration to increase lighting in darker areas such as parking, or in the area around our development properties. Other measures include pruning trees and bushes to create better visibility, reviewing alarms and introducing passage systems.

Our collaboration with the Swedish Property Federation to certify three areas in Gothenburg in accordance with the Purple Flag standard continued during the year. Purple Flag is an accreditation process that identifies places that have successfully worked to improve safety and access, and that also offer a diverse selection at night. The areas that have been certified are Fredstan, Nordstan and Lilla Bommen.

Systematic purchasing

To successfully conduct our business, we need to work with various suppliers. Each purchase must be conducted with professional correctness, objectivity and honesty while observing good business practice. Purchasing is also based on competitive tendering. Quotes are evaluated and prioritised on the basis of how they fulfil the specified requirements in terms of expertise, sustainability and work environment agenda, function, execution, design and price. We want

people who work on behalf of Vasakronan, regardless of which employer they work for, to have acceptable work conditions and to be treated with respect and consideration for the health and safety of the individual.

Vasakronan's size means there is every potential to achieve economies of scale in our procurement process. The work is led by a central procurement department that ensures that purchases meet high quality and sustainability requirements at the lowest possible cost. A systematic procurement process also affords the opportunity to place demands on suppliers and contractors to, inter alia, minimise the risk of corruption and human rights violations as well as reduce their environmental impact. To support this process, Vasakronan's Code of Conduct for Suppliers is applied to all new supplier agreements. In 2018, the Vasakronan's Code of Conduct for Suppliers was signed for all new agreements entered into via the procurement department.

Ongoing audits are carried out to ensure that suppliers live up to their obligations. Results from conducted audits show that our suppliers fulfil our work environment and human rights requirements in a satisfactory manner. The business goal for 2019 includes



Cecilia Söderström
Senior Vice President HR at Vasakronan

What do you want to showcase from 2018?

"The changes to the technical organisation that took effect in February. These will lead to changes in how many people work, not just those who are directly affected. It always takes time for an organisational change to find its feet, but in general everything went very smoothly. The new technical organisation is designed to tackle and manage developments more effectively, and an important part of these efforts was to clarify roles, responsibilities and titles. For example, we now have a role we have named *technological property developer*. This indicates clear progress and innovation. We are seeing that it creates pride among existing employees and greater interest from students than was previously the case. That makes me proud!"

What makes Vasakronan an attractive employer?

"The culture with deeply rooted values. We believe in openness, sharing knowledge and doing business in a fair and honest manner. We take short decision-making paths and each employee has extensive opportunities to influ-

ence their own development. We have also made great strides in many areas and can therefore offer exciting opportunities to do interesting things at the company. Many people appreciate the fact that we take a holistic approach. We try to take all perspectives into account as part of our work, both internally between units and regions, but also when developing a shopping precinct or premises situated in a building in an area of a city."

What do you need to work on in 2019?

"Digitisation has a major impact on our business since it is breaking into every level and every unit. Accordingly, we need curious and bold employees who are open to innovation and exploiting the opportunities afforded by digitisation – not least in terms of technology. At the same time, we are putting a lot of energy into developing places and environments – both indoors and outdoors – and this will require us to further develop our behavioural skills. To meet these needs we are working simultaneously on our own skills development as well as on recruitment where necessary."

increasing the number of completed supplier audits. For more information, see page 122.

Protection of employees

Vasakronan’s corporate culture is distinguished by professionalism, flexibility and innovative thinking. Employees are encouraged to be innovative and to test new, unproven alternatives. Our work is satisfaction-driven, and things are done in a fair and trustworthy manner. Day-to-day work is defined by short decision-making paths, transparency and an all-inclusive perspective that encompasses our stakeholders, properties and the city. We strive to conduct our business in a sustainable manner and we do our utmost to practise what we preach, for example when we design office environments, properties, blocks or entire neighbourhoods.

All employees and job applicants must be treated equally and given equal opportunities for growth, development and promotion as well as equal pay for equal work. This approach, combined with the principles of the United Nations Global Compact, is summarised in Vasakronan’s Code of Conduct, to which all employees have access.

To ensure proper conduct within the company, Vasakronan has a Compliance Officer and the role is filled by Vasakronan’s General

Counsel. Employees and others can anonymously report any suspected incidents of lack of compliance with laws, rules or policies to her. There is also an external whistle-blower function that both employees and external players can contact.

Cultivating employee participation, dedication and satisfaction is not only the key to a successful business but also Vasakronan’s responsibility as employer. To retain skilled employees and attract new talents, Vasakronan offers far-reaching opportunities for development and a good work environment. The health of our employees is also regularly monitored, and much effort is devoted to wellness activities as well as preventing work injuries and rehabilitating employees on long-term sick leave.

Commitment that makes a difference

Vasakronan’s vision is to “create future-proof cities for everyone, where people and companies thrive.” Therefore, we have a clear ambition to get involved in important social matters, even if they are not directly associated with Vasakronan’s business. A prerequisite for Vasakronan’s involvement is that we can make a difference and that our employees perceive it as relevant. Löparakademin, a non-profit organisation that supports

young people in socially disadvantaged areas, is one example of our involvement. Vasakronan contributes its expertise and resources in various areas via an Advisory Board and also makes a financial donation to the organisation every year. In Gothenburg, Vasakronan partners with Mitt liv, an organisation that promotes a more inclusive society and advocates the value of diversity to the labour market. This collaboration has included, among other measures, a diversity course for all Gothenburg-based employees along with mentorship and internship programmes.

Vasakronan is also involved in many contexts to promote positive developments in the property sector. Within environmental issues, the Sweden Green Building Council and Byggvarubedömningen (a non-profit organisation owned by large developers and property owners in Sweden) are examples of instances where Vasakronan was one of the initiators when both organisations were formed. Vasakronan also subscribes to the UN’s climate initiative Caring for Climate, Klimatpakten i Stockholm and Uppsala klimatprotokoll as well as many different research and development collaborations within a range of different areas.

What is Vasakronan doing to reduce its environmental impact?

“Since 2009 we have halved the energy consumption of our properties and switched to renewable energy, which has led to a significant reduction in our direct emissions. This is not sufficient, however, so in 2018 we took several major steps to further reduce our impact.”

What were these steps?

“Major emissions are produced during the construction process, so we established targets to reduce the impact of transportation, construction waste and materials. When we built Hubben at Uppsala Science Park, we produced a report that shows how much material was used and what types. More than a tonne of materials was used per square metre, and a large proportion of this was steel and concrete which generate major CO₂ emissions. Wood, meanwhile, absorbs carbon dioxide and offers several other environmental benefits. This is why we are planning to build Sweden’s first wooden office property: Magasin X in Uppsala.”

Vasakronan scored highly in the Global Real Estate Sustainability Benchmark, GRESB. How important was that?

“We were ranked first in Europe for offices and the ninth most sustainable property company in the world. This shows that we have a strong position in the sector, but we want to be sure that our efforts are sufficient, which is why we had Science Based Targets (SBT) analyse our climate targets. SBT is an independent organisation that reviews whether companies’ climate targets are enough to achieve the goal of the Paris climate agreement to keep the average global temperature rise well below 2 degrees Celsius. Our targets are considered to be ambitious and entirely sufficient to achieve this.”

You have also continued to develop your green financing – explain how?

“We issued the world’s first green commercial paper. Demand for green investments in the capital market remains high and supply is not increasing at the same rate as demand. This means green financing is very interesting to us and we are now working hard to achieve 100% green financing.”



Anna Denell
Head of Sustainability

TRIANGELN ATTRACTS



THE TRIANGELN SHOPPING CENTRE IN MALMÖ

has around 120 stores, restaurants and cafés, along with plenty of services such as cobblers, dry cleaners and opticians. Some 100,000 people in total pass through the area each day – largely thanks to the City Tunnel's Triangeln station that means the shopping centre has a railway station right outside its doors.

In 2018 Triangeln proved to be more popular than ever. The number of visitors increased 7% – from almost 6.2 million to 6.6 million – compared with 2017. One reason behind this increase in visitors is that Triangeln altered its opening hours in early September: on weekdays the doors are thrown open as early as seven a.m. The aim of this was to attract 1,000 visitors between seven and ten in the morning – an aim that was achieved quickly in late November. Since that time, Triangeln has consistently surpassed that figure.

This strong flow of visitors has proved to be positive for retail. The cafés that now receive customers early in the morning and Clas Ohlson that opens at nine a.m. instead of ten, have both seen a clear increase in turnover.

Triangeln also added several new tenants, including Repeat gym, VILA and Hemmakväll.

At the end of the year, it was revealed that ICA Nära will open in May 2019 and XXL in late June. ICA is a welcome addition as Triangeln did not previously have any supermarkets. XXL's store, which will cover 3,200 sq. m. on the upper level, is the first of its kind in Malmö. Thanks to these two new establishments, Triangeln's occupancy rate is now over 95% and there is extensive interest from other tenants to become established here.

One of the centre's challenges has been to attract Malmö residents to shop in the city centre instead of in outer suburbs. Statistics show that the external retail areas see peak visitor rates at the weekends and fewer visitors during the week. Triangeln, on the other hand, has an even distribution throughout the week – a Monday may see as much footfall as a Saturday. This indicates that customers see Triangeln as a natural place to come and shop – regardless of what day it is. ●



Anna Nyberg
SVP Property development, Stockholm

What is happening in Stockholm City?

“We are adopting a holistic approach to the area that forms the heart of Stockholm and which is going to be entirely remodelled. We are developing the area known as Sergelstan, containing Sergelhuset, Sergelgatan and Sergels torg, and connecting it to Malmskillnadsgatan. This will create an entirely new area and new flows of people.”

Construction began on Sergelhuset last year. How far have you come?

“Production has been at full speed. In the autumn, the facades began to be installed and it is so exciting to start seeing the final outcome emerge. We are continuing to build in as sustainable a way as possible. For example, we use methods such as grouping deliveries and smart logistics for our transportation. The vehicles run on fossil-free fuel. We have also recycled and made use of materials that have been torn down.”

What is your plan for Sergelgatan?

“This was Sweden’s first pedestrian street. We want to restore its former glory and make it a place that people enjoy and where they want to be. We are working closely with the City of Stockholm and are now in the process of obtaining planning permission. Our aim is to transform the street in two phases, and we hope the first phase will begin in 2019.”

What challenges have you faced?

“There has been a lot of upheaval. Many people moving around the city centre have been affected, so of course there has been some irritation when people find it harder to get about. We have worked intensively to distribute information that explains to the public what is going on and what it will look like when it is finished. We have a continuous dialogue with our tenants who are affected in order to find positive solutions. Some will be moving back, while others will receive our help in finding alternatives.”

Construction that focuses on the environment

Reducing the environmental impact during the construction process is more important than ever, not least when it comes to what materials are used, how they can be reused and recycled and our transportation methods.

As tenants’ demands change over time, Vasakronan needs to create new types of premises by way of new construction and upgrades to existing properties. The properties should be survivors in the rental market and remain in demand even during downturns. They should also be in line with Vasakronan’s sustainable business model and be produced with as little impact on the environment as possible.

Vasakronan strives to have premises that are general in terms of design and not solely customised to tenants’ current preferences. Premises that can be modified with a minimum of effort to meet changing needs save time, money and the environment.

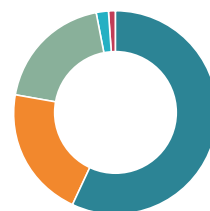
When tenants make choices regarding premises, it is important that they are environmentally friendly. Vasakronan environmentally certifies all projects in accordance with LEED and our aim is to achieve the highest level – Platinum. For a building to obtain certification, there are requirements governing new construction or redevelopment, the property’s impact on the environment and on energy intensity during day-to-day management.

Major investments in projects

Vasakronan only invests in markets in which it has strong market insight and where condi-

tions are assessed to be good. This limits any financial risk related to property development. At year end, ongoing property projects had a total investment volume of SEK 10.6 billion (9.4). The occupancy rate in major ongoing projects amounted to 41% (44) while the rate of capitalisation was 33% (25). In 2018, a total of SEK 3.3 billion (2.5) was invested in the development of properties and, over the past five years, SEK 2.5 billion on average has been invested every year. The redevelopments of Bohusgatan, Drivhuset and part of Läppstiftet in Gothenburg were completed

An increasing share of project waste is recycled



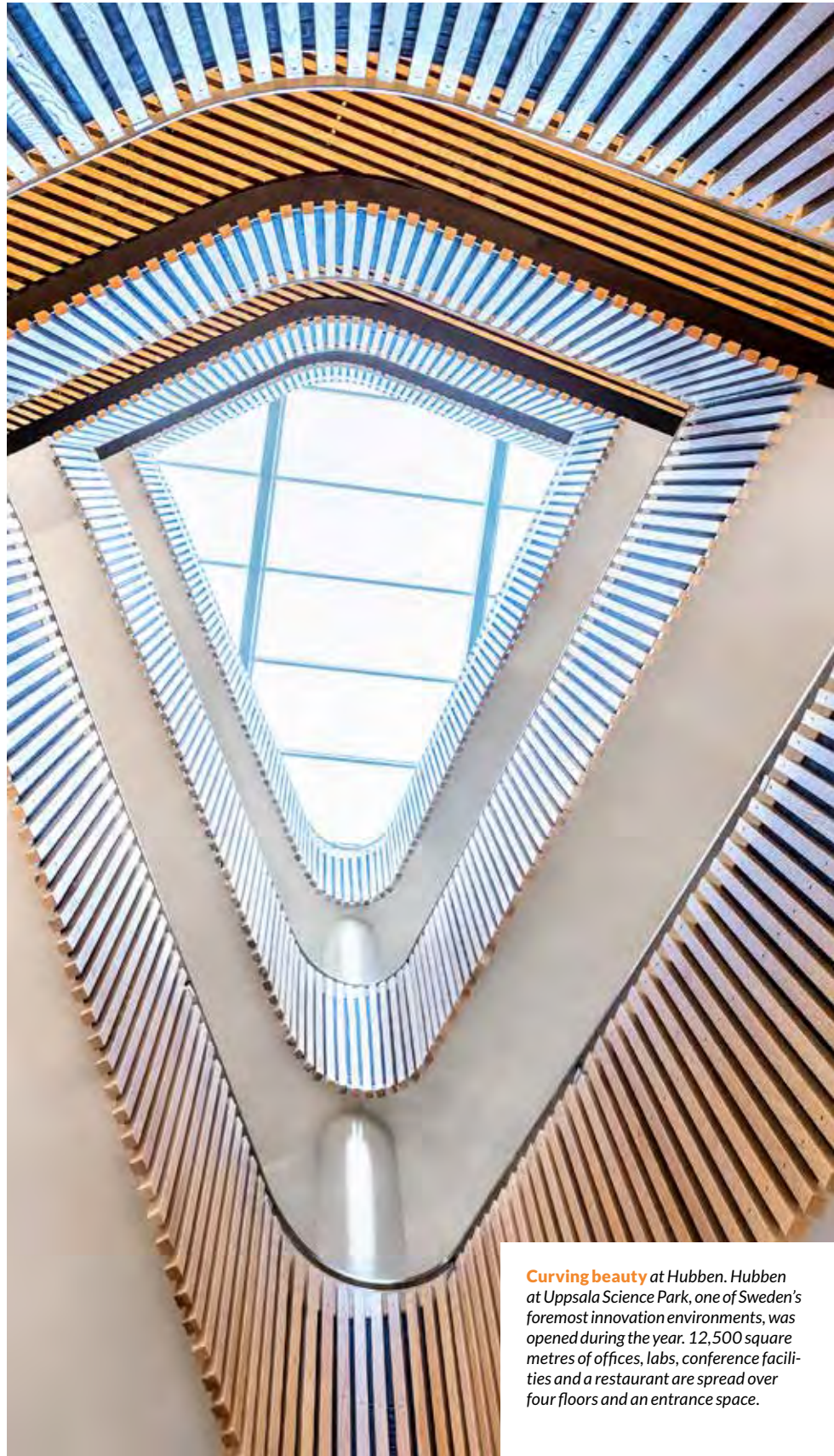
- Recycling, 57% (21)
- Energy reuse/incineration, 21% (47)
- Landfill, 19% (31)
- Hazardous waste, 2% (1)
- Biogas production, 1% (-)

in 2018, with a total investment of SEK 450 million. At the same time, the second phase was launched of the upgrade to the Strand office block in Solna, where a property covering 3,500 square metres is to be built to link together two buildings. The decision was taken in Stockholm to begin the redevelopment of Diktaren since a 15-year lease with Engelska Skolan was signed, with occupancy planned for the start of the 2021 school year.

In addition to the development potential in existing properties, Vasakronan also has development rights and future potential development rights. At present, there are detailed development plans for approximately 310,000 sq. m. of office space. Efforts are constantly underway to identify new potential projects for the 1.6 million sq. m. of as yet unplanned development rights that are part of Vasakronan's portfolio.

Care for the environment

During new construction, redevelopment, leasehold improvements and maintenance, large quantities of material are used that have an environmental impact when they are produced and transported. Therefore, it is essential to reduce the amount of materials and to opt for reused materials or materials produced from renewable or recycled products to a larger extent. We also need to be sure that materials do not contain hazardous substances that can be spread in indoor environments and to the eco system outside. That is why every component built into our properties is always evaluated and documented.



Curving beauty at Hubben. Hubben at Uppsala Science Park, one of Sweden's foremost innovation environments, was opened during the year. 12,500 square metres of offices, labs, conference facilities and a restaurant are spread over four floors and an entrance space.

PROPERTY DEVELOPMENT

Vasakronan has noted continuously increasing demand from companies for long-term sustainable solutions for premises. One method of achieving the target of a fossil-free construction sector while concurrently meeting tenants' demands is to build with materials that have a lower climate impact than steel and concrete. Therefore, Vasakronan is planning to build an office block entirely from wood: Magasin X in Uppsala encompassing 11,000 sq. m. The aim is to start the project in the first quarter of 2019.

Vasakronan has required all new construction and major renovation projects to report the type and amount of material used for a couple of years now. 2017 was the first year in which we were able to measure the actual materials used in a completed project – at Hubben in Uppsala. The results showed that only 2% of the materials were renewable and the rest were non-renewable. Our ambition is to increase both the percentage of renewable material and reduce the amount of material per square metre in project development activities. No new construction projects were completed during the year. An estimation was made of materials used in the redevelopment projects completed during the year, since the requirement to report material use was introduced only after these projects had begun. However, Vasakronan's aim is to continue measuring and evaluating the materials it uses and increase the share of materials produced from renewable or recycled products.

During the year, we pursued our efforts to increase the percentage of reused material and, at year end, 51 tonnes (116) of material

had been reused. Compared with the previous year, this reduction can primarily be explained by the fact that large amounts of reused materials used in the redevelopment of Sergelhuset in central Stockholm are included in the results from last year.

Waste workshops are arranged for all new construction and major renovation projects, with the aim of identifying measures that could reduce the amount of construction waste. Work is also underway within Vasakronan to reduce our climate impact from transportation to and from our construction sites. Requirements were tightened during the year, meaning all newly initiated projects must transport waste and materials using renewable fuel. For more information about Vasakronan's material and waste management within project development, see pages 117 and 120.

Creating safe environments

It is important for everyone to feel safe and secure in their local surroundings. As employers, our tenants want to ensure that their employees have a safe workplace and a safe journey to and from work. This is becoming an increasingly important issue when selecting premises. From the moment we plan new construction and redevelopment projects, we identify measures to create a secure space and a pleasing urban environment. One example is the redevelopment of Sergelhuset in central Stockholm, where dark sections and narrow stairways have been eliminated. Residential units are also being developed in one part of the block, which will

help create a better mix in the area along with a more vibrant place in the evening.

As a property owner, it is also important to be able to offer premises with good public transportation and local services. It facilitates daily life for our tenants and contributes to a reduced climate impact. This is why, when developing a property, Vasakronan produces a plan detailing the mixture of activities that should be available there.

Safe construction sites

To manage project risks, Vasakronan places great emphasis on quality-assuring processes that are to be implemented. We take responsibility for managing and monitoring projects, even when external project managers and contractors are hired for the actual work. When we procure contractors, we ensure that they live up to our strict requirements relating to professional correctness, objectivity and honesty while observing good business practice. All suppliers must comply with our Code of Conduct.

Our suppliers sometimes perform high risk work for Vasakronan, and our ambition is to have no accidents or severe injuries. We therefore set stringent requirements for contractors in terms of occupational safety, and in 2018 we began sharpening our internal procedures for reporting incidents and accidents. Vasakronan also participates in Håll Nollan – an organisation that works to ensure common sector standards for a secure and safe work environment in the construction sector.

Large investments in property projects

City	Property	Total investment, SEK m	Capitalised, SEK m	Percentage capitalised, %	Area of premises, sq. m.	Estimated date of completion	Occupancy rate, % ¹⁾	Environmental certification
Stockholm	Sergelhuset	3,700	1,495	40	56,500	Dec 2021	4	LEED
Gothenburg	Platinum	2,600	536	21	52,900	Dec 2021	47	LEED
Stockholm	Nattugglan, block 2	800	71	9	15,000	Jun 2021	80	LEED
Stockholm, Solna Strand	Nöten 5 phase 2	635	148	23	13,000	Sep 2020	51	LEED
Malmö	Priorn 5	580	323	56	13,200	Apr 2020	55	LEED
Uppsala	Kronåsen 1:1 Celsius	420	93	22	10,200	Dec 2020	82	LEED
Stockholm, Frösunda	Hilton 7	390	342	88	11,000	Sep 2019	26	LEED
Stockholm	Styrpinnen 15	190	95	50	3,650	Dec 2019	0	LEED
Stockholm, Solna	Diktaren	115	2	2	6,400	Aug 2021	100	LEED
Gothenburg	Bohusgatan	94	83	88	5,400	Dec 2018	100	LEED
Total major property projects		9,524	3,188	33			41	
Other projects		1,095	721					
Total		10,619	3,909					

1) Calculated based on area.

CLIMATE IMPACT



THE CONSTRUCTION AND PROPERTY SECTORS

account for 21% of climate emissions in Sweden. A large percentage of this occurs during the construction phase and consists of emissions from building materials, transport to and from construction sites and construction waste. For this reason, Vasakronan works to develop methods, models and new approaches to reduce these emissions and we have also implemented several important measures to help us become climate-neutral within our operation and maintenance of our existing buildings.

Transport to and from construction sites makes use of grouping deliveries, smart logistics and vehicles that run on fossil-free fuel as far as possible. One challenge we face is obtaining reliable data about the distances travelled and evidence to show that renewable fuel was actually used.

If parts of a building or an entire building is demolished, as much material is reused from that site as possible, for example doors, glazing and other interior building materials. One example is the redevelopment of Sergelhuset in central Stockholm, where Vasakronan succeeded in drastically reducing the amount of construction waste by way of building material reuse. The materials that cannot be reused are sorted carefully to ensure they can be recycled.

With respect to the use of materials, it is primarily a question of reducing the amount of materials being used and using more from renewable and recycled sources. For the first time in 2017, the use of materials was measured for a new construction project at Hubben in Uppsala. The results showed that more than a tonne of material was used per square metre. A mere 2% was produced from renewable products and 8% from recycled products.

The goal now is for all major projects to report quantities and types for materials they have used. Follow-up will be carried out once the project is complete and the results will form the basis of our annual environmental report.

Efforts to reduce emissions are also about finding alternatives. Steel and concrete generate major CO₂ emissions. Wood is a renewable material, absorbs carbon dioxide and has several other environmental benefits, which is why Vasakronan is planning to build Sweden's first office property from wood: Magasin X in Uppsala. Building with wood is not only climate-smart; it appears we are also happier and healthier in wooden buildings. ●

Investment strategy sets the course

Buying and selling properties improves the quality of Vasakronan's portfolio and increases long-term returns.

Vasakronan's property holdings are focused on offices and city retail in Nordic growth areas. The investment strategy is reviewed annually and sets the course for whether the company will divest, acquire, produce new properties or develop existing ones. By way of ongoing portfolio planning, Vasakronan's existing property holdings are evaluated against the investment strategy. The goal is

to enhance the quality of the portfolio and thus increase long-term returns.

Over the past five years, Vasakronan has purchased properties for SEK 4 billion and sold for SEK 8 billion. This equals an average property turnover of close to SEK 2 billion each year. Properties are bought and sold to increase the returns, but this also entails a level of risk. Any acquisition is carefully anal-

ysed in advance to ensure that the property meets Vasakronan's high standards in terms of operating expenses, energy consumption and choice of materials. Vasakronan's personnel perform most of the analyses, which makes it easier in the event that we take possession. We also consult with external experts as needed.

A complement to the existing portfolio

During the year the fully let Fenixhuset in central Uppsala was acquired at a property value of SEK 285 million. The property, which encompasses 5,100 sq. m. of lettable area as well as 50 garage and parking spaces, is in Uppsala's prime store and office location. Vasakronan's assessment is that the area will continue to be attractive going forward; the company already owns four of the adjacent buildings in the district, thus making the acquisition a natural complement to the portfolio.

Sales in line with the strategy

During the year, Vasakronan completed five divestments of properties at a total of nearly SEK 2,500 million. In early 2018, the Primus property on Lilla Essingen in Stockholm was sold to one of Oscar Properties and Starwood Capital's jointly owned companies. The property value amounted to some SEK 930 million. During the autumn the Gårda 18:23 and Gårda 18:24 properties in Gothenburg were sold to Platzer for a property value of some SEK 1,000 million. In Lund, the Apotekaren 12; Galten 25; and Repslagaren 31 properties were sold to Stena Fastigheter and then vacated at a property value of SEK 370 million. The Telefonfabriken 7 property at Telefonplan in Stockholm was also sold for SEK 210 million. The sale pertained to development rights for housing and the buyer, Einar Mattsson, will take possession when the demolition of the existing building has been completed in 2019.

Property divestments 2018

Property	City	Buyer	Purchase price, SEK m	Transfer date
Primus 1	Stockholm	Oscar Properties/ Starwood Capital	931	Mar 2018
Solna Järva 2:28, 2:35, 2:36	Solna	JM	129	Mar 2018
Solna Järva 2:29, 2:37, 2:38	Solna	JM	126	Jul 2018
Gårda 18:23 and Gårda 18:24	Gothenburg	Platzer	1,068	Sep 2018
Apotekaren 12, Repslagaren 31 and Galten 25	Lund	Stena Fastigheter	370	Nov 2018
Total property value			2,624	
Acquisition-related costs, such as stamp duty and other transaction costs, as well as deduction for deferred tax			-103	
Total purchase price			2,521	

Agreed divestments to be completed

Property	City	Buyer	Purchase price, SEK m	Transfer date
Smedjan 13 and 15	Malmö	Trianon	88	Dependent on detailed development plan
Stockholm Telefonfabriken 7	Stockholm	Einar Mattsson Projekt	210	Dependent on demolition
Total purchase price			298	

Property acquisitions 2018

Property	City	Seller	Purchase price, SEK m	Occupancy
Priorn 5	Malmö	The City of Malmö	78	Feb 2018
Part of Midsommarkransen 1:1	Stockholm	The City of Stockholm	31	Apr 2018
Solna Järva 2:29, 2:37, 2:38	Solna	Järvastaden	137	Jun 2018
Dragarbrunn 18:3 (Fenixhuset)	Uppsala	SEB Trygg Liv	285	Aug 2018
Boländerna 7:4	Uppsala	Bil-Trean i Uppsala	45	Oct 2018
Kungsängen 14:1	Uppsala	Municipality of Uppsala	17	Dec 2018
Total property value			592	
Acquisition-related costs, such as stamp duty and other transaction costs, as well as deduction for deferred tax			2	
Total purchase price			594	

ACQUISITION IN UPPSALA



A PLEASANT CITY CENTRE containing many stores within a comfortable distance. Vasakronan is the largest commercial property owner in Uppsala, with 125 retail premises covering a total of 43,000 square metres.

In June, Vasakronan purchased another property – Fenixhuset – on the Svartbäcksgatan pedestrian street. The purchase consideration was SEK 285 million. The property is fully let and the three largest tenants are Zara, Dea Axelssons and Jensen secondary school. The area offers an attractive mix of stores, restaurants, offices, services and housing. The block houses a total of six properties, of which Vasakronan owns five following the purchase of Fenixhuset. This will lead to even greater opportunities to develop city retail.

In late November, H&M reopened its redeveloped store in the block containing 3,000 sq. m. H&M Home

and H&M's café concept, It's Pleat, are now also available here.

Several new chains and stores are interested in establishing themselves in Uppsala. Hawaii Poké restaurant will be moving during 2019 into Dragarbrunnsgatan, next to the Royal cinema. Meanwhile, café chain Choco Mania will be opening in Espresso House's previous premises in the Svava food court.

A new addition to Svava in 2018 was the bakery Leijon Stenugns-bageri & Konditori run by Frida Leijon. The actual bakery is located outside the city centre, so the new sales outlet is one way to tap into the flow of people there. Frida Leijon was even named "Årets stjärnskott" (Rising Star of the Year) in May by the White Guide for having elevated one of Sweden's best café cities by way of solid craftsmanship, exclusivity and playfulness. ●

First to issue green commercial paper

Strong owners combined with the high quality of our property portfolio and stable earnings give Vasakronan financial strength and a high rating. Work involving green financing continued with the company issuing the market's first ever green commercial paper.

Owning and managing properties is a capital-intensive business, making it important to have access to financing on solid terms. Vasakronan strives to create a capital structure that fulfils both the owners' expectations of healthy returns on equity and financial stability requirements that ensure the company is able to independently fulfil its financial commitments.

Volatile credit market

We had good access to capital market financing for most of the year, primarily thanks to stable inflows from Swedish fixed-income funds. At year end, however, credit margins increased in part due to outflows from fixed-income funds, lower central bank stimuli and global political unease. Turnover in the Swedish and Norwegian capital markets remained strong, however, and in total corporate bonds were issued in the Swedish market for SEK 159 billion (155) and in the Norwegian market for NOK 60 billion (87).

Conditions also changed in the interest-rate market during the year due to greater volatility in long-term market rates in particular. At year end, however, long-term market rates had stabilised somewhat at roughly the same level as the beginning of the year.

Vasakronan remained one of the largest issuers in the Swedish corporate bonds market during the year, as well as the second largest in the Norwegian market. The strong ownership structure, combined with the high quality of our property portfolio, gives Vasakronan financial strength. Vasakronan also obtained a public rating from Moody's during the year with the score A3, stable outlook, thus further improving access to financing.

Financing strategy

According to its financing strategy, Vasakronan strives for financial stability, cost-effective borrowing and a broad borrowing structure, and aims to be a market leader within green financing. First and foremost, financial stability entails guaranteeing future borrowing needs in good time. Additionally, loan maturities must also be spread out to minimise financing risk and maintain strong financial stability.

To achieve cost-effective borrowing, Vasakronan strives to maintain an optimal fixed-interest structure and exploits the prevailing market situation. Vasakronan also has agreed credit limits with several banks and investors to have the option to switch between different sources of financing.

The risk of increased costs for refinancing or new borrowing is considerably limited through a broad borrowing structure in which the specific conditions of the financing sources can be utilised in different market conditions. Maintaining the high rating assigned to the company during the year is also vital in terms of gaining access to financing from different sources.

Vasakronan has ambitious targets for its sustainability efforts and works actively to promote a sustainability perspective linked to financing. Vasakronan was the first company to issue green bonds in 2013, while during the year we took the next step and became the first again to issue green commercial paper. Vasakronan's strategy is to actively contribute to the development of green financing.

This financing strategy is reflected in the company's financial policy that helps ensure excellent risk management and internal control. The financial policy is established annually by the Board and financial risks are followed up and reported to the Board on a quarterly basis.

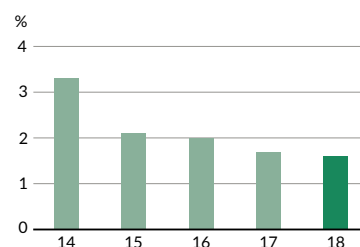
Stable position

Vasakronan finances its activities through owners' capital or through external borrowing. This division is decided by weighting the requirements for returns and financial stability. External borrowing takes place in the capital market by way of bonds or commercial paper or from banks. At the end of the year, the share of capital market financing was 71% (68) and the share of bank financing was 29% (32).

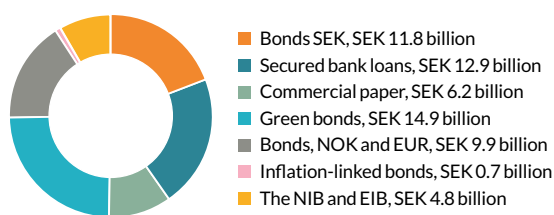
Interest-bearing liabilities increased

Interest-bearing liabilities, net of cash and cash equivalents, increased during the year and amounted to SEK 59 million (57), mainly due to dividends paid to the owners and increased investments. The loan-to-value ratio was 41% (43) at year end. As previously, low interest rates applied for borrowing and the average interest rate was 1.6% (1.7) at year end. Net interest expense improved to SEK 1,043 million (expense: 1,165) as a result of lower interest rates, and the interest coverage ratio increased to a multiple of 4.7 (3.9). Net interest-bearing liabilities in relation to EBITDA show net debt in relation to the business's earnings and amounted at year end to a multiple of 11.8 (12.0). Our aim is to prevent this key metric from exceeding a multiple of 10 over the long term.

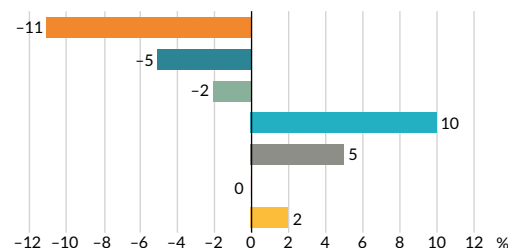
Low average interest rate



Sources of financing widely distributed



Higher percentage of green financing



On balance-sheet date

Changes in sources of financing 2017–2018 percentage of total borrowing

Green funding under the framework

Amounts in SEK million	
Green commercial paper	1,971
Green bonds	14,302
Green bonds, NOK	563
Total volume of Green Finance Instruments	16,836
Total volume of Green Assets – Green Pool	24,296
Remaining approved borrowing capacity	7,460

High bond turnover

During 2018, Vasakronan issued bonds for SEK 8.0 billion (10.3) in the Swedish capital market, and for NOK 3.3 billion (2.8) in the Norwegian capital market. Of the issued bonds, green bonds comprised SEK 7.4 billion, thus making Vasakronan the Nordic region's largest issuer of green corporate bonds.

To further diversify borrowing, Vasakronan established an Euro Medium Term Note programme (EMTN programme) during the year. The EMTN programme paves the way for financing in several currencies, and in December Vasakronan issued its first EUR 30 million bond with a tenor of six years.

The EMTN programme has a loan limit for all currencies of EUR 6,000 million, and issues in foreign currencies are always hedged. With the establishment of the EMTN programme, Vasakronan's future bonds will be listed on Euronext Dublin. The

bonds contain a change of control covenant that allows lenders to terminate the loan unless the current owners collectively or separately own at least 51% of Vasakronan and the change in ownership simultaneously leads to a downgrade in the company's rating by one level.

Green commercial paper

Vasakronan's commercial paper enables the company to issue commercial paper in Swedish krona or euros. The loan limit is SEK 25,000 million and the maturity is a maximum of one year. Borrowing using commercial paper totalled SEK 6.2 million (6.9) at year end, corresponding to 10% (12) of the total debt portfolio.

During the year, Vasakronan updated its framework for green financing and this new framework now enables financing from all types of sources. Vasakronan issued the world's first green commercial paper during the year using this framework. The commercial paper is listed on Nasdaq Stockholm's green commercial paper list, and at year end green commercial paper outstanding amounted to SEK 2.0 billion (-).

Solid bank financing

Access to bank finance was solid during the year, particularly the option to borrow with longer tenors. Secured bank loans amounted to SEK 13 billion (15) at year end, correspond-

ing to 21% (26) of the total debt portfolio. Total secured bank loans declined to 9% (12) of the Group's total assets. The financial policy states that collateralised loans must not exceed 20% of total assets.

In addition to secured bank loans, Vasakronan had green unsecured loans with the Nordic Investment Bank and the European Investment Bank that totalled SEK 4.8 million (3.4) and had maturities of ten and nine years respectively. The aim is to continue increasing the share of unsecured bank financing which increased during the year to 8% (6) of the total loan portfolio.

Vasakronan's bank loan agreement contains a change of control covenant that allows lenders to terminate the loan unless the current owners collectively or separately own at least 51% of Vasakronan. In addition, there is a covenant specifying that the interest coverage ratio may not fall below a multiple of 1.5. Agreements for unsecured loans also include covenants stating that the LTV may not exceed 65%.



Thomas Nystedt
Group Treasurer

During the year, Vasakronan obtained a rating from credit-rating agency Moody's. Why is this a good thing?

"A large amount of investors, particularly international ones, have investment rules requiring the companies to whom they lend money to have a rating from a recognised credit-rating institution. The strong rating we obtained from Moody's therefore gives us access to many more potential lenders, some of whom may not have known about us previously. We are well known in Sweden and the other Scandinavian countries, but outside the Nordic region we remain relatively unknown. Put simply, the rating enhances and strengthens our opportunities for favourable borrowing."

What is the most important goal you want to achieve?

"Above all we want to be able to borrow money with very long tenors, ideally up to 20 or 30 years, in order to replace some of our short-term borrowing. Generally speaking, the Swedish capital market lends money with very short tenors, and before we obtained our rating we were never able to borrow for longer than ten years."

Where are your new investors located?

"We are first and foremost turning to investors in Asia and in non-Nordic European countries. Our expectation is that many investors in those regions will see Vasakronan as an attractive investment option."

You have also continued to develop your green borrowing during the year. In what ways?

"We have expanded our green framework to ensure it now applies to all forms of green debt instruments. We have continued to issue our green bonds while also introducing green commercial paper that has shorter tenors. The green funds we borrow will be used to finance new green properties and to upgrade existing ones. Interest from Swedish investors has been particularly strong, and green financing now accounts for 35% of our total borrowing. In the very long term, 100% of assets, that is to say our properties, and all of our borrowing is to be green, but we have a bit of work left to do to get there."

Credit commitment from owners

To secure its access to capital, the company has a credit facility with the First, Second, Third and Fourth Swedish national pension funds that amounts to SEK 18 billion. The agreement extends until further notice with a notice period of two years. Cash and cash equivalents of SEK 2.2 billion (1.4) and the unutilised credit facility together correspond to 134% (152) of loans maturing over the next 12 months or all loan maturities through the next 21 months.

Aiming for entirely green financing

A little over five years ago, Vasakronan was first in the world to use green corporate bonds to offer the capital market the opportunity to invest in new construction and major renovation projects that lead to lower energy consumption and less climate impact. Since then, bonds totalling around SEK 19 billion have been issued, making Vasakronan the Nordic region's largest issuer of green corporate bonds.

During the year, Vasakronan drew up a new, revised and expanded framework for green financing: Vasakronan – Green Finance Framework, which now includes all debt instruments. The new framework follows the Green Bond Principle and states that all borrowing in line with the framework is earmarked for green investments.

The framework also establishes criteria for classifying an asset as green. For an existing property to qualify for financing within the framework, it must have a minimum rating of LEED Gold, and an annual energy intensity of under 100 kWh/sq. m. New construction and

major renovation projects being financed must have a minimum certification of LEED Platinum or BREEAM Outstanding, and an energy intensity that is 25% below the National Board of Housing, Building and Planning's guidelines (BBR requirements).

Borrowing through green bonds contributes to a diversified loan portfolio and thereby to lower financing costs. Investments that qualified for green bond financing under Vasakronan's green framework amounted at year end to SEK 24 billion (14) and total green bonds and commercial paper outstanding increased to SEK 17 billion (8.0). During the year, Moody's completed an assessment of the green bonds, which resulted in the top rating of GB1 (Excellent). For more information, see Vasakronan's investment report for green financing on page 128.

For a number of years, Vasakronan has obtained bank loans from the Nordic Investment Bank (NIB) and European Investment Bank (EIB), which finance projects that improve the environment in Nordic and Baltic countries. The loans will finance four of Vasakronan's projects, including the redevelopment of Sergelhuset in central Stockholm and the Platinan new build in Gothenburg. The aim is for these properties to achieve LEED Platinum certification, and it is precisely this high environmental profile that enables financing through the NIB and EIB.

The percentage of green funding consisting of green bonds, green commercial paper and green loans increased during the period to 35% (20) of the total debt portfolio. Vasakronan's ambition is to eventually have 100% green financing.

Financial policy ensures balanced risks

	Financial policy in brief	Outcome 31 Dec 2018
<i>Financing risk</i>		
Loan-to-maturity	min. 2 years	3.9
Loans maturing, 12 months	max. 40%	25%
Credit commitments and cash/loans maturing 12 months	at least 100%	134%
<i>Interest-rate risk</i>		
Interest coverage ratio	at least 2.0x (LTM)	4.7
Fixed-interest period	min. 2 years	4.7
Interest maturity within 12 months	max 55%	43%
<i>Credit risk</i>		
Counterpart's rating	min. A-; or BBB+ with CSAs	Met
<i>Currency risk</i>		
Currency exposure	No exposure	Met

The outcome was within the restrictions defined in the financial policy.



SUSTAIN- ABLE VALUES

FIRST IN EUROPE and ninth globally. These were the results Vasakronan obtained in the Global Real Estate Sustainability Benchmark, GRESB, for 2018. This means Vasakronan is one of the world's most sustainable property companies within the office segment. The GRESB index is used by investors to assess the risks associated with property investments, and sustainability initiatives for a total of some 900 property companies are evaluated.

Vasakronan's leading position can be explained in part by systematic efforts to save energy, the fact that 85% of properties are environmentally certified and our large share of green financing. During the year, the company issued the world's first green commercial paper.

Our ranking is a testament to Vasakronan's ambitious goals. However, to ensure that our efforts are sufficient we had Science Based Targets, or SBT, analyse our climate targets. SBT is an independent organisation that reviews companies' climate targets to ensure that their objectives are in line with the global

Paris climate agreement – to limit global warming to below two degrees Celsius. Vasakronan's target was approved by SBT in December 2018, deeming our objective to be well under the two-degree target. This is good because research is beginning to revise the figures, which are now indicating that there is a need to keep temperature increases below 1.5 degrees Celsius. STB is a collaboration between the Carbon Disclosure Project (CDP), United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

To climate-proof its returns, Vasakronan has also analysed its business based on recommendations from the Task Force on Climate-related Financial Disclosures, TCFD. This initiative involves taking note of and reporting climate-related risks within the business, for example relating to buildings, energy, transport and vulnerability in the face of a changing climate. The company's overall objective is for the business to be compatible with the two-degree target. At the very least. ●

Exploiting low interest rates

Changes in interest rates and credit margins influence borrowing expenses. Therefore, the fixed-interest structure must be balanced to limit the effects of changes in interest rates or credit margins. A long fixed-interest tenor lowers interest rate risk but can entail a higher average interest rate in the short term.

In accordance with Vasakronan's financing strategy, the company shall exploit the prevailing market situation to lock in low credit margins and market rates and work actively to maintain an optimal fixed-interest structure. Vasakronan's fixed-interest strategy is to have about half of the loan portfolio with floating interest and the remainder with fixed interest rates at longer tenors. This allows the company to benefit from low floating interest rates while fixed interest rates protect against rising interest rates. There is a limitation within the financial policy which states that the average fixed-interest tenor may not be less than 2 years, and that the amount of interest maturities within 1 year may not exceed 55% of interest-bearing liabilities.

Vasakronan uses interest-rate derivatives to achieve a preferred average fixed-interest tenor. The cost of derivatives is based on volume, maturity and market rates. During the year, the company continued to use the low interest rate conditions through new derivatives with maturities of up to 15 years. The proportion of interest maturities within one year was 43% (41) and instruments with fixed-interest maturities of five years or more amounted to 47% (43) of interest-bearing liabilities. The average fixed-interest tenor, taking derivatives into account, increased and was 4.7 years (4.5) at year end.

Increased loan-to-maturity

The risk of increased costs for refinancing or new borrowing is considerably limited through diversified financing sources, with

specific conditions that can be utilised in different market conditions. The financing strategy specifies that financing risk is to be limited by diversifying sources of financing and spreading out loan maturities over time. Financing risk is limited within the financial policy since the average remaining tenors for interest-bearing liabilities may not be less than two years and loan maturities within a twelve-month period must correspond to not more than 40% of interest-bearing liabilities.

Financing risk in the loan portfolio declined during the year through increased borrowing with long tenors, including bonds in the Norwegian market and new bank loans. At the same time, borrowings with short tenors were reduced by a lower volume of commercial paper. The proportion of loans maturing within the next 12 months amounted to 25% (23), while the share of loans maturing in five years or more amounted to 27% (27) of interest-bearing liabilities. The average loan-to-maturity increased during the year to 3.9 years (3.8) and average loan-to-maturity taking into consideration unutilised credit commitments totalled 4.4 years (4.4). Vasakronan's aim is to continue increasing loan-to-maturity primarily by replacing loan maturities with loans with longer tenors.

Desired fixed-interest period

Vasakronan uses derivatives primarily to adjust the fixed-interest structure in the debt portfolio. By combining a loan with floating interest and an interest-rate derivative, a pre-determined rate can be guaranteed over the term of the derivative. By fixing rates over a longer period, the interest-rate risk linked to cash flow is limited. Currency derivatives are used in addition to interest-rate derivatives to eliminate currency exposure on loans in NOK and EUR. The risk of inflation is eliminated by derivatives when borrowing via inflation-linked bonds.

All derivatives are recognised at market

value in the balance sheet. In the case of interest-rate derivatives, a surplus or deficit value occurs if the agreed interest rate is higher or lower than the current market rate. In the same manner, a surplus or deficit value occurs in the currency derivative of the agreed exchange rate deviates from the relevant exchange rate. The change in value is recognised in profit or loss. The unrealised change in value has no effect on cash flow and will not impact earnings if the derivative is held to maturity. As currency derivatives are perfectly matched against underlying loans, there is an opposite exchange rate effect on the latter, meaning the currency effect is eliminated in profit or loss.

At year end, the value of the derivative portfolio amounted to SEK 62 million (64), of which 82% comprised interest-rate derivatives and 17% currency derivatives. The remaining share of 1% consisted of inflation-linked derivatives. The value change in derivatives was SEK 13 million (468). Vasakronan opted for early settlement of interest-rate derivatives for a nominal value of SEK 5,650 million (3,200) during the year. With that, a previously recognised loss of SEK 484 million (loss: 359) was realised. At the same time, new interest-rate derivatives were entered into with longer maturities and at current interest rates.

Rising property values in a strong lettings market

Strong demand for modern and sustainable premises in prime locations is continuing to push up property values. During the year, the value of Vasakronan's portfolio rose 8.5% (6.5) to SEK 139 billion (127).

Vasakronan's portfolio is currently concentrated in Stockholm, Gothenburg, Malmö and Uppsala – metropolitan areas with strong economic growth and high liquidity in the transaction markets. Our holdings are focused on modern, sustainable, flexible and centrally located office and retail properties, with stores primarily concentrated within city retail. Our assessment is that these properties give high long-term returns at carefully measured risk, even if the short-term return may vary.

Larger environmentally certified area

At year end, Vasakronan's property portfolio comprised 174 properties (179) and a total

lettable area of 2.4 million sq. m. (2.4). Of the total area, 85% (84) was environmentally certified.

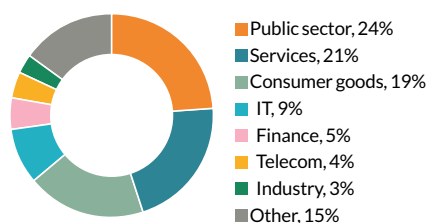
The total market value of the properties at year end amounted to SEK 139 billion (127), and the ten largest properties accounted for 32% of the value. The largest property in terms of value is Klara Zenit in central Stockholm, with an estimated market value of more than SEK 8 billion. The Stockholm-based properties account for 66% (65) of the total value, which is around SEK 92 billion. For a detailed description of the portfolio, refer to the table on page 37 and the property lists under each region section.

Rising market rents

Trends in the regional property markets in which Vasakronan operates were characterised in 2018 by a consistently strong economy and high demand for modern office premises in prime locations.

The value of the portfolio increased in 2018 to SEK 139 billion (127). Excluding completed investments, this means a change in value of SEK 10.7 billion (8.0), corresponding to 8.5% (6.9). The increase in value is largely due to rising market rents but also to a lower yield requirement, particularly in Gothenburg. The value increase was greatest in Gothenburg, followed by Stockholm, and amounted to

Good distribution across sectors



Breakdown by sector, share of contracted rent

The ten largest properties account for 32% of the property value

Property	Known as	Location
Blåmannen 20	Klara Zenit	City, Stockholm
Garnisonen 3	Garnisonen	Östermalm, Stockholm
Uggleborg 12	Klara C	City, Stockholm
Hästskon 12	Segelhuset	City, Stockholm
Telefonfabriken 1 Hus 01	Telefonplan	Telefonplan, Stockholm
Spektern 13	Swedbankhuset	City, Stockholm
Nordstaden 8:27	Part of Nordstan	City, Gothenburg
Jakob Större 18	Jakob Större	City, Stockholm
Gasklockan 3	Gasklockan	Malmö
Kronåsen 1:1	Uppsala Science Park	Uppsala

The ten largest properties based on market value.



Change in value by region

	Change in value, %	Contribution to change in value, percentage points
Stockholm	9.3	6.1
Gothenburg	9.7	1.8
Öresund	3.2	0.3
Uppsala	5.5	0.3
Total		8.5

Change in value, by category

	Change in value, %	Contribution to change in value, percentage points
Investment properties	8.4	7.6
Development properties	8.7	0.6
Transactions	-	0.3
Total		8.5

Factors impacting value¹⁾

SEK m	Value impact, %
Yield requirement	1.9
Market rents	6.6
Total	8.5

1) The increase in value was also due to investments and other factors impacting value that have been allocated proportionally across yield requirements and market rents.

9.7% (4.9) and 9.3% (12.8) respectively. During the year, the value of development properties rose 8.7% (7.9) and contributed 0.6 percentage points to the total increase in value.

Total yield in focus

To evaluate how well the operations and individual properties are developing financially, total yields are followed up continuously. The evaluation is based on the average outcome over rolling ten-year periods in accordance with MSCI Sweden Annual Property Index. The outcome for each separate year is also followed up and analysed. For 2018, the total yield was 12.5% (11.0) where the average for the index not including Vasakronan was 10.4% (11.1).

Over the past ten-year period, Vasakronan's total yield was 10.0% (8.6) a year, where the average for the index not including Vasakronan was 9.1% (7.6). The direct yield for 2018 was 3.8% (3.9), compared with the index excluding Vasakronan of 3.7% (3.9).

Vasakronan values the property portfolio each quarter in line with the established valuation policy. The valuation principles are the same since 1997 and coincide with the RICS



Red Book guidelines and MSCI Sweden Annual Property Index. The valuations are based on cash-flow projections over a period of at least ten years and calculation of future residual values based on yield requirements. At the start of the year and mid-year, all properties are valued by external appraisers and valued internally for the other quarters.

A more detailed description of the valuation methodology can be found on page 83.

Wide distribution lowers risk

Risks linked to the lease portfolio are limited by ensuring a wide distribution over many tenants active in various industries and a diversified maturity structure. No individual tenant accounts for more than 3 percentage points of the contracted total rent, while the ten largest tenants account for only 18%. Of these ten, five are in the public sector. Broken down by sector, public sector tenants account for 24% of the contracted rent where the average remaining term to maturity is 6.9 years.

For the lease portfolio as a whole, the average remaining term to maturity is 4.2 years (4.2). In 2019, 16% of the commercial contracted rent will be subject to renegotiation. The number of leases, not including flats

and garages, amounted to approximately 4,200 and the contracted rent amounted to SEK 6.5 billion (6.3) on 31 December 2018. Of the total contracted rent, 74% (74) was office premises and 18% (18) retail premises. The remainder comprised flats, parking, hotels and other.

Widely distributed over many tenants

	Share in %
Swedish Police Authority	3
Ericsson	3
H&M	3
Swedish Prison and Probation Service	2
Försäkringskassan (Social Insurance Agency)	2
Swedish National Courts Administration	1
Ähléns	1
KPMG	1
Region Uppsala	1
NetEnt	1
Total	18

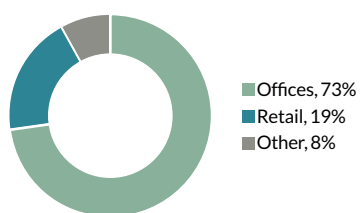
Largest tenants, share of contracted rent

Even distribution of rents to maturity

SEK m	No. of contracts	Annual rent, SEK m	% of total
2019	1,402	1,118	16
2020	932	1,116	16
2021	759	1,171	17
≥2022	1,138	3,141	46
Total	4,231	6,547	
Residential	1,169	99	1
Garage	-	209	3
Total	5,400	6,854	

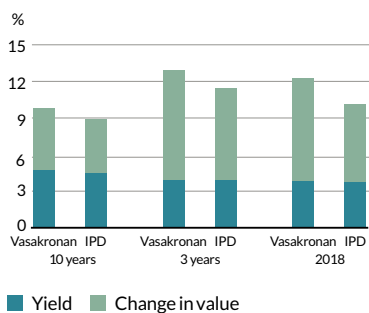
Maturity structure for contracted rent.

Focus on office and retail



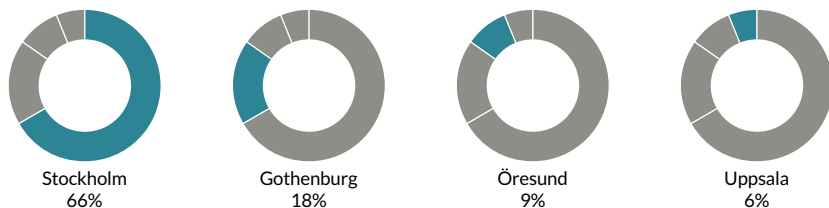
Contracted rent by property type

High long-term total yield



Vasakronan's total yield compared with MSCI Sweden Annual Property Index (not including Vasakronan)

Property portfolio in growth cities



Following sales of its holdings in Lund, Vasakronan's properties are located in four cities in Sweden distributed over four regions, of which 66% of the property portfolio's value is in Stockholm.

Broad selection

Market concentration and the property portfolio's high quality and flexibility provides vast opportunities to offer new and existing tenants a broad selection of premises. In 2018, new leases corresponding to an annual rent of SEK 510 million (613), or 146,000 sq. m. (167,000), were signed. In addition, renegotiations or lease extensions of existing contracts corresponding to an annual rent of SEK 990 million (1,036) were completed.

Based on the contracts up for renegotiation, 69% (64) of the tenants decided to remain in their premises.

Renegotiations and lease extensions during the years resulted in a new rent payable that on average surpassed the earlier amount by 12% (10). Net lettings for the year amounted to SEK 19 million (167), of which SEK 19 million (23) was for lettings in new construction projects.

The occupancy rate was 93.1% (93.1) on 31 December 2018. Of the total vacancies, 2.0 percentage points (2.5) is attributed to ongoing projects and 0.5 (0.3) is attributed to vacant development properties. The loss in income for the vacant properties amounted to SEK 419 million (407).



Region/Property type	Number of properties	Area, thousand sq. m.	Market value, SEK m	Contracted rent, SEK m	Occupancy rate, %	Net operating income, SEK m	Investments, SEK m	Change in value, %	Environmental certifications ² , %
STOCKHOLM									
CENTRAL									
Offices ¹⁾	44	786	70,110	3,087	94	2,177	1,567	11.1	
Other	2	9	20			-2	2	-10.8	
<i>Central Stockholm, total</i>	46	795	70,130	3,087	94	2,175	1,569		85
INNER SUBURBS									
Offices	22	553	20,203	1,172	89	818.0	418	3.9	
Other	11	47	1,284	58	100	37	17	4.1	
<i>Stockholm inner suburbs, total</i>	33	601	21,487	1,230	90	855	435		76
Stockholm, total	79	1,395	91,617	4,317	93	3,030	2,004	9.3	81
GOTHENBURG									
Offices	23	254	13,476	669	96	498	579	11.9	
Retail	11	148	12,154	588	95	475	152	7.2	
Gothenburg, total	34	402	25,630	1,256	95	974	731	9.7	94
ÖRESUND									
Offices	22	240	9,058	495	87	346	329	5.1	
Retail	10	95	3,836	249	95	136	81	-0.8	
Other	3	4	302	14	100	11	2	0.0	
Öresund, total	35	339	13,196	758	90	494	412	3.2	96
UPPSALA									
Offices	12	173	5,484	365	98	263	154	5.1	
Retail	9	61	2,698	157	97	107	22	5.0	
Other	5	2	309	1	5	1	13	22.7	
Uppsala, total	26	236	8,491	523	97	371	189	5.5	77
TOTAL	174	2,372	138,934	6,854	93	4,869	3,335	8.5	85

The data in the tables are based on property category, see the definition on page 140.

1) Central Stockholm - Retail only comprises one property, which is why this has not been reported separately and is instead included in Central Stockholm - Offices

2) Share of the region's area

Our regions

“The positive rental market trend continued in 2018, with rising rents and extremely low vacancies. At the same time, the addition of new office premises is limited in several markets,” informs Vasakronan’s Head of Research Rebecca Ernarp.

“The cost per work station can remain unchanged even though the rent per square metre is higher.”



Rebecca Ernarp,
Head of Research

What has driven demand for office premises over the year?

“The prime driver has been the continued strength of the economy. Many companies are performing well and need to recruit more employees, which in turn leads to needing new premises. And to attract new employees, one has to offer modern premises, preferably in a city or with excellent communication links. This is increasing demand and driving up rent levels, particularly for space-efficient premises in prime locations.”

What characterises the premises in most demand?

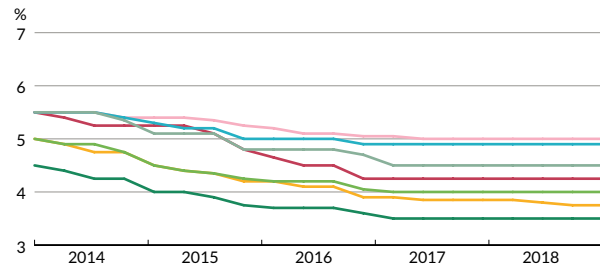
“Aside from a prime location, our customers are looking for efficient, ultra modern offices. New ways of working and technical solutions for IT and ventilation mean that physically, employees can work close together without feeling confined. This means that the cost per work station can remain unchanged even though the rent per square metre is higher. So even if a company grows with more employees, the premises do not need to be larger.”

What differentiates Vasakronan’s various regions?

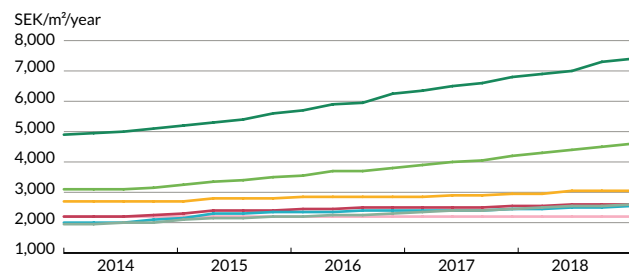
“The trends are most positive in Stockholm and Gothenburg. Both cities are experiencing strong demand, few vacancies and low new construction in central locations, all of which drive rents higher. Stockholm accounts for the greatest rent increases with top rents of more than SEK 9,000 per square metre. Differences between locations and products have also widened. In Gothenburg, the lack of modern premises has most likely acted as a brake on this trend.

In Uppsala, the trend has been very favourable and rents have caught up with the levels we are noting in Malmö. In Malmö, the rental market has also developed positively despite the large offering of centrally located development sites holding back rent levels.”

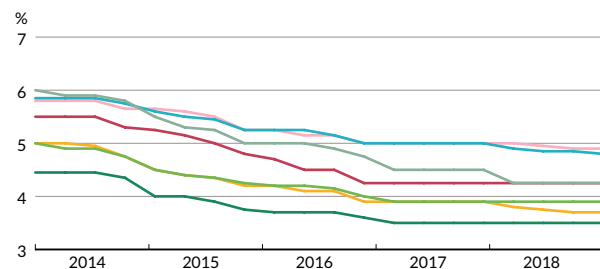
Lower yield requirement, retail



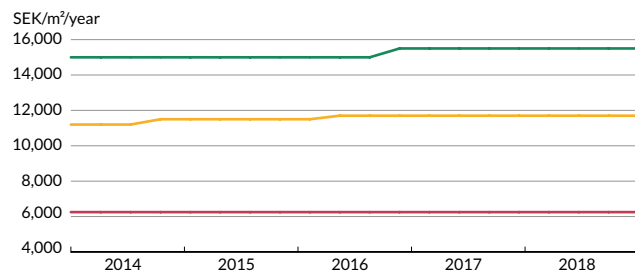
Rising market rent, offices



Lower yield requirement, office



Stable market rent, retail



Source for all diagrams: DTZ

Vasakronan	2018	2017	Share of Vasakronan total ¹⁾	Share of the region ¹⁾	Largest tenants, share ²⁾	%	Market share	%
REGION STOCKHOLM CENTRAL								
Market value, SEK m	70,130	61,716			H&M	4	Central Stockholm, incl. CBD	
Rental revenue, SEK m	2,948	2,855			NetEnt	2	Vasakronan	12
Net operating income, SEK m	2,175	2,067			The Riksdag Administration	2	AMF	7
Occupancy rate, %	94	93			Tieto	2	Fabege	5
Number of properties	46	46			KPMG	2	Hufvudstaden	5
Area, thousand sq. m.	795	796					AFA	5
Environmental certification, %	85	84						Source: CBRE
INNER SUBURBS								
Market value, SEK m	21,487	21,263			Ericsson	16	Stockholm inner suburbs	
Rental revenue, SEK m	1,208	1,171			Social Insurance Agency	8	Vasakronan	12
Net operating income, SEK m	855	835			University of Arts, Crafts and Design	4	Klöver	12
Occupancy rate, %	90	90			Swedish Transport Administration	3	Fabege	11
Number of properties	33	36			JM	3	UnibailRodamco	6
Area, thousand sq. m.	601	629					Humlegården	5
Environmental certification, %	76	73						Source: CBRE
REGION GOTHENBURG								
Market value, SEK m	25,630	23,688			Prison and Probation Service	8	Gothenburg's CBD	
Rental revenue, SEK m	1,280	1,246			Swedish Police Authority	8	Vasakronan	22
Net operating income, SEK m	974	957			Åhléns	5	Wallenstam	14
Occupancy rate, %	95	96			National Courts Administration	4	Hufvudstaden	9
Number of properties	34	36			SEB	3	Balder	8
Area, thousand sq. m.	402	423					SEB	7
Environmental certification, %	94	94						Source: Vasakronan via Datscha
REGION ÖRESUND								
Market value, SEK m	13,196	12,667			Swedish Police Authority	15	Malmö's CBD and Västra Hamnen	
Rental revenue, SEK m	761	755			Sony Mobile	8	Vasakronan	20
Net operating income, SEK m	494	498			Prison and Probation Service	4	Wihlborgs	14
Occupancy rate, %	90	90			Scandic Hotels	4	Balder	7
Number of properties	35	37			Malmö University	2	Volito	5
Area, thousand sq. m.	339	353					Midroc	4
Environmental certification, %	97	97						Source: Vasakronan via Datscha
REGION UPSALA								
Market value, SEK m	8,491	7,542			Region Uppsala	11	Central Uppsala	
Rental revenue, SEK m	521	463			Swedish Medical Products Agency	7	Vasakronan	20
Net operating income, SEK m	371	321			National Courts Administration	5	Skandia Fastigheter	10
Occupancy rate, %	97	96			National Food Agency, Sweden	5	Uppsala Univ. Foundations	8
Number of properties	26	24			Municipality of Uppsala	3	Municipality of Uppsala	8
Area, thousand sq. m.	236	229					Bonnier Fastigheter	6
Environmental certification, %	77	79						Source: Vasakronan via Datscha

1) Contracted rent

2) Share of the region's contracted rent.

Increased focus on city office space

“The new Sergelhuset will be a welcome addition to an office market where demand is still booming. At the same time, the renewal of the area around Sergels torg entails a boost that will create a new attractive retail precinct,” says Ronald Bäckrud.



“Part of Sergelhuset will be dedicated to our own co-working offering, Vasakronan Arena”

Ronald Bäckrud,
Senior Vice President, Stockholm Region

What do you want to showcase from 2018?

“It has been a good year in which we continued to develop our major projects. I am thinking primarily about Sergelhuset but also about the lease to the Swedish Council for Higher Education, which resulted in us starting phase 2 of the Strand block in Solna. Phase 1 has been completed and is fully let to COWI. In 2020, they will be joined by the Swedish Council for Higher Education and Statistics Sweden.

Demand for modern centrally located offices remains strong and we have noted considerable interest in Sergelhuset, which should be ready in 2020.

In the near future, we expect to sign leases with one, or maybe two, major tenants. We can then add tenants with a need for smaller premises. Some of the office space at Sergelhuset will be dedicated to our own head office, our own co-working offering Vasakronan Arena, and to Smart & klart which allows tenants to rent for shorter periods.”

What is happening on Sergelgatan?

“The vision is to create a new facade for Sergelgatan, Sveavägen and Hötorgsterrassen, which will become a safer, more vibrant area. The aim is to create the preconditions for new retail solutions. The entrance areas of the Hötorgshusen buildings will be renewed to become more efficient and we will increase services. For example, we are making space for a large restaurant on the corner facing the Konserthuset building. The details are essentially in place and we are waiting for the City of Stockholm to approve the building plans. The challenge is to create good retail concepts and to complete the project while many tenants remain in situ in the Hötorgshusen buildings.”

Every day we read of the demise of another store due to the increased e-commerce.

How does this affect you?

“The retail sector is in a process of change and has

been for an extended time. We have been able to see this in our own city retail index for several years. While the retail developments are a challenge, they also represent an opportunity. Instead of large stores occupying two floors, smaller spaces at street level are now in demand. This means we can convert the first floor to offices, which are in short supply, and the basement floor to uses such as logistics hubs. We have already done the latter at Klara Zenit.

In general, we are not concerned that city retail space will be unlet. Even e-commerce needs physical stores in central locations. A good example of this is Uniqlo, which has recently opened a store with us on Hamngatan.”

What is the status outside of the city centre?

“Good! Over the year, many large customers have extended their contracts, such as TV4 on Tegelvägen, Bisnode in Frösunda and Ericsson in Kista. Demand at Garnisonen is high and the occupancy rate is 96%. As regards the Nattugglan 14 development property at Medborgarplatsen, it has long been the destination for Tyréns when it moves its head office. It is leasing 80% of the building. We have emptied the existing building but the planning process is taking a little longer than we had expected. We have therefore solved Tyréns’ expansion needs in the meantime by offering them premises in the Skrapan building on Götgatan.”

What is the outlook for the office market in Stockholm during 2019?

“Understanding of the need for flexible and effective premises is increasing. Technical advances together with the design of premises enable new working methods that boost companies’ productivity. This means that utilisation rates for offices rise and that the cost per employee is often lower. Despite rents rising dramatically in the last few years, as they have in Stockholm.”





With Smart & klart we want to remove the worry for our tenants. Just move in and then move out. This little 70 square metre eagle's nest offers eight work places and is located on the eighth floor of the second Hötorgsskrapan building in the centre of Stockholm city.

Central Stockholm



4 BREMEN During the year, TV4 extended its contract at Tegeluddsvägen. The lease, which runs from 2020, is for seven years and encompasses 13,500 square metres.



29 STYRPINNEN 15 Over the year, this property located adjacent to Kungsträdgården has been emptied and work on rebuilding and strengthening the foundations has commenced. The project encompasses 3,600 square metres and should be completed by December 2019.

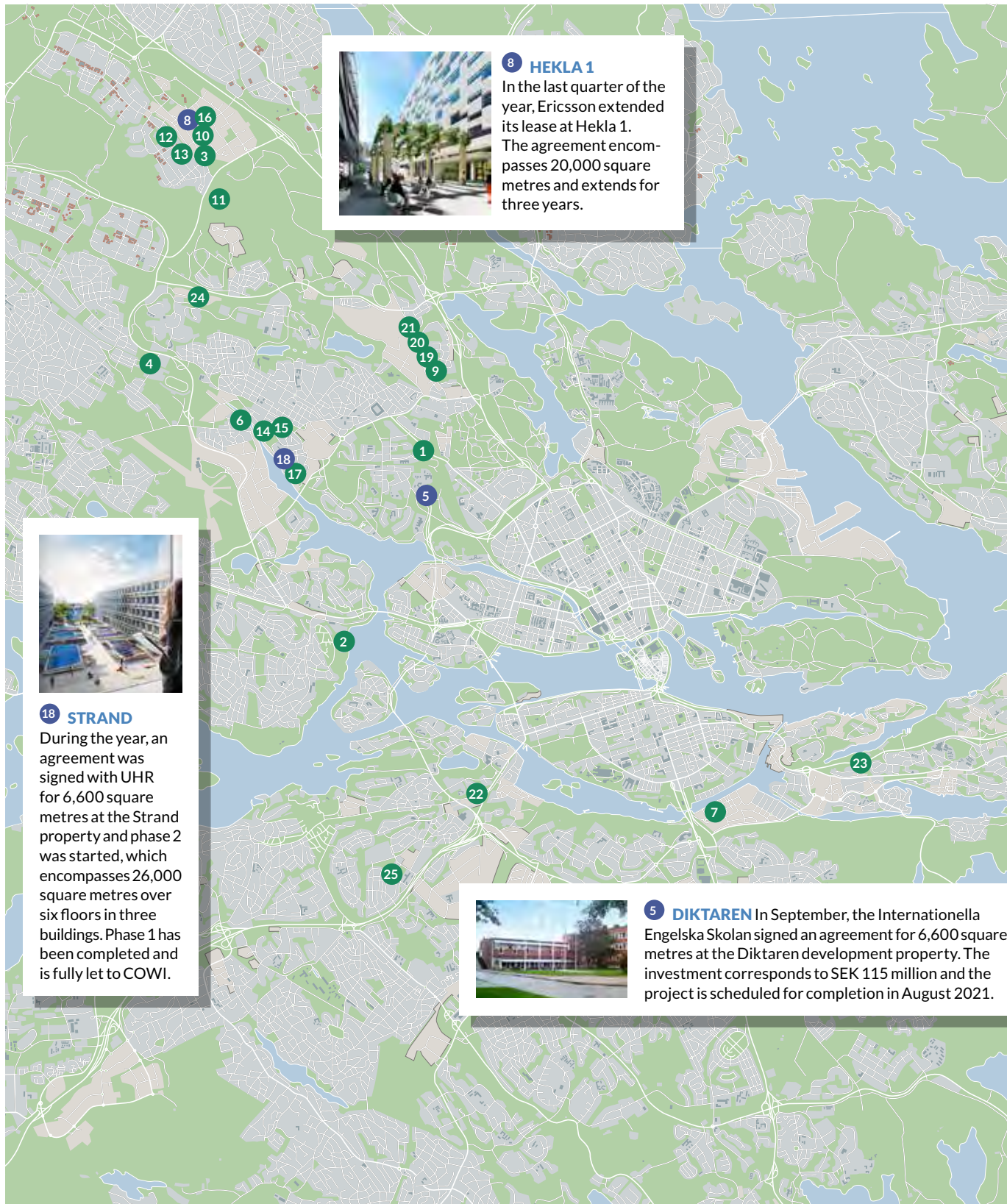


9 SERGELHUSET The transformation of Sergelhuset continued during the year. The property comprises three buildings and a total of 60,000 square metres. Tenants will move in gradually starting in autumn 2020 until the end of 2021.

Name of property	Street address	Year of construction/ most recent redevelopment	Lettable area excl. garage sq. m.	Share, %		Environmental certification ¹⁾
				Offices	Retail	
1	Argus 8	Skeppsbron 38/Packhusgränd 7/Tullgränd 4/Österlånggatan 47	1788/2002	5,717		LS
2	Beridarebanan 11	Sergelgatan 8-14/Sveavägen 5-9 Hitechbuilding/Mäster Samuelsgatan 42	1961/2007	24,352		LG
2	Beridarebanan 4	Sergelgatan 16-18/Sveavägen 13/Läkarhuset	1962/2000	12,943		LG
2	Beridarebanan 77	Sveavägen 17/Sergelgatan 20-22/Hötorget 2-4	1958/1996	15,447		LG
3	Blåmannen 20	Drottninggatan 53/Mäster Samuelsgatan 50-60/Bryggargatan 1-9/Klara Norra Kyrkogata 14	2000-2003	65,526		LG
4	Bremen 1	Tegeluddsvägen 3-9	1964/2008	21,334		-
5	Gamen 12	Götgatan 74-80/Vartoftagatan 21-51	1959/2006	31,192		LC
5	Gamen 8	Åsögatan 106A-108/Götgatan 72A	2000/2001	5,835		LG
6	Garnisonen 3	Karlavägen 96-112/Oxenstiernsgatan 15/Linnégatan 87-89/Banérgatan 16-30	1886/2004-05	136,162		LG
7	Getingen 11	Sveavägen 163-167/Ynglingagatan 18	1955/2005	23,853		LG
8	Grönlandet Norra 1-5	Drottninggatan 96-98/Wallingatan 2/Holländargatan 17/Kammakargatan 15	1800/2001	15,572		LG
9	Hästscon 12	Sveavägen 2-10/Hamngatan 24-32/Mäster Samuelsgatan 39A-B/Malmskillnadsgatan 13-17, 36-40/Sergelarkaden 2/Sergelgängen	1963/	53,218		-
9	Hästscon 9	Hamngatan 22/Regeringsgatan 45	1935/	9,667		-
10	Jakob Större 18	Jakobsgatan 2-8/Regeringsgatan 8-24/Västra Trädgårdsgatan 7	1975/2009	26,590		LG
11	Kungliga Trädgården 7	Hamngatan 25-27/Västra Trädgårdsgatan 10-12	1969	5,423		LS
12	Kurland 11	Holländargatan 21A/Kammakargatan 32	1884	2,274		LG
13	Lyckan 10	Lindhagensgatan 124-132/Hornsbergsvägen 17	1940/2005	23,718		LG
13	Lyckan 9	Lindhagensgatan 122/Nordenflychtsvägen 55	1936/2003	8,370		LG
14	Matrosen 4	Birger Jarlsgatan 2-4/Nybrogatan 1-3/Ingmar Bergmans gata 1-3	1893/1984	9,264		LS
15	Munklägret 21	Hantverkargatan 15/Parmätargatan 12	1958/2000	6,330		LG
16	Nattugglan 14	Västgötatagatan 1-7/Folkungagatan 44	1978/2015	22,269		LP
17	Pennfäktaren 11	Vasagatan 7	1977/2009	12,010		LG
18	Riga 2	Hamburgsvägen 12-14/Fjärde Bassängvägen 11-19/Malmvägen 7-13/Tredje Bassängvägen 2-14	2010	24,386		LG
19	Sejlaren 7	Sveavägen 25-29/Olofsgatan 6-8/Olof Palmes gata 7/Apelbergsgatan 44	1930/1995	10,232		LG
20	Skjutsgossen 8	Krummakargatan 15-21	1942/2008	12,275		LG
21	Skravelberget Mindre 12-13	Hamngatan 2/Birger Jarlsgatan 1-5/Smålandsgatan 5	1903/1999	9,052		-
22	Skären 3	Mäster Samuelsgatan 11/Norrlandsgatan 12	1853/1984	1,758		LC
23	Spektern 13	Hamngatan 29-33/Regeringsgatan 26-32/Sergelgängen/Västra Trädgårdsgatan 17	1975/1995	28,192		LG
24	Sperlingens Backe 45	Stureplan 2	1897/1959	3,905		-
24	Sperlingens Backe 47	Birger Jarlsgatan 16/Grev Turegatan 1	1935/1993	8,222		-
25	Starkströmmen 2 & 4	Midskogsgränd 1-5	1965	9,192		-
26	Stuten 12	Kungsgatan 25-27/Regeringsgatan 67-71/Oxtorgsgatan 2-4	1925/2002-05	14,888		LS
27	Styckjunkaren 11	Birger Jarlsgatan 6D & 10	1891/1984	1,615		LS
27	Styckjunkaren 7	Birger Jarlsgatan 14/Grev Turegatan 2/Riddargatan 2	1900/1987	2,244		LS
28	Styrpinnen 12	Hamngatan 13	1979/1995	2,223		-
29	Styrpinnen 15	Kungsträdgårdsgatan 16/Näckströmsgatan 1	1901/1990	3,647		LG
30	Sumpen 14	Lästmakargatan 6/Norrlandsgatan 22	1856/1985	2,046		LS
30	Sumpen 15	Stureplan 17-19/Birger Jarlsgatan 19/Kungsgatan 1	1895/1980	3,981		LC
30	Sumpen 16	Stureplan 13/Lästmakargatan 2-4	1862/1988	3,010		-
31	Svea Artilleri 14	Valhallavägen 117 Bldg 81-Bldg 87	1877/2013	22,088		LG
32	Tre Vapen 2	Valhallavägen 185-215/Lindarängsvägen 1-7/Borgvägen 6-22	1959/2005	38,473		LG
33	Uggleborg 12	Vasagatan 14-18/Klara Västra Kyrkogatan 9-15/Klara Vattugränd 1/Klarafaret 4	1934/2016	33,157		LP
34	Uppfinnaren 2	Östermalmsgatan 87/Artillerigatan 62A-B/Skeppargatan 61-63	1914/2003	16,819		LG
35	Vildmannen 6	Biblioteksgatan 11/Lästmakargatan 1	1925/1981	4,809		LS
35	Vildmannen 11	Lästmakargatan 3	1897/1998	1,511		LS
Total Central Stockholm				794,791		

1) LP=LEED Platinum LG=LEED Gold LS=LEED Silver LC=LEED Certified MBG=Miljöbyggnad Gold

Stockholm's inner suburbs



	Name of property	Street address	Year of construction/ most recent redevelopment	Lettable area excl. garage sq. m.	Share, %		Environmental certification ¹⁾
					Offices	Retail	
1	Albydal 3	Sundbybergsvägen 1-3/Solna Access	1979/2003	28,246			LG
2	Alvik 1:18	Gustavslundsvägen 129-145	1987	47,986			-
3	Bredbandet 1	Isafjordsgatan 2-4/Dalviksgatan/Grönlandsgatan/Kistavägen	-	-			-
4	Bromsten 9:1	Sulkyvägen 1-31/Sulkyvägen 2-32	-	-			-
5	Diktaren 1	Terminalvägen 32-40 (Tegelhuset)	1965	6,751			-
6	Godset 4	Sturegatan 3-9/Fabriksgränd 1/Järnvägsgatan 2-10/Lysgränd 2	1977	21,722			LG
7	Hammarby Gård 12	Hammarby Kaj 10A/Hammarby Kaj 10D	2017	12,457			LP
8	Hekla 1	Isafjordsgatan 14-16/Blåfjällsgatan/Grönlandsgången/Kistagången	1975/2001	36,119			LG (part of)
9	Hilton 7	Gustav III:s Boulevard 48-52	-	-			-
10	Härddisken 1	Isafjordsgatan 10/Hans Werthéns Gata/Grönlandsgatan/Dalviksgatan	-	-			-
11	Järvafältet	Järva Dammtorp/Sjövägen/Mellersta Järvafältet	1929	2,084			-
12	Katla 1	Kista Science Tower/Färögatan 33 (Main entrance)/Hanstavägen 11, 21, 27, 29	2003	48,804			LG
13	Knarrarnäs 2	Knarrarnäsgatan 1-11/Hanstavägen 2/Isafjordsgatan 1/Kista Entrance	2002	42,652			LG
14	Kronan 1	Sturegatan 2-4 B/Ekensbergsvägen/Prästgårdsgatan 1-3/Tallgatan	1981	23,075			LG
15	Magasinet 1	Sturegatan 1/ Fabriksgränd 2	2009	12,340			LS
16	Modemet 1	Isafjordsgatan 10-12/Hans Werthéns Gata 1/Grönlandsgatan 31/Blåfjällsgatan 4/Modemgatan 10-12	2008/2015	58,667			LS, LG & LP
17	Nöten 3	Solna strandväg 96-122	1949/2000	35,800			LG
18	Nöten 5	Solna strandväg 62-86	1986	27,918			-
19	Rosenborg 1	Gustav III:s Boulevard 54-58	2007	10,306			LG
20	Rosenborg 2	Gustav III:s Boulevard 62-66	2009	10,921			LG
21	Rosenborg 3	Rosenborgsgatan 2-12	2014	17,106			LP
22	Rosteriet 6 & 8	Rosterigränd 2-16	1959/1999	17,421			LG
23	Sicklaön 37:49	Kvarnholmsvägen 56	1972/2002	33,769			-
24	Sundbyberg 2:44	Torshamnsgatan	-	-			-
25	Telefonfabriken 1	Telefonvägen 22A-30, LM Ericssonsväg 12-32 and others	1939/2010	106,506			LS & LG
Total, Stockholm inner suburbs				600,650			

1) LP=LEED Platinum LG=LEED Gold LS=LEED Silver

New establishments have made their way to the city

Platinan has started to take form and Fredstan was put on the map. This is where Barry's Bootcamp and Holy Greens, two brands new to Gothenburg, chose to move in. Premises lettings exceeded expectations for both offices and stores.



“Rent levels have risen and top rents for offices are around SEK 4,000 per square metre.”

Kristina Pettersson Post,
Senior Vice President, Gothenburg Region

What do you want to showcase from 2018?

“That Platinan is starting to rise from the ground by the new Hisingsbron and to take form. We have finished piling and the next stage is to cast the stair enclosure and thereafter raise the frame. Scandic, the largest tenant, has expanded the hotel by 5,000 square metres to a total of 25,000 square metres and 450 rooms. Platinan is expected to be completed around the end of 2021.

The final result of the redevelopment of the Läppstiftet property was another highlight. Space on the west side has been increased, a new glass facade has been built and a new entrance opened up facing the river. Collector Bank has now moved into one of Gothenburg's finest premises with fantastic views.

In terms of lettings, our expectations have been surpassed for both offices and stores. There has been particularly intense demand for modern office premises. Rent levels have risen and top rents for offices of around SEK 4,000 per square metre have been recorded.”

What was the largest transaction?

“We sold two properties in Gårda, Gårdatorget and Drivhuset, which we totally renovated in 2018. The sales created scope for increased focus on projects, for example, in the Central area where we have a number of development rights that we intend to develop.”

What are you particularly proud of?

“That together with other parties, we succeeded in gaining Purple Flag certification for Fredstan, Nordstan and Lilla Bommen. There have been a lot of participants in the process and I would like to congratulate everyone who has contributed to an action plan to create a safer and more secure city. One tangible measure is the City of Gothenburg's commitment to investing SEK 20 million in

Brunnsparken. This represents an investment to create a safe and welcoming park with more greenery, benches and improved lighting.

I am also proud that, together with Hufvudstaden among others, we have put Fredstan on the map, the area enclosed by Vallgraven, Östra Hamngatan and Brunnsparken. We have worked for a long time here to create a new destination for shopping, service, cafés, restaurants and experiences. One goal has been to create more life in the side streets. It was therefore very pleasing that Barry's Bootcamp and Holy Greens, two brands that are new to Gothenburg, chose to move in on Kyrkogatan. Another strong brand that made its first establishment in Gothenburg was & Other Stories. They open on Kungsgatan in spring 2019.

I also want to showcase Art Made This, an art project that allows female artists add lustre to the street environment. Most recently in Vasakronan's parking garage P-hus City in Fredstan. Ten artworks have been completed and work is continuing in 2019. The idea is to install artwork on all five floors, creating an art gallery in a highly unexpected environment.”

What are the main challenges in 2019?

“To continue to drive our projects and contribute to the city's development to ensure it remains an attractive place to visit and to set up shop. It is exciting to watch a long-term project starting to take form.

The retail sector is undergoing a bit of a firestorm as digitisation tests business models and creates needs to identify new concepts. Despite this, there is still demand for retail premises, not least for city retail in attractive locations, but the processes for new establishments are protracted. We will now continue to develop the preconditions for retail and together with other participants, create a vigorous city centre.”





During the year, Holy Greens, among others, established operations in Gothenburg. The chain's first restaurant in the city is located on Kyrkogatan in Fredstan.

Gothenburg



3 PLATINAN The development of Platinan continues. The project is Vasakronan's second largest and encompasses 60,000 square metres of office, hotel and retail space. In December 2021, everything is to be completed.



23 FREDSTAN In late summer 2018, two new companies established operations with Vasakronan in Gothenburg. These were Barry's Bootcamp and Holy Greens, and both chose premises on Kyrkogatan in Fredstan.



17 MEETHSHUSET In September, a contract was signed with & Other Stories who established their first store in Gothenburg. The store is 900 square metres and opens in spring 2019.

11 →

	Name of property	Street address	Year of construction/ most recent redevelopment	Lettable area excl. garage sq. m.	Share, %		Environmental certification ¹⁾
					Offices	Retail	
1	Gullbergsvass 1:16	Lilla Bommen 1-2/Hamntorget 1/Lilla Bommens Torg 11	1989	31,869			LG
2	Gullbergsvass 16:1	Gullbergs Strandgata 2-8	1984/1986	22,831			LG
3	Gullbergsvass 3:3	Vikingsgatan 1-5/Gullbergs Strandgata 3-7	-	-			-
4	Heden 22:19	Bohusgatan 13-15/Skånegatan 9	1984/2018	24,176			LG
5	Heden 42:1	Ernst Fontells Plats 15	1964/2005-12	52,916			LG
6	Heden 42:2	-	-	-			-
7	Heden 42:4	Ullevigatan 11	2010	20,550			LG
8	Heden 42:5	-	-	-			-
9	Heden 46:1	Ullevigatan 15	2009	16,534			LG
10	Heden 46:3	Skånegatan 1-3	2015	20,276			B
11	Högen 3:1	Knipavägen 21/Råhult Partille	1984/2006	1,395			-
12	Inom Vallgraven 11:6	Arkaden/Fredsgatan 1-3/Drottninggatan 38-48/ Södra Hamngatan 37-43/Östra Hamngatan 36	1970/2002	21,003			LG
13	Inom Vallgraven 17:3	Drottninggatan 13/Västra Hamngatan 10/Kyrkogatan 20-22	1813/1994	4,125			LS
14	Inom Vallgraven 19:18	Kyrkogatan 44/Östra Hamngatan 31	1905/1987	2,760			LS
14	Inom Vallgraven 19:7	Drottninggatan 37/Östra Hamngatan 29	1864/1966	2,183			LS
14	Inom Vallgraven 19:9	Östra Hamngatan 33/Kyrkogatan 46	1810/1940	1,769			LS
14	Inom Vallgraven 20:14	Kungspassagen/Kungsgatan 48/Kyrkogatan 23	1930/2002	3,979			LG
14	Inom Vallgraven 20:6	Kungsgatan 50/Kyrkogatan 25	1850/1960	3,690			LS
14	Inom Vallgraven 20:7	Östra Hamngatan 35/Kyrkogatan 27	1800/1944	1,755			LS
15	Inom Vallgraven 22:3	Kungsgatan 31-33	1930	1,568			-
16	Inom Vallgraven 22:15	Kungsgatan 27-29/Västra Hamngatan 12-16/Vallgatan 12-14	1936/2006	9,371			-
17	Inom Vallgraven 22:16	Kungsgatan 35-39/Vallgatan 16-24	1910/2008	10,806			LC
18	Inom Vallgraven 33:10	Magasinsgatan 22 & 24	1978/1995	3,146			LG
19	Inom Vallgraven 59:14	Ekelundsgatan 8-10/Kungsgatan 26-32/ Magasinsgatan 7A-C & 9/Kyrkogatan 1-7	1844/2009	10,295			LG
20	Inom Vallgraven 61:11	Kungsgatan 12-18/Käppslängareleden 1/Otterhällegatan 12	1972/2008	10,028			LG
21	Inom Vallgraven 7:5	Centrumhuset/Östra Hamngatan 52/Östra Larmgatan 15-21/ Kungsgatan 61-67	1939/1996	8,885			LS
22	Inom Vallgraven 8:18	Kompassen/Kungsgatan 58-60/Kyrkogatan 35&39/ Östra Larmgatan 9-13/Fredsgatan 9-11, 12-14	1974/2015	11,530			-
23	Inom Vallgraven 9:13	Fredsgatan 6-10/Drottninggatan 49-65/Kyrkogatan 56-60/ Östra Larmgatan 3-7	1967/2013	8,290			LG
24	Lorensberg 45:16	Storgatan 53/Södra vägen 3-5	1957/2009	6,917			LG
25	Nordstaden 10:20	Köpmansgatan 9/Norra Hamngatan 18/Östra Hamngatan 30-34	1930	6,520			LS
26	Nordstaden 10:23	Köpmansgatan 11-25/Götgatan 13-15 & 14-16/ Norra Hamngatan 20-34	1986	27,524			LG
27	Nordstaden 17:6	Kronhusgatan 9-13, Torggatan 16	1862/2003	4,611			LS
28	Nordstaden 21:1	Kronhusgatan 2A/Packhusplatsen 2/Smedjegatan 1A	1901/2008	5,125			LG
29	Nordstaden 31:1	S:t Eriksgatan 3/Nedre Kvarnbergsgatan 3	1787/2005	2,317			LG
30	Nordstaden 8:27	Östra Hamngatan 18-24/Nordstadstorget 1-7/ Spannmålsgatan 11-15/Postgatan 22-24	1974	43,138			LC
Total Region Gothenburg				401,882			

1) LG=LEED Gold LS=LEED Silver LC=LEED Certified MB=Miljöbyggnad B=BREEAM

Shopping precincts linked together

All the puzzle pieces are in place along Södra Förstadsgatan, where Willys Hemma has also opened a store. Triangeln and Södertull are increasingly linked by Södra Förstadsgatan and form an area with a lively street life, both day and night.



“We are particularly proud of receiving the Property Company of the Year award for our work with Södra Förstadsgatan.”

Anna Stenkil,
Senior Vice President, Öresund Region

What do you want to showcase from 2018?

“The successes in city retail. We have been working with the portfolio and the tenant mix along Södra Förstadsgatan since 2013. We started an area analysis, which was very successful, and now all the properties have been let. In March 2018, Willys Hemma opened its doors and this has already resulted in the area’s pulse rising for a longer part of the day. We are proud that at “Real Estate Öresund,” the property sector’s given meeting place in the region, we received the Property Company of the Year award for our work with Södra Förstadsgatan.

We have also had a number of exciting new store openings in Triangeln during the year. In combination with the weak Swedish krona, which has even attracted customers from Denmark and Germany, this has contributed to making 2018 a positive year for city retail. This is good for life and movement in the city.

On the office front, I would like to mention the letting to the Swedish Agency for Accessible Media (MTM). The contract was signed just before Christmas and encompasses 1,700 square metres in the Bylgia block in Nyhamnen near the central station. This is a government agency that is moving from Stockholm, which means we are gaining 100 new job opportunities in Malmö.”

How will you continue with Triangeln?

“Just over a year ago, we raised the bar for the shopping centre. The goal is to turn Triangeln into Malmö’s smartest shopping destination and we are well on our way. Efforts with lettings have been very successful and we have expanded the opening hours, which has turned out positive.

Lettings included contracts with Repeat Gym and ICA, and most recently, 3,200 square metres to XXL. This means that Triangeln now has an occu-

pancy rate of slightly more than 95% and that footfall has risen 6% over the year. The increase in footfall is a direct result of the expanded store offering and the more generous opening hours.”

What is happening in Södertull?

“The most exciting development is our new tenant DevHub, which has moved in on Torggatan by Gustaf Adolfs torg. The address now houses a shared building for different game developers, the first in Sweden. Game development is an incredibly expansive industry in Malmö and the aim is for some one hundred people to work at DevHub by summer 2019. These are often younger people who work later in the day and evening, and create life and movement during this part of the day. DevHub makes a good complement to Entreprenörcenter, an adjacent office hotel.”

What are you looking forward to in 2019?

“To continuing to develop and link our areas. To a great extent, this is about creating good, secure flows the entire way from Triangeln to Stortorget.

On the development front, it is Priorn in the city centre that is in focus. Priorn encompasses 13,000 square metres allocated over seven floors and a garage. Lettings are progressing well and already amount to 60% for the building. Already prior to the project start, it was clear that COWI and Region Skåne are renting 2,600 and 3,550 square metres, respectively. Just before Christmas, the architect bureau Sydark Konstruera finalised its lease of the entire sixth floor of 1,000 square metres. In the second quarter of 2020, Priorn will be completed.

In Nyhamnen too, around the central station, we are taking additional steps together with other stakeholders to develop the next major city district of Malmö. We look forward to this with enthusiasm.”

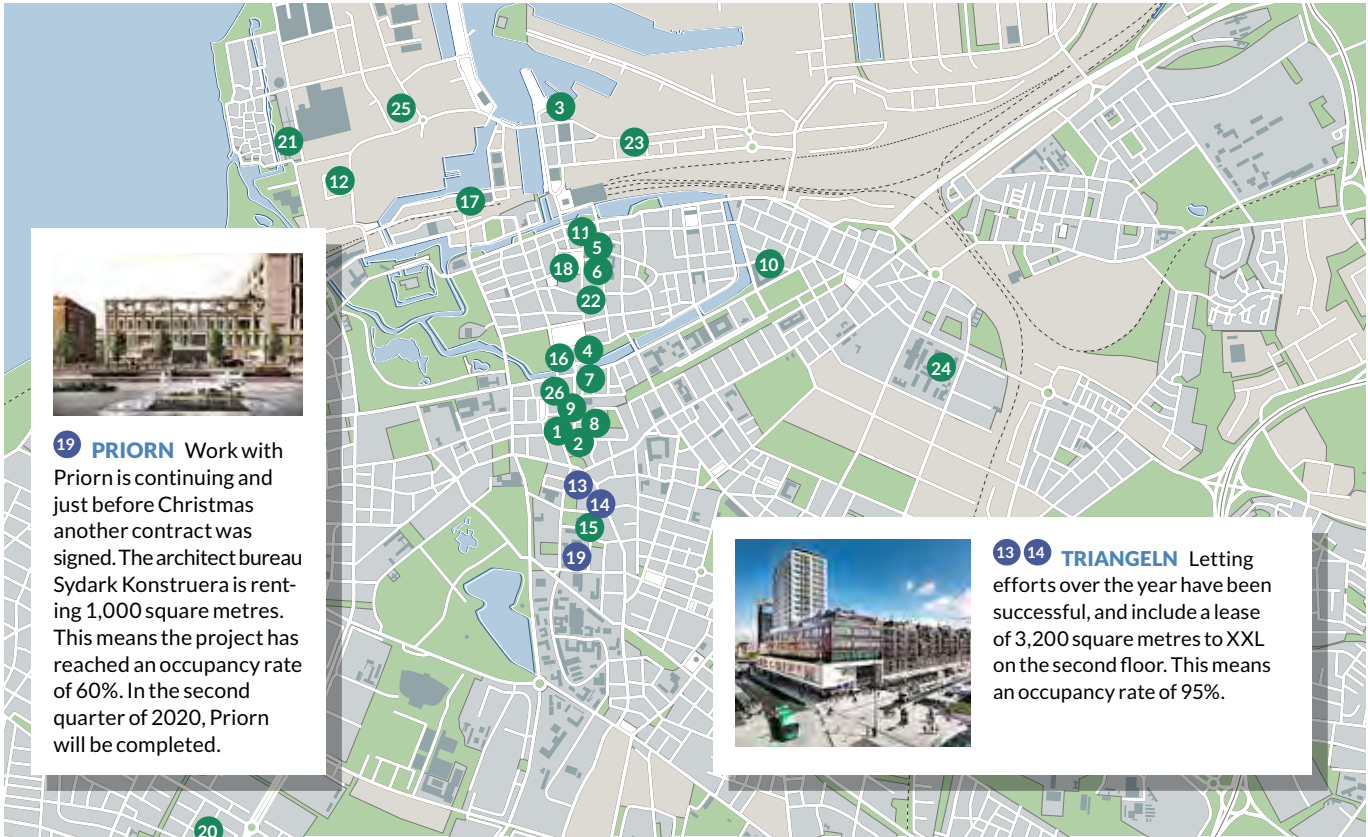




During the year, a lease was signed with Willys Hemma for 1,300 square metres on Södra Förstadsgatan. This agreement means that the entire portfolio at street level on Södra Förstadsgatan is fully let.

Öresund

Malmö



Lund



MALMÖ

	Name of property	Street address	Year of construction/ most recent redevelopment	Lettable area excl. garage sq. m.	Share, %		Environmental certification ¹⁾
					Offices	Retail	
1	Björnen 1	Södra Förstadsgatan 17/Kärleksgatan 2/Davidshallsgatan 14	1903/2001	3,864			LG
2	Björnen 38	Södra Förstadsgatan 25-27/Davidshallsgatan 26	1904/1999	5,269			LG
3	Bylgia 1	Hans Michelsengatan 2A, 2B/Skeppsbron 17	1957/2004	8,855			LG
4	Carl Gustav 5	Södra Tullgatan 4/Kanalgatan 3-5/Stenhuggaregatan 2-4/Södra Vallgatan 3A-C	1961/2000	15,194			LG
5	Claus Mortensen 26	Södergatan 14	1967/2009	3,237			LS
6	Claus Mortensen 35	Södergatan 20/Baltzarsgatan 43	1898/2009	1,993			LS
7	Delfinen 12	Södra Förstadsgatan 2/Drottninggatan 38	1908/2004	5,380			LG
8	Elefanten 23	Södra Förstadsgatan 22-24/Södra Långgatan 25/Lugna gatan 38	1938/1988	5,888			LS
9	Elgen 14	Södra Förstadsgatan 9-11/Davidshallsgatan 10/Storgatan 22	1937/1998	5,723			LS
10	Gasklockan 3	Porslingsgatan 6/Malmgatan 1/Drottninggatan 7	1993/2013	54,898			-
11	Hans Michelsen 9	Adelgatan 1-3/Bruksgratan 1-3/Norra Vallgatan 51-52	1974/2013	2,003			LS
12	Jungmannen 1	Skeppsgatan 9	2004	5,114			LG
13	Kaninen 26	Södra Förstadsgatan 33-47/Rådmansgatan 10/Triangeln 2-4	1989/2013	36,678			LS
14	Kaninen 27	Södra Förstadsgatan 49-51/Friisgatan 2/S:t Johannesgatan 1A/Triangeln	1958/2013	19,428			LS
15	Kaninen 30 & Innerstaden 6:149	Rådmansgatan 12A-C/Rådmansgatan 18A-C/S:t Johannesgatan 1E, 2C, 3N-W	2012	11,551			LS & BVG
15	Kaninen 32	Rådmansgatan 16	2012	4,701			LG & BVG
16	Magnus Stenbock 2	Gustav Adolfs Torg 12/Torggatan 2	1894/2007	5,254			LG
16	Magnus Stenbock 4	Södra Tullgatan 3/Torggatan 4/Södra Vallgatan 5	1963/2010	10,477			LG
17	Nereus 1	Neptuniplan 7-9/Matrosq 1/Styrmansg 2/Bassängkajen 10-12	2012	16,678			LP
18	Oscar 1	Stortorget 31/Södergatan 1-3	1903/2004	2,997			LS
18	Oscar 17	Stortorget 27-29/Stortorget 19-23/Lilla Torg 2-4/Skomakaregatan 7-11	1910/2001	14,222			LG
19	Priorn 2	Rådmansgatan 13/S:t Johannesgatan 2-6	1944/2010	8,171			LG
19	Priorn 5	Pildammsvägen/S:t Johannesgatan					
20	Regndroppen 1	Hyllie/Bures gata	-	-			
21	Relingen 1	Propellergatan 1/Västra Varvsgatan 10	2000	5,117			LG
22	Sankt Jörgen 7	Södergatan 28/Kalendegatan 27	1929/2012	5,590			LG
23	Sirius 1	Jörgen Kocksgatan 9/Navigationsgatan 3	1992	7,114			-
24	Smedjan 13 & 15	Celsiusgatan 33-35/Östra Farmvägen 5	1937/2004	11,231			-
25	Stapelbädden 3	Stora Varvsg 13A, Södra Stapelgränd 4	2012	8,100			BE
26	Tigern 1	Södra Förstadsgatan 1/Regementsgatan 2	1893/2008	2,508			LS
26	Tigern 7	Södra Förstadsgatan 7/Storgatan 37	1894/2006	2,335			LS
Total Malmö				289,570			

LUND²

1	Nya Vattentornet 2	Mobilvägen 8-10/Sölvegatan 51	1999	24,494			LG
1	Nya Vattentornet 4	Mobilvägen 4-6	2007/2008	25,089			LG
Total Lund				49,583			

Total Region Öresund**339,153**

1) LP=LEED Platinum LG=LEED Gold LS=LEED Silver LC=LEED Certified BVG=BREEAM Very Good BE=BREEAM Excellent

2) The properties in Lund were divested at the start of 2019.

The first building in wood is being constructed

The building that will house the National Food Agency is slowly taking shape. And plans to build Magasin X, Sweden's first office property constructed in wood are on track for becoming a reality. Uppsala has plenty of drive and energy for creating a more attractive city.



“Vasakronan constantly strives to identify new ways to develop methods, models and approaches to reduce the company’s negative climate impact.”

Jan-Erik Hellman,
Senior Vice President, Uppsala Region

What do you want to showcase from 2018?

“We have considerable focus on projects. At Uppsala Science Park, Celsius is cautiously rising from the ground. In the new building, the National Food Agency will move into around 8,000 square metres. It will be an office and an advanced laboratory. Occupancy is planned for the transition around the end 2020. Celsius will boost the attractiveness of the area as one of Sweden’s foremost innovation environments. We have also received approval for the detailed development plan encompassing the construction of our first office block built of wood, Magasin X, by the travel centre in central Uppsala. Magasin X comprises seven floors and a total of 11,000 square metres of lettable area.

Another positive is the general high demand in terms of lettings – we have very few vacancies.”

Magasin X could be Sweden’s first office block built of wood, why has it taken so long?

“The construction industry has ingrained working methods, people like to continue business as usual and build in concrete and steel. It is difficult to break this pattern. Wood is perceived as unknown territory, it will be more difficult to assess the requirements of the material and the costs entailed.

Vasakronan constantly strives to identify new ways to develop methods, models and approaches to reduce the company’s negative climate impact. One way is to identify alternative construction methods and materials. It is therefore particularly pleasing to pave the way for, hopefully, more initiatives to build commercial buildings in wood. Building using wood is not only climate-smart; it gives a different dimension and it appears we are also healthier in wooden buildings.”

What was the largest transaction?

“We purchased the Fenixhuset building on the Svartbäcksgatan pedestrian precinct. The three largest tenants are Zara, Dea Axelssons and Jensen upper secondary school. The block houses a total of six properties, of which Vasakronan owns five following this purchase. This will lead to even greater opportunities to develop city retail. It was positive that H&M opened its refurbished store in the same block at the end of November. The store encompasses 3,000 square metres and now also contains H&M Home and the café concept It’s Pleat, which previously only existed in Stockholm. The new concept has given a strong boost to the precinct.”

What are you particularly proud of?

“That we are driving development in terms of wood constructions. Before Vasakronan decided it wanted to build Magasin X, we made a thorough analysis of wooden buildings. We made study visits, attended seminars and contacted many different industry actors. We concluded that there were no obvious disadvantages to building with wood. As I see it, this is about why, not why not.

From a business perspective it feels on point. I have noted considerable interest from tenants, other property owners and Uppsala municipality, as well as from others.”

What are the main challenges in 2019?

“Realising Magasin X and continuing to develop city retail. I feel a strong, positive drive in the city, where many people work together to create a vibrant and attractive city centre.”





In central Uppsala, adjacent to the travel centre, Magasin X is planned. The detailed development plan was approved during the year and encompasses 11,000 square metres over seven floors. When completed, it will be Vasakronan's first property in wood.

Uppsala



3 DRAGARBRUNN 18:3
 During the year, Vasakronan acquired the Fenixhuset building from SEB Trygg Liv for SEK 285 million. The property comprises 5,100 square metres and is fully let.



17 MAGASIN X During the year, the detailed development plan for Vasakronan's first office building in wood was approved. The property encompasses 11,000 square metres allocated over seven floors. The construction start is planned for 2019.



15 CELSIUS 2018 marked the construction start for Celsius. The property encompasses a total of 10,000 square metres and the largest tenant is the National Food Agency, which leases 8,000 square metres. The investment corresponds to SEK 420 million and the building will be completed at the end of 2020.

	Name of property	Street address	Year of construction/ most recent redevelopment	Lettable area excl. garage sq. m.	Share, %		Environmental certification ¹⁾
					Offices	Retail	
1	Boländerna 7:4	Säbygatan 3/Östunagatan 1	1937/1999	1,710		-	
2	Dragarbrunn 14:5	Svarbäcksgatan 8/S:t Persgatan 6	1970	5,140		-	
3	Dragarbrunn 18:1	Gamla Torget 5	1990/2001	1,435		LS	
3	Dragarbrunn 18:3	Gamla Torget 7/S:t Persgatan 5/Svarbäcksgatan 6	1977/2010	5,135		-	
4	Dragarbrunn 18:2, 18:7	Gamla Torget 1-3/Östra Ågatan 25-27	1973/1991	6,131		LS	
5	Dragarbrunn 18:9	Stora Torget 4/Svarbäcksgatan 4	1978/2001-04	6,026		LG	
6	Dragarbrunn 19:10	Dragarbrunnsgatan 35/Påvel Snickares Gränd 1	1966/2005	4,198		-	
7	Dragarbrunn 19:11	Svarbäcksgatan 1B-5/S:t Persgatan 7/Påvel Snickares Gränd 3	1918/1978	9,173		LG	
8	Dragarbrunn 20:3	Dragarbrunnsgatan 38-40/Vaksalagatan 8	1966/1999	3,433		LC	
9	Dragarbrunn 23:4	Dragarbrunnsgatan 39/Vaksalagatan 5	1961/2006	2,716		LC	
10	Dragarbrunn 24:5	Vaksalagatan 7-13/Dragarbrunnsgatan 42-44/Kungsgatan 49	1974/2000	15,352		LG	
11	Dragarbrunn 26:3	Bredgränd 4/Kungsängsgatan 5 B/Kungsängsgatan 7	1962/2006	4,261		LG	
12	Dragarbrunn 26:4	Kungsängsgatan 3-5A/Smedsgränd 3	1962/1994	4,998		-	
13	Dragarbrunn 28:5	Kungsgatan 53-55/Bredgränd 14-18/Dragarbrunnsgatan 46-48	1895/2011	21,041		LG	
14	Dragarbrunn 31:1	Dragarbrunnsgatan 50-52/Bangårdsgatan 10-28/Bredgränd 15-19/Kungsgatan 57 A-D	1860/2011	19,852		LG	
15	Kronåsen 1:1	Dag Hammarskjölds väg 10-14, 26-54, 58-60	1910/2017	69,851		LG	
16	Kungsängen 1:25	Kungsgatan 79/Dragarbrunnsgatan 78/Samaritergränd 5/Strandbodgatan 10	2006	10,974		LG	
17	Kungsängen 14:1	Fjalars gränd 4	-	-		-	
17	Kungsängen 14:2	Suttungsgränd 3	1885/2008	1,747		LS	
17	Kungsängen 14:5	Suttungsgränd 3A	-	-		-	
18	Kungsängen 16:6	Hamnesplanaden 1-5/Kungsängsgatan 43/Strandbodgatan 2-4/Ebba Boströms gata 7	1975/2008	30,650		-	
19	Kungsängen 4:4	Bangårdsgatan 5-9/Kungsängsgatan 18 A/ Dragarbrunnsgatan 51-53	1972/2013	6,728		LG	
20	Kvarngärdet 1:19	Ljusbärargatan 2	1959/1990	5,160		LG	
21	Årsta 11:233	Haeggströmshuset 1	-	-		-	
22	Årsta 64:1	Haeggströmshuset 1	-	-		-	
Total Region Uppsala				235,711			

1) LG=LEED Gold LS=LEED Silver LC=LEED Certified



Buzzing with life on the roof of the Garrisonen property. Together with Bee Urban, Vasakronan has created a green oasis for urban gardening. Bee Urban Evolution Lab doesn't just positively impact people's well-being, it is also a significant boost to ecosystem services in the city.

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Administration Report

The Board of Directors and CEO of Vasakronan AB (publ), corporate registration number 556061-4603, hereby present the 2018 Annual Report for the Group and Parent Company.

Rental market

Property market trends in the regions and sub areas in which Vasakronan operates were characterised in 2018 by the continued strength of the economy. Demand for modern office premises in central locations or in areas with good communications has remained high in the office rental market.

The strongest trend was posted in Stockholm's CBD and central Stockholm, where rents rose around 7%. Rent levels have risen in Gothenburg also, and increased by about 3%.

For central locations in Vasakronan's markets, office vacancies have remained relatively still at low levels during the year, rising from 3% to not quite 5%. Malmö is the exception where office vacancies were approximately 9% in 2018.

Property market

The property market in Sweden has performed well over the last few years as was the case in 2018 due to the economic boom, low interest rates and good access to capital. Aside from the development of the economy and employment, there are primarily three trends that affect the property market: digitisation, expanding e-commerce and new patterns of demand for offices. Parallel to these three aspects, the sector – along with society as a whole – is also affected by a greater focus on sustainability topics, first and foremost driven by the increasingly obvious effects of ongoing climate change. Increasing interest and awareness of health issues, not least how employees' health is affected by workplace conditions and environment, is also having considerable influence on how property companies plan premises and their surrounding environments.

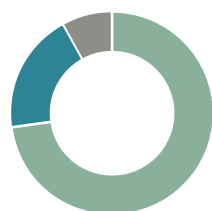
During the year, completed transactions amounted to SEK 165 billion, compared with SEK 157 billion in 2017. Office properties accounted for almost 40% of the above. The majority of the transactions were conducted in Stockholm and most of the buyers were Swedish operators.

The market is characterised by continued healthy access to capital and low interest rates. Market requirements for yields have declined in all of Vasakronan's sub-markets over several years, and this trend continued in 2018. In the CBDs of Stockholm and Gothenburg, the requirements for yields are 3.5% and 3.7% respectively, and in Stockholm's inner suburbs, Öresund and Uppsala from 4.2–5.7%.

Operations

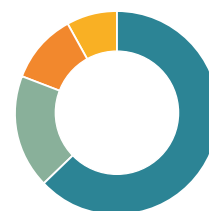
Vasakronan owns, manages and develops centrally located office and retail properties in Stockholm, Uppsala, Gothenburg, Malmö and Lund. After the end of the period, the entire Lund portfolio was divested. At year end, the property portfolio comprised 174 properties (179) with a total lettable area of 2.4 million sq. m. (2.4). Of the total area, 85% (84) was environmentally certified. The total market value of the properties at year end amounted to SEK 139 billion (127), and the ten largest properties accounted for 29% of the value.

Contracted rent by property type



■ Offices, 73%
■ Retail, 19%
■ Other, 8%

Contracted rent by geographic market



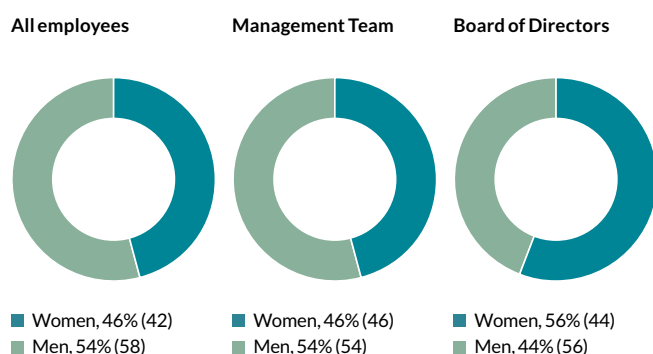
■ Stockholm, 63%
■ Gothenburg, 18%
■ Öresund, 11%
■ Uppsala, 8%

The occupancy rate was 93.1% (93.1) on 31 December 2018. Of total vacancies, 2.5 percentage points (2.8) were attributable to ongoing projects and development properties. At year end, Vasakronan had property projects encompassing new construction, extensions or redevelopments valued at SEK 10.6 billion (9.3), of which SEK 3.9 billion (2.7) was capitalised. The occupancy rate for major projects was 41% (44) at the end of the period. Vasakronan improves its property portfolio by buying and selling properties, thereby creating the pre-conditions for an increased long-term return. During the year, properties for SEK 0.6 billion were acquired, of which Dragarbrunn 18:3 was the largest and five properties were divested for a total of SEK 2.5 billion, where at SEK 1.1 billion the sale of Gårda was the largest.

Personnel

At 31 December 2018, the number of employees was 309 (349). Vasakronan strives to be a company where the diversity of society is reflected in the composition of its personnel. All employees and job applicants will be treated equally, and no discrimination will be accepted. Further information related to staff composition can be found on pages 122–123 of this printed document.

Distribution, women and men



Sustainability reporting

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, Vasakronan has chosen to prepare its sustainability report separately from its Annual Report. The Sustainability Report can be found on pages 112–127 in this printed document.

Appropriation of profit

A dividend of SEK 4 billion has been proposed to the General Meeting. The Board finds that the proposed dividend is justifiable in terms of the assessment criteria stipulated in Chapter 17, Section 3, second and third paragraphs of the Swedish Companies Act regarding operations, scope and risks as well as consolidation requirements, liquidity and general position. Refer to page 93.

Events after the balance-sheet date

In addition to the above proposed dividend, after the end of the financial year, Vasakronan signed a ten-year lease with the Swedish Tax Agency for 42,000 square metres at the Nya Kronan property in Sundbyberg. The letting encompasses two buildings and one existing building undergoing renovation. Occupancy is scheduled for the end of 2021. The agreement with the Swedish Tax Agency means the property is now fully let.

Future performance

The assessment for 2019 is for the rental market to remain strong, with continued strong demand for office premises in good locations. This means excellent prerequisites for improving net operating income and a slightly higher occupancy rate. The targets for 2019 are an increase in net operating income in comparable property holdings of 6% and an occupancy rate of not less than 94% at year end.

The healthy rental market also creates favourable prerequisites for the continued development of Vasakronan's property holdings. Planning of additional projects is in progress, and the assessment is that approximately SEK 4 billion will be invested in 2019.

Consolidated income statement

Amounts in SEK million	2018	2017	Note
Rental revenue	6,718	6,490	2.1-2
Operating expenses	-711	-662	
Repairs and maintenance	-108	-110	
Property administration	-357	-331	2.3
Property tax	-527	-544	
Ground rents	-146	-165	
Total property expenses	-1,849	-1,812	2.3
Net operating income	4,869	4,678	
Earnings from services	0	-	
Central administration	-101	-97	2.3
Result from participations in joint ventures	159	-3	
Interest income with effective interest method	3	2	2.5
Interest expense	-1,046	-1,167	2.5
Profit before value changes and tax	3,884	3,413	
Change in value of investment properties	10,651	7,973	4.2
Change in value of financial instruments	13	468	6.5
Divested/impaired goodwill	-62	-26	4.1
Profit before tax	14,486	11,828	
Current tax	-120	-95	3.1
Deferred tax	-1,464	-2,464	3.1
Profit for the year	12,902	9,269	
Other comprehensive income			
<i>Items that may not be reclassified</i>			
Pensions, revaluation	-18	-14	2.4
Restriction for surplus in pension plan with asset cap	8	3	2.4
Income tax on pensions	2	2	
Other comprehensive income for the year, net of tax	-8	-9	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR¹⁾	12,894	9,260	
Key metrics			
Surplus ratio, %	73	72	
Interest coverage ratio, multiple	4.7	3.9	

1) Since there are no minority interests, the entire profit is attributable to the Parent Company's shareholders.
The absence of any potential shares means there is no dilutive effect.

Comments on the consolidated income statement

Rental revenue

Rental revenue increased during the year to SEK 6,718 million (6,490). In comparable property holdings, the increase was 5% and was mainly attributable to higher gross rents from new lettings contracted and from renegotiated leases as well as from rent adjustment for inflation. New lettings corresponding to 146,000 sq. m. (167,000) and annual rent of SEK 510 million (613) were contracted, of which 20% (18) impacted on revenue in 2018. Notice of termination was received during the year (tenant will be vacating) corresponding to annual rent of SEK 491 million (446), whereby net lettings amounted to SEK 19 million (167).

Renegotiations and lease extensions during the year encompassed 324,000 sq. m. (369,000) and corresponded to annual rent of SEK 990 million (1,036), resulting in an increase on the previous rent payable of 12% (10). Of all the contracts up for renegotiation over the last 12 months, 69% (64) of the tenants decided to extend their contracts.

Contracted rent at the end of the year amounted to SEK 6,854 million (6,638) and the average remaining maturity was 4.2 years (4.2). The closing occupancy rate was 93.1% (93.1). Of total vacancies, 2.0 percentage points (2.5) were attributable to ongoing projects and 0.5 percentage points (0.3) to vacant development properties.

Even distribution of rents to maturity

	No. of contracts	Annual rent, SEK m	% of total
2019	1,402	1,118	16
2020	932	1,116	16
2021	759	1,171	17
≥2022	1,138	3,140	46
Total	4,231	6,546	
Residential	1,169	99	1
Garage	-	209	3
Total	5,400	6,854	

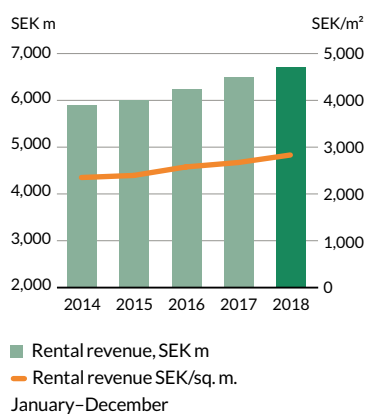
Maturity structure for contracted rent.

Widely distributed over many tenants

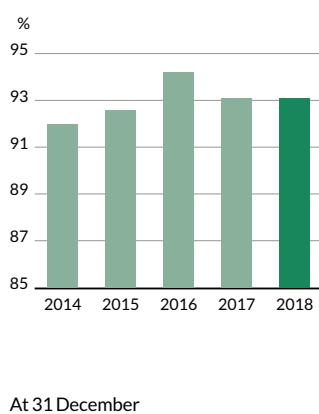
	Share in %
Swedish Police Authority	3
Ericsson	3
H&M	3
Swedish Prison and Probation Service	2
Försäkringskassan (Social Insurance Agency)	2
Swedish National Courts Administration	1
Ähléns	1
KPMG	1
Region Uppsala	1
NetEnt	1
Total	18

Largest tenants, share of contracted rent

Rising rental revenue

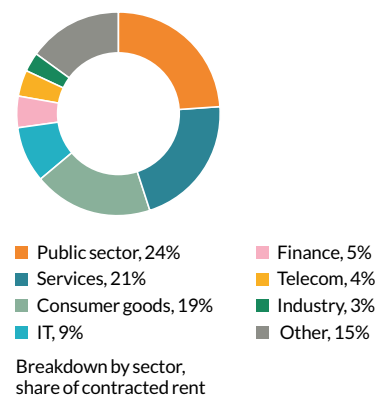


Stable occupancy rate



At 31 December

Public sector comprises largest share of tenants



Breakdown by sector, share of contracted rent

Property expenses

Property expenses amounted to SEK 1,849 million (expense: 1,812) for the year. For comparable property holdings, the increase in property expenses was 4% (4). The increase was primarily due to higher costs for electricity and district cooling, but also due to increased property administration costs. The portfolio's energy intensity improved to 103 kWh/sq. m. (100) at the end of the period, mainly due to the cold winter and extremely warm summer.

Net operating income

Net operating income increased during the period to SEK 4,869 million (4,678) due to rising market rents. For comparable property holdings, the increase in net operating income was almost 6% (6). The surplus ratio increased to 73% (72) due to higher rental revenue.

Administration

Property administration costs were SEK 357 million (expense: 331) and central administration costs were SEK 101 million (expense: 97). The increase was attributable to the number of employees whose salaries were charged to administration during the year and which averaged 241 (230).

Year-on-year, the total number of employees declined to 309 (349) at the end of the period. The decrease was due to the restructure completed in February whereby a number of employees in Vasakronan's technical organisation transferred employer to Coor. The cost of these personnel is recognised as an operating expense, both prior to and after the restructure.

Result from participations in joint ventures

During the year, a total of SEK 162 million (0) was received from the joint venture Järvastaden AB, which Vasakronan owns in partnership with Skanska.

Net interest

Net interest expense improved to SEK 1,043 million (expense: 1,165) due to lower interest rates and credit margins over the year. The average interest rate for loans and derivatives decreased to 1.6% (1.7) at the end of the period.

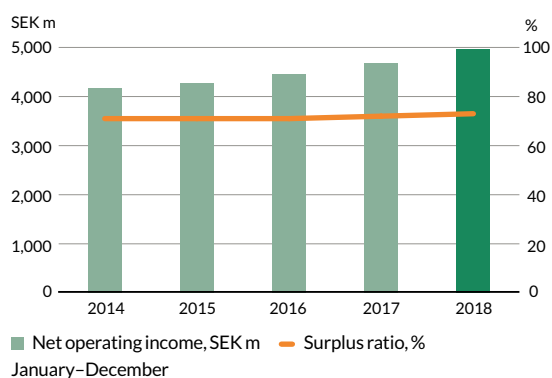
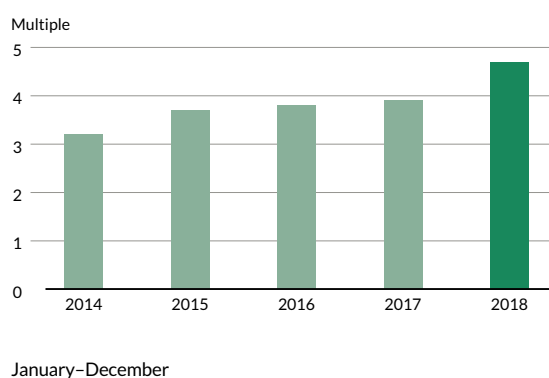
The average fixed-interest tenor increased to 4.7 years (4.5). The proportion of loans with fixed-interest maturities within one year increased to 43% (41) and loans with fixed-interest maturities of five years or more increased to 47% (43) of interest-bearing liabilities.

Sensitivity analysis

	Change	Impact on profit before tax, SEK m
Economic occupancy rate	+/- 1%	+/- 61
Rental revenue	+/- 1%	+/- 67
Price change for renegotiated expiring leases	+/- 1%	+/- 11
Property expenses	+/- 1%	-/+18
Net interest with current fixed-interest tenors and changed interest	+/- 1 percentage point	-/+ 229
Value of interest-rate derivatives if average interest rates change ¹⁾	+/- 1 percentage point	-/+1,902
Market value of properties ²⁾	+/- 1%	+/- 1,389

1) The unrealised appreciation in value of interest-rate derivatives can be realised to meet the effect of cash flow from increased borrowing expenses.

2) The market value is in turn impacted by other factors, refer to the sensitivity analysis on page 84.

High surplus ratio**Improved interest coverage ratio**

The LTM interest coverage ratio increased to a multiple of 4.7 (3.9) as a result of an improved net operating income and lower net interest expense. The policy for the interest coverage ratio does not permit it falling below a multiple of 2.0 over a rolling 12-month period.

Profit before value changes and tax

Profit before value changes and tax was SEK 3,884 million (3,413), up 14%.

Change in value of investment properties

At 31 December 2018, the entire property portfolio had been valued by external appraisers Cushman & Wakefield or Forum Fastighetsekonomi.

Altogether, the change in the property value amounted to SEK 10,651 million (7,973), which corresponded to an 8.5% (6.9) increase in value. The increase was primarily attributable to rising market rents, particularly in the Stockholm portfolio, but was also due to lower yield requirements, mainly in Gothenburg.

On average, the yield requirement for the portfolio was 4.4%, compared to 4.5% for corresponding properties at the end of 2017.

Change in value of financial instruments

Derivatives are primarily used to adjust the maturity structure in the loan portfolio and to hedge borrowings in foreign currencies. At the end of the period, the derivative portfolio amounted to SEK 62,088 million (63,727).

The value change in derivatives was SEK 14 million (468). Vasakronan opted for early settlement of interest-rate derivatives for a nominal value of SEK 5,650 million (3,200) during the year. With that, a previously recognised loss of SEK 484 million (loss: 359) was realised. At the same time, new interest-rate derivatives were entered into with longer maturities and at current interest rates.

Tax

The Group reported a total tax expense of SEK 1,584 million (expense: 2,559). Of the tax expense, SEK 120 million (expense: 95) was current tax and SEK 1,464 million (expense: 2,464) was deferred tax resulting from temporary differences primarily attributable to investment properties and financial instruments. The change in deferred tax between the years was due to the restatement of the deferred tax liability at the tax rate of 20.6% in accordance with the government's decision to change the corporate tax rate from 1 January 2019. The restatement entails a positive nonrecurring impact of SEK 1.1 billion on deferred tax. After adjustment for the nonrecurring effect, the effective tax rate amounted to 18.3% (21.6). The lower tax rate is an effect arising from completed sales of companies.

Vasakronan has a tax policy that has been established by the Board to ensure that tax issues are managed in a social responsible way. For more information on Vasakronan's tax policy, please see Vasakronan's website.

At the end of the period, Vasakronan was not involved in any tax litigation.

Change in value by region

	Change in value, %	Contribution to change in value, percentage points
Stockholm	9.3	6.1
Gothenburg	9.7	1.8
Öresund	3.2	0.3
Uppsala	5.5	0.3
Total		8.5

Factors impacting value¹⁾

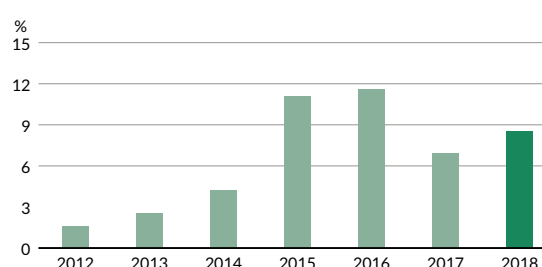
	Value impact, %
Yield requirement	1.9
Market rents	6.6
Total	8.5

1) The increase in value was also due to investments and other factors impacting value that have been allocated proportionally across yield requirements and market rents.

Change in value, by category

	Change in value, %	Contribution to change in value, percentage points
Investment properties	8.4	7.6
Development properties	8.7	0.6
Transactions	-	0.3
Total		8.5

Value change in the total portfolio



Consolidated balance sheet

Amounts in SEK million	2018	2017	Note
ASSETS			
Non-current assets			
Intangible assets	2,089	2,145	4.1
Property, plant and equipment (PPE)			
Investment properties	138,934	126,875	4.2
Equipment	44	46	4.3
	138,978	126,921	
Financial assets			
Shares and participations in joint ventures	365	368	7.2
Receivables from joint ventures	165	-	
Derivatives	214	242	6.4
Other non-current receivables	270	313	6.4
	1,014	923	
Total non-current assets	142,081	129,989	
Current assets			
Accounts receivable	29	20	5.1
Receivables from joint ventures	0	1	
Derivatives	39	33	6.4
Other current receivables, prepaid expenses and accrued income	837	817	5.2
Cash and cash equivalents	2,215	1,423	6.3
Total current assets	3,120	2,294	
TOTAL ASSETS	145,201	132,283	
EQUITY AND LIABILITIES			
Equity			
Share capital	4,000	4,000	
Other contributed capital	4,227	4,227	
Retained earnings	52,044	43,150	
Total equity	60,271	51,377	
Non-current liabilities			
Non-current interest-bearing liabilities	45,956	44,711	6.2
Deferred tax liability	18,286	16,824	3.2
Derivatives	2,200	2,699	6.4
Other non-current liabilities	76	55	6.4
Provision for pensions	91	86	2.4
Total non-current liabilities	66,609	64,375	
Current liabilities			
Current interest-bearing liabilities	15,131	13,710	6.2
Accounts payable	118	124	
Liabilities joint ventures	151	17	
Current tax liabilities	42	80	
Derivatives	20	3	6.4
Other current liabilities, accrued expenses and deferred income	2,859	2,597	5.3
Total current liabilities	18,321	16,531	
TOTAL EQUITY AND LIABILITIES	145,201	132,283	
Key metrics			
Net interest-bearing liabilities, SEK m	58,872	56,998	
Equity/assets ratio, %	42	39	
LTV, %	41	43	

Comments on the consolidated balance sheet

Intangible assets

Intangible assets primarily consist of goodwill. Goodwill has arisen from the recognition of deferred tax on property at the nominal tax rate on the date of the business combination, while the tax rate applied when calculating the purchase price for the acquisition was lower than the nominal rate. At 31 December, goodwill was SEK 1,982 million (2,045), and the decline was primarily due to the sale of properties.

The remaining portion of intangible assets comprised the value of the Vasakronan brand, which amounted to SEK 100 million (100). The SEK 7 million invested in a new technical platform to develop the digital property language Real Estate Core was also recognised as an intangible asset.

Investment properties

At 31 December 2018, based on external appraisals the estimated market value of Vasakronan's property portfolio was SEK 138,934 million compared with SEK 126,875 million at year-end 2017. The change in value during the period was SEK 10,651 million (7,973) and the remaining change in the market value comprised net investments. A change in the yield requirement of +/- 0.25 percentage points would have a negative impact of 5.2/5.9% on the value of the current property portfolio.

The valuations were performed pursuant to the RICS Red Book and apply the same methodology as previous valuations. Market value is influenced by property-specific events, such as new and renegotiated leases, properties being vacated

and investments. Consideration has also been taken for any assessed changes in market rents and yield requirements.

A more comprehensive description of Vasakronan's property valuation methodology is available in Note 4.2 on page 83.

Vasakronan has set high goals for environmental certification of its property portfolio. It aims to eventually obtain certification for all of its properties and at year end, 85% (84) of the portfolio had environmental certification.

During the quarter, Vasakronan sold and transferred three properties in Lund: Apotekaren 12; Galten 25; and Repslagaren 31 to Stena Fastigheter at a property value of SEK 370 million. The Telefonfabriken 7 property at Telefonplan in Stockholm was also sold for SEK 210 million. The sale pertained to development rights for housing and the buyer, Einar Mattsson, will take possession of the property when the demolition of the existing building has been completed.

Higher property values

SEK m	2018	2017
Opening value, 1 January	126,875	115,922
Investments	3,335	2,543
Acquisitions, consideration	594	1,049
Sales, consideration	-2,521	-612
Change in value	10,651	7,973
Closing value, 31 December	138,934	126,875

Large investments in property projects

City	Property	Total investments, SEK m	Capitalised, SEK m	Share capitalised, %	Area of premises, sq. m.	Estimated completion date	Occupancy rate, % ¹⁾	Environmental certification
Stockholm	Sergelhuset	3,700	1,495	40	56,500	Dec 2021	4	LEED
Gothenburg	Platinum	2,600	536	21	52,900	Dec 2021	47	LEED
Stockholm	Nattugglan, block 2	800	71	9	15,000	Jun 2021	80	LEED
Stockholm, Solna Strand	Nöten 5 phase 2	635	148	23	13,000	Sep 2020	51	LEED
Malmö	Priorn 5	580	323	56	13,200	Apr 2020	55	LEED
Uppsala	Kronåsen 1:1 Celsius	420	93	22	10,200	Dec 2020	82	LEED
Stockholm, Frösunda	Hilton 7	390	342	88	11,000	Sep 2019	26	LEED
Stockholm	Styrpinnen 15	190	95	50	3,650	Dec 2019	0	LEED
Stockholm, Solna	Diktaren	115	2	2	6,400	Aug 2021	100	LEED
Gothenburg	Bohusgatan	94	83	88	5,400	Dec 2018	100	LEED
Total major property projects		9,524	3,188	33			41	
Other projects		1,095	721					
Total		10,619	3,909					

1) Calculated based on area.

Property projects

Ongoing property projects have a total investment volume of SEK 10,619 million (9,397), of which SEK 3,909 million (2,663) had been capitalised as of 31 December. The occupancy rate for major projects was 41% (44) at the end of the period.

During the quarter, a six-year lease was signed for 6,600 sq. m. with the Swedish Council for Higher Education (UHR) at the Nöten 5 property which is part of the Strand office development in Solna Strand. The redevelopment and modernisation of Nöten 5, which comprises four buildings, is being conducted in several stages. Phase 1, which encompasses 4,400 square metres, was completed in autumn 2017 and is fully let to tenants including Cowi.

The agreement with UHR means that the scope of phase 2 is being extended to encompass an additional 13,000 square metres and an increase in investment to SEK 420 million. In phase 2, a building to link the four existing buildings will be constructed at an investment cost of slightly more than SEK 200 million.

Deferred tax

From and including mid-2018, deferred tax is calculated using a nominal rate of 20.6% on differences between the carrying amount and tax base of assets and liabilities. At 31 December 2018, the deferred tax liability was SEK 18,286 million (16,824) and pertained primarily to investment properties. The main reason for the change was the higher market value of the properties. In parallel, the tax liability has declined SEK 1.1 billion now that the tax is calculated at 20.6% rather than 22%.

Liabilities, and cash and cash equivalents

Interest-bearing liabilities, net of cash and cash equivalents, increased to SEK 58,872 million (56,998). The average loan-to-maturity increased to 3.9 years (3.8) and the average loan-to-maturity taking into consideration unutilised credit commitments amounted to 4.4 years (4.4). The proportion of loans maturing within the next 12 months increased to 25% (23), and the share of loans maturing in five years or more rose to 27% (27) of interest-bearing liabilities.

Vasakronan strives to diversify borrowing by allocating across several different sources of funding and markets.

All borrowing in the capital markets is unsecured. At the end of the period, the share of capital market financing was 71% (68) and the share of bank financing was 29% (32).

To further diversify borrowing, Vasakronan established an Euro Medium Term Note program (EMTN program) in the last quarter. Under the program, Vasakronan issued an initial EUR 30 million bond with a tenor of six years in December. During the year, the company issued bonds for SEK 8.0 billion (10.3) in the Swedish capital market and for NOK 3.3 billion (2.8) in the Norwegian capital market. It also raised secured bank loans of SEK 2 billion (3.2). At the end of the year, total bank loans outstanding secured against mortgage deeds declined to 9% (12) of the Group's total assets. Total property deeds pledged as collateral for the Group's interest-bearing liabilities amounted to SEK 13,049 million (15,455) at year end.

To secure its access to capital, the company has a credit facility with the First, Second, Third and Fourth Swedish national pension funds that amounts to SEK 18 billion. The agreement extends until further notice with a notice period of two years. Cash and cash equivalents of SEK 2,215 million (1,423) and the unutilised credit facility together correspond to 134% (152) of loans maturing over the next 12 months or all loan maturities through the next 21 months.

Diversified funding with healthy reserves

SEK m	Loan limit	Amount utilised	Share, %
Commercial paper	25,000	6,157	10
Bonds, SEK ¹⁾	60,919	26,729	44
Bonds, NOK ²⁾		10,162	16
Bonds, EUR ³⁾		305	1
Secured bank loans	12,907	12,907	21
NIB and EIB	4,827	4,827	8
Credit facility from owners	18,000	0	0
Total		61,087	100

1) Joint loan limit for EUR, SEK and NOK.

2) The amount corresponds to NOK 9,700 million and is fully hedged.

3) The amount corresponds to EUR 30 million and is fully hedged.

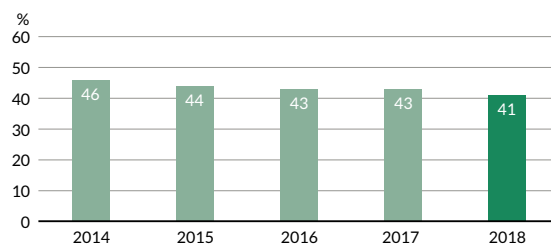
Consolidated statement of changes in equity

Amounts in SEK million	Share capital	Other contributed capital	Retained earnings	Total equity
Equity, opening balance at 1 Jan 2017	4,000	4,227	37,890	46,117
Profit for the year	-	-	9,269	9,269
Other comprehensive income	-	-	-9	-9
<i>Comprehensive income for the year</i>	-	-	9,260	9,260
Dividend	-	-	-4,000	-4,000
Equity, closing balance at 31 Dec 2017	4,000	4,227	43,150	51,377
Equity, opening balance at 1 Jan 2018	4,000	4,227	43,150	51,377
Profit for the year	-	-	12,902	12,902
Other comprehensive income	-	-	-8	-8
<i>Comprehensive income for the year</i>	-	-	12,894	12,894
Dividend	-	-	-4,000	-4,000
Equity, closing balance at 31 Dec 2018	4,000	4,227	52,044	60,271

Equity

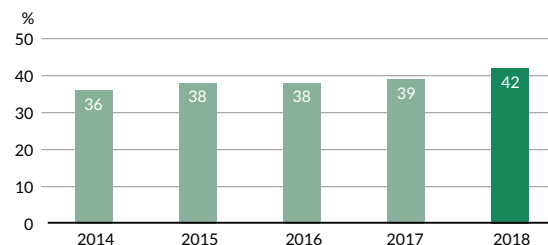
Equity increased during the period to SEK 60,271 million (51,377) due to positive comprehensive income of SEK 12,902 million (9,269). The equity/assets ratio was 42% (39) and the LTV was 41% (43).

Lowered LTV



At 31 December

Strengthened solvency



At 31 December

Consolidated cash-flow statement

Amounts in SEK million	2018	2017	Note
Operating activities			
Net operating income	4,869	4,678	
Central administration	-101	-97	
Add back amortisation and depreciation	12	15	
Adjustment for other non-cash items	-9	-7	6.7
Cash flow from operating activities before interest and tax	4,771	4,589	
Interest paid	-1,069	-1,193	
Interest received	3	2	
Taxes paid	-138	-15	
Cash flow before changes in working capital	3,567	3,383	
Increase (-)/decrease (+) in operating receivables	-190	22	
Increase (+)/decrease (-) in operating liabilities	258	63	
Cash flow from operating activities	3,635	3,468	
Investing activities			
Investments in existing property	-3,335	-2,543	4.2
Property acquisitions	-634	-1,049	4.2
Property divestments	2,526	612	
Other PPE, net	-9	-5	
Acquisition of intangible assets	-7	-	
Dividends from joint ventures	162	-	
Cash flow from investing activities	-1,297	-2,985	
Cash flow after investing activities	2,338	483	
Financing activities			
Dividends and Group contributions	-4,000	-4,000	7.3
Raised debt: interest-bearing liabilities ¹⁾	34,908	40,853	
Repayment of debt: interest-bearing liabilities ¹⁾	-32,223	-37,344	
Change in collateral ²⁾	253	-357	
Redemption of financial instruments	-484	-359	
Cash flow from financing activities	-1,546	-1,207	
Cash flow for the period	792	-724	
Opening balance, cash and cash equivalents	1,423	2,147	
Cash flow for the period	792	-724	
Closing balance, cash and cash equivalents	2,215	1,423	6.3

1) From Q1 2018, commercial paper issued or redeemed is recognised gross. The comparative figures have been restated.

2) From Q2 2018, credit support annexes (CSAs) have been reclassified from working capital to financing activities. The comparative figures have been restated.

Comments to the consolidated cash-flow statement

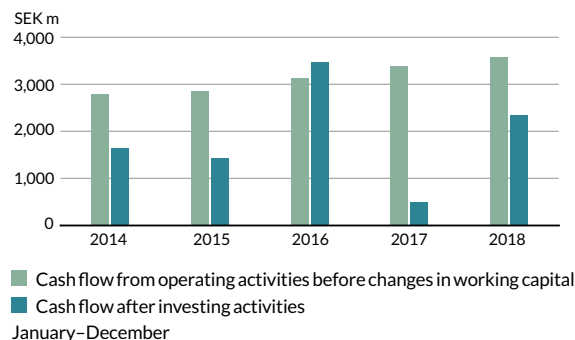
Cash flow from operating activities before interest and taxes increased SEK 184 million to SEK 4,771 million (4,589). The increase was primarily attributable to higher net operating income. Cash flow from operating activities after changes in working capital increased to SEK 3,635 million (3,468).

Investments in existing properties rose during the period to SEK 3,335 million (2,543) due to increased investments in projects. Cash flow from the purchase and sale of properties posted a net improvement of SEK 1,892 million (outflow: 437) due to increased property sales. During the quarter, SEK 40 million was disbursed to NCC and pertained to the remainder of the purchase consideration for the Bärnstenen property in Gothenburg that was acquired in 2015. Cash flow after investing activities thus amounted to SEK 2,338 million (483).

In total, net borrowing for the year amounted to SEK 2,685 million (3,509). The redemption of financial instruments had a negative impact on cash flow from financing

activities of SEK 484 million (outflow: 359). In total, cash and cash equivalents increased SEK 792 million (decreased: 724) and totalled SEK 2,215 million (1,423) at the end of the period.

Stable cash flow from operating activities



Property divestments 2018

Property	City	Buyer	Purchase price, SEK m	Transfer date
Primus 1	Stockholm	Oscar Properties/ Starwood Capital	931	Mar 2018
Solna Järva 2:28, 2:35, 2:36	Solna	JM	129	Mar 2018
Solna Järva 2:29, 2:37, 2:38	Solna	JM	126	Jul 2018
Gårda 18:23 and Gårda 18:24	Gothenburg	Platzer	1,068	Sep 2018
Apotekaren 12, Repslagaren 31 and Galten 25	Lund	Stena Fastigheter	370	Nov 2018
Total property value			2,624	
Acquisition-related costs, such as stamp duty and other transaction costs, as well as deduction for deferred tax			-103	
Total purchase price			2,521	

Agreed divestments to be completed

Property	City	Buyer	Purchase price, SEK m	Transfer date
Smedjan 13 and 15	Lund	Trianon	88	Dependent on detailed development plan
Stockholm Telefonfabriken 7	Stockholm	Einar Matsson Projekt	210	Dependent on demolition
Total purchase price			298	

Property acquisitions 2018

Property	City	Seller	Purchase price, SEK m	Occupancy
Priorn 5	Malmö	The City of Malmö	78	Feb 2018
Part of Midsommarkransen 1:1	Stockholm	The City of Stockholm	31	Apr 2018
Solna Järva 2:29, 2:37, 2:38	Solna	Järvastaden	137	Jun 2018
Dragarbrunn 18:3	Uppsala	SEB Trygg Liv	285	Aug 2018
Boländerna 7:4	Uppsala	Bil-Trean i Uppsala	45	Oct 2018
Kungsängen 14:1	Uppsala	Municipality of Uppsala	17	Dec 2018
Total property value			592	
Acquisition-related costs, such as stamp duty and other transaction costs, as well as deduction for deferred tax			2	
Total purchase price			594	

Parent Company financial statements

INCOME STATEMENT

Amounts in SEK million	2018	2017	Note
Net sales	484	453	
Operating expenses	-605	-565	2.3-4
Capital gain on sales	341	-	4.2
EBIT	220	-112	
Financial items			
Profit from participations in subsidiaries	7,192	3,500	8.2
Result from participations in joint ventures	0	0	
Interest income	67	57	2.5
Interest expense	-1,107	-1,184	2.5
Profit before value changes and tax	6,372	2,261	
Change in value of financial instruments	13	468	6.5
Appropriations	-	-142	8.3
Profit before tax	6,385	2,587	
Tax	-109	-326	3.1
Profit for the year	6,276	2,261	
STATEMENT OF COMPREHENSIVE INCOME			
Profit for the period recognised in profit or loss	6,276	2,261	
Other comprehensive income	-	-	
Total comprehensive income for the year	6,276	2,261	

BALANCE SHEET

Amounts in SEK million	2018	2017	Note
ASSETS			
Non-current assets			
Equipment	11	19	4.3
Shares and participations in subsidiaries	30,660	30,610	7.1
Receivables from subsidiaries	9,820	9,196	
Shares and participations in joint ventures	1	1	7.2
Receivables from joint ventures	165	-	
Deferred tax assets	137	246	3.2
Derivatives	214	242	6.4
Other non-current receivables	267	309	6.4
Total non-current assets	41,275	40,623	
Current assets			
Accounts receivable	0	0	5.1
Receivables from subsidiaries	32,448	29,897	
Receivables from joint ventures	0	150	
Current tax assets	78	-	
Derivatives	39	33	
Other current receivables, prepaid expenses and accrued income	470	396	5.2
Cash and cash equivalents	2,212	1,420	6.3
Total current assets	35,247	31,896	
TOTAL ASSETS	76,522	72,519	

CHANGE IN EQUITY

Amounts in SEK million	Share capital ¹	Retained earnings	Total equity
Equity, opening balance at 1 Jan 2017	4,000	6,939	10,939
Profit for the year	-	2,261	2,261
Comprehensive income for the year	-	2,261	2,261
Dividend	-	-4,000	-4,000
Equity, closing balance at 31 Dec 2017	4,000	5,200	9,200
Equity, opening balance at 1 Jan 2018	4,000	5,200	9,200
Profit for the year	-	6,276	6,276
Comprehensive income for the year	-	6,276	6,276
Dividend	-	-4,000	-4,000
Equity, closing balance at 31 Dec 2018	4,000	7,476	11,476

1) 40,000,000 shares with a quotient value of SEK 100 per share.

BALANCE SHEET

Amounts in SEK million	2018	2017	Note
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	4,000	4,000	
	4,000	4,000	
<i>Unrestricted equity</i>			
Retained earnings	1,200	2,939	
Profit for the year	6,276	2,261	
	7,476	5,200	
Total equity	11,476	9,200	
Untaxed reserves	186	186	8.3
Non-current liabilities			
Non-current interest-bearing liabilities	45,956	44,711	6.2
Derivatives	2,200	2,699	6.4
Other non-current liabilities	72	54	6.4
Provision for pensions	7	3	
Total non-current liabilities	48,235	47,467	
Current liabilities			
Current interest-bearing liabilities	15,131	13,710	6.2
Accounts payable	7	4	
Current tax liabilities	-	80	
Liabilities to subsidiaries	790	1,415	
Derivatives	20	3	6.4
Other current liabilities, accrued expenses and deferred income	677	454	5.3
Total current liabilities	16,625	15,666	
TOTAL EQUITY AND LIABILITIES	76,522	72,519	

Parent Company

The operations of the Parent Company, Vasakronan AB (publ), consist of Group-wide functions and providing an organisation for the management of properties owned by subsidiaries. The Parent Company does not directly own any properties.

The Parent Company's revenue for the period was SEK 484 million (453), which primarily consists of the Parent Company's invoices to the subsidiaries for services rendered. The change in the value of financial instruments was SEK 13 million (468). Profit before tax was SEK 6,385 million (2,587) and was attributable to increased dividends from subsidiaries. Closing cash and cash equivalents amounted to SEK 2,212 million (1,420).

CASH-FLOW STATEMENT

Amounts in SEK million	2018	2017	Note
Operating activities			
EBIT	220	-112	
Add-back of amortisation, depreciation and impairment	4	30	
Adjustment for other non-cash items	-342	-3	6.7
Cash flow from operating activities before interest and tax	-118	-85	
Interest paid	-1,117	-1,180	
Interest received	67	57	
Taxes paid	-138	-15	
Cash flow before changes in working capital	-1,306	-1,223	
Increase (-)/decrease (+) in operating receivables	-1,584	-5,660	
Increase (+)/decrease (-) in operating liabilities	-565	-757	
Cash flow from operating activities	-3,455	-7,640	
Investing activities			
Acquisitions of equipment	-1	-7	
Divestments of equipment	3	4	
Acquisition of shares in subsidiaries	0	0	
Divestment of shares in subsidiaries	328	-	
Dividends received from subsidiaries	5,463	8,124	
Cash flow from investing activities	5,793	8,121	
Cash flow after investing activities	2,338	481	
Financing activities			
Dividends and Group contributions to Parent Company	-4,000	-4,000	7.3
Raised debt: interest-bearing liabilities	34,908	40,853	
Repayment of debt: interest-bearing liabilities	-32,223	-37,344	
Change in collateral	253	-357	
Redemption of financial instruments	-484	-359	
Cash flow from financing activities	-1,546	-1,207	
Cash flow for the period	792	-726	
Opening balance, cash and cash equivalents	1,420	2,146	
Cash flow for the period	792	-726	
Closing balance, cash and cash equivalents	2,212	1,420	6.3

Proposed appropriation of profits

The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be subject to adoption by the AGM on 7 May 2019.

The following profit is at the disposal of the AGM:

Retained earnings	SEK 1,199,886,400
Profit for the year	SEK 6,276,547,183
Total	SEK 7,476,433,583

The Board proposes that the earnings be appropriated as follows:

Dividend to shareholders, SEK 100 per share	SEK 4,000,000,000
To be carried forward	SEK 3,476,433,583
Total	SEK 7,476,433,583

A dividend of SEK 4 billion has been proposed to the General Meeting. The Board finds that the proposed dividend is justifiable in terms of the assessment criteria stipulated in Chapter 17, Section 3, second and third paragraphs of the Swedish Companies Act regarding operations, scope and risks as well as consolidation requirements, liquidity and general position.

Notes

Notes, pertaining to the Group and Parent Company. All amounts are given in SEK million, if not otherwise stated.

NOTE 1 General information and accounting policies

1.1 General information

The Vasakronan Group's operations comprise the ownership, management and development of properties with the aim of providing owners with a high and stable long-term return. The Parent Company Vasakronan AB (publ) has personnel employed to manage and administer the Group's properties. The Parent Company's assets mainly comprise shares and participations in the companies that own the properties.

Parent Company domiciled in Stockholm; Vasakronan AB (publ)
Corp. Reg. No: 556061-4603
Address: Mäster Samuelsgatan 56, Box 30074, SE-104 25 Stockholm, Sweden

Vasakronan AB is owned by Vasakronan Holding AB, corporate registration number 556650-4196, which is owned in turn in equal shares by the First, Second, Third and Fourth Swedish National Pension Funds.

The annual accounts and consolidated accounts were approved by the Board for publication on 25 March 2019 and will be submitted to the Annual General Meeting for adoption on 7 May 2019.

1.2 Accounting policies

This section provides an overview of the policies applied in the preparation of these financial statements. Refer to the respective note for information about specific items. All amounts are stated in SEK million, unless otherwise stated. Amounts pertain to the 1 January to 31 December period for income-statement items and 31 December for balance-sheet items.

Basis for preparation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as determined on 31 December 2018 and as adopted by the EU together with the interpretations issued by the IFRS Interpretations Committee (IFRIC), and in accordance with the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Corporate Groups and the Annual Accounts Act. These policies were consistently applied for all years presented, unless otherwise stated.

The consolidated financial statements have been prepared applying a historical cost convention, except for the measurement of investment properties, and certain financial assets and liabilities, which are measured at fair value. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant, are disclosed in more detail in the respective note.

Consolidated accounts

Group companies are entities over which Vasakronan exercises a controlling influence. Subsidiaries are companies owned directly by Vasakronan AB (publ). A "controlling influence" entails that the Parent Company is exposed to, or is entitled to, variable returns from its investment, and can also affect the returns from the subsidiary by means of its influence. Group companies are consolidated from the date on which controlling influence is transferred to the Group, and they are deconsolidated from the date that control ceases.

Initial recognition of Group companies in the consolidated financial statements follows the acquisition method. Any surplus comprising the difference between compensation paid and the fair value of the Group's share of identifiable acquired net assets is recognised as goodwill.

When a company is acquired, the acquisition meets the criteria for either an asset acquisition or a business combination. A transaction qualifies as an asset acquisition if it pertains to properties, with or without leases, but excluding an organisation and the administrative processes required for property management. Other acquisitions are business combinations. The management determines for each acquisition which criteria have been met. The assessment is that all acquisitions in 2018 and 2017 were asset acquisitions.

Intra-Group transactions, balances, and any unrealised gains and losses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Joint ventures

All joint arrangements are classified as joint ventures since the agreement terms or the entities' legal forms entitle the participants to the net assets of the related arrangement. Joint ventures are companies where, through partnership agreements with one or more parties, Vasakronan shares controlling influence with one or more parties.

Holdings in joint ventures are recognised using the equity method. This means that the consolidated carrying amount of the holding is adjusted with Vasakronan's share of profit for the year and any dividends received, and accordingly, the Group's participation in joint ventures is thus recognised in the consolidated income statement. When losses in a joint venture exceed the Group's share, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Intra-Group gains and losses as a result of transactions with these companies are eliminated in relationship to the Group's holding. Adjustments have been made where the accounting policies of joint ventures do not correspond with those of the Group.

Leases

Leases in which essentially all significant risks and benefits of ownership are retained by the lessor are classified as operating leases. Under this basis, all of the Group's lease agreements are classified as operating leases. Properties leased out under operating leases are included in investment properties. See Note 2.2 for the accounting policy relating to rental revenue.

Payments made under operating leases, where Vasakronan is the lessee, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions comprise reliable estimates of amounts that reflect formal or constructive obligations for the Group as a result of earlier events.

Provisions are classified as current liabilities if payment can be deferred for up to 12 months after the balance-sheet date, otherwise provisions are classified as non-current liabilities.

Critical judgements in applying the Group's accounting policies

The preparation of financial statements in accordance with generally accepted accounting principles requires that the management and Board make judgements and assumptions that affect the amounts recognised for assets, liabilities, income and expenses, as well as other information disclosed. These judgements are based on experience and assumptions that are considered reasonable in view of the prevailing circumstances. The most significant in preparing the company's financial reports are as follows:

- Fair value of investment properties, Note 4.2 on pages 83–84
- Criteria for business combinations and asset acquisitions, page 75
- Recoverable amount for goodwill, Note 4.1 on page 83

New or amended accounting standards

IFRS16 Leases applies from 1 January 2019 and replaces IAS17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. Under the new standard, assets and liabilities must be recognised for all leases unless the lease term is 12 months or less or the underlying asset has a low value. From 1 January 2019, Vasakronan will recognise ground rent and land lease agreements of around SEK 5 billion as assets with a corresponding liability. Fundamental assumptions in conjunction with determination of the amount of the debt were that the leasehold rights are expected to be used indefinitely and that the fees are recognised at net present value using the applicable interest rates in the ground rent agreements. Ground rent and land lease expenses linked to these agreements, which were previously recognised in net operating income, will be recognised as financial expenses under net financial items. Expenses for 2019 are estimated at around SEK 180 million. For further information about the Group's obligations pertaining to ground rent agreements, refer to Note 2.3.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTE 2 Revenue, income and expenses

2.1 Segment reporting

§ Accounting policies – segment reporting

Segmentation is based on how the management and the chief operating decision-maker (CODM) monitor and control operations. Vasakronan conducts operations in four regions: Stockholm, Gothenburg, Öresund and Uppsala, which correspond to the operating segments reported.

The management is responsible for allocating resources and assessing the performance of the operating segments. Vasakronan has determined that the CODM is the CEO of the Parent Company and the Group's management collectively as the Management Team.

The allocation of results by segment is conducted down to net operating income level, and thereafter only items pertaining directly to investment properties. Other revenue and costs are assessed as Group-wide and

are not allocated by segment. Items directly attributable to investment properties are also segmented in the balance sheet. Other assets, and equity and liabilities, are assessed as essentially Group-wide.

Income statement	Stockholm		Gothenburg		Öresund		Uppsala		Group-wide		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Rental revenue	4,156	4,026	1,280	1,246	761	755	521	463	-	-	6,718	6,490
Operating expenses	-414	-387	-108	-99	-120	-114	-69	-62	-	-	-711	-662
Repairs and maintenance	-63	-64	-16	-14	-15	-17	-14	-15	-	-	-108	-110
Property administration	-178	-167	-75	-67	-63	-58	-41	-39	-	-	-357	-331
Property tax	-342	-358	-98	-100	-61	-60	-26	-26	-	-	-527	-544
Ground rents	-129	-148	-9	-9	-8	-8	0	0	-	-	-146	-165
Property expenses	-1,126	-1,124	-306	-289	-267	-257	-150	-142	-	-	-1,849	-1,812
Net operating income	3,030	2,902	974	957	494	498	371	321	-	-	4,869	4,678
Central administration	-	-	-	-	-	-	-	-	-101	-97	-101	-97
Result from participations in joint ventures	-	-	-	-	-	-	-	-	159	-3	159	-3
Interest income	-	-	-	-	-	-	-	-	3	2	3	2
Interest expense	-	-	-	-	-	-	-	-	-1,046	-1,167	-1,046	-1,167
Profit before value changes and tax											3,884	3,413
Change in value of investment properties	7,625	6,325	2,231	1,067	380	20	415	561	-	-	10,651	7,973
Change in value of financial instruments	-	-	-	-	-	-	-	-	13	468	13	468
Divested/impaired goodwill	-36	-	-10	-16	-16	-4	-	-6	-	-	-62	-26
Profit before tax											14,486	11,828
Balance sheet												
Investment properties	91,617	82,978	25,630	23,688	13,196	12,667	8,492	7,542	-	-	138,935	126,875
of which, investments during the year	2,004	1,339	731	644	412	182	188	378	-	-	3,335	2,543
of which, acquisitions/sales during the year	-990	1,016	-1,020	-170	-263	-141	345	-267	-	-	-1,928	438
Goodwill	1,047	1,083	435	446	420	436	80	80	-	-	1,982	2,045
Other assets	-	-	-	-	-	-	-	-	4,284	3,363	4,284	3,363
Total assets	92,664	84,061	26,065	24,134	13,616	13,103	8,572	7,622	4,284	3,363	145,201	132,283

2.2 Rental revenue

§ Accounting policies – rental revenue

The Group's revenue primarily consists of rental revenue and additional rental charges, which are invoiced in advance and allocated over a straight line so that only the portion that falls due during the period is recognised as revenue. IFRS 15 – Revenue from Contracts with Customers entered force 1 January 2018. The Group's revenue is essentially rental revenue, which is recognised pursuant to IAS 17 Leases. Vasakronan has chosen to view media, property tax and other expenses as an integrated part of rental revenue, since they are not independent services. In those cases where Vasakronan acts as the tenant's representative, the services are invoiced for separately. When applicable, recognised revenue is reduced by the cost of incentives. For lease agreements with reduced rent, larger amounts are allocated in a straight line over the term of the agreement. Surrender premia paid by tenants in conjunction with vacating leases prior to lease expiry are recognised as revenue in conjunction with the termination of the agreement and when no commitments remain for Vasakronan, which generally arises on vacation of the premises.

Rental agreements classified as operating leases and properties leased out under operating leases are included in investment properties.

Change in the Group's rental revenue

Income statement 2017	6,490
Change in comparable property holdings	289
Development properties	-93
Acquired properties	47
Properties sold	-15
Income statement 2018	6,718

Lease portfolio expiry structure

	No. of contracts	Annual rent
Expires within 1 year ¹⁾	2,571	1,186
2020	933	1,116
2021	759	1,172
2022	405	898
2023	182	754
More than 5 years	662	1,729
Total	5,512	6,855

1) Of which, 1,169 residential leases with annual rents amounting to SEK 99 million.

At year end, the average remaining term to maturity for the lease portfolio was 4.2 years (4.2). Of contracted rents, 95% (95) pertained to commercial leases and 5% (5) to leases for residential and parking facilities. There are some 4,250 commercial leases (4,300) allocated across tenants in a number of different industries, no single tenant accounts for more than 3% of rental revenue. Public sector tenants account for 24% (24) of contracted rents. Credit loss exposure is reduced through analysis of tenants' credit ratings for new lettings and on an ongoing basis; when needed, requirements are set for collateral.

2.3 Costs

Accounting policies – costs

The Group's costs mainly encompass direct property expenses and administration costs.

Costs recognised in profit or loss	Group	
	2018	2017
Property expenses excl. admin.	-1492	-1,481
Property administration	-357	-331
Central administration	-101	-97
Total	-1,950	-1,909

Expenses allocated by category	Group	
	2018	2017
Repairs and maintenance	-108	-110
Property tax	-527	-544
Ground rents	-146	-165
Other direct property expenses	-706	-657
Personnel costs	-415	-391
Depreciation	-12	-16
Other external expenses	-36	-26
Total	-1,950	-1,909

Ground rent agreements in subsidiaries are the Group's only operating leases where Vasakronan is the lessee. Expected outcomes have been forecast for ongoing negotiations.

Ground rent agreements' maturity structure	Group	
	2018	2017
Expires <1 year	0	4
>1 year but <5 years	255	6
>5 years	949	1,104
Total	1,204	1,114

The operations of the Parent Company consist of Group-wide functions and management of properties owned by other Group companies. The property management costs are invoiced to the property-owning Group companies as property administration. Central administration costs are recognised in the Parent Company and relate to the costs associated with the Group management, property investments, financing and central marketing.

Administration	Group	
	2018	2017
Personnel costs	-289	-285
Procured services	-79	-49
IT	-43	-45
Marketing	-14	-14
Depreciation, equipment	-7	-11
Other	-26	-24
Total	-458	-428

Central administration includes auditors' fees.

Auditors' fees	Group/ Parent Company	
	2018	2017
Audit engagement	1.4	1.1
Audit activities other than the audit engagement	0.3	0.1
Tax advice	0.1	0.1
Other	0.4	0
Total	2.2	1.3

The audit engagement refers to the statutory audit required of the auditors in order to be able to submit an auditors' report.

2.4 Employees, personnel costs and remuneration to the Board

§ Accounting policies – Employee compensation

Remuneration of employees as vested and comprises salaries, paid holiday, paid sick leave and other benefits as well as pensions. Pensions are based on defined-contribution or defined-benefit pension plans. For defined-contribution pension plans a fixed premium is paid to a separate legal entity and the Group expenses the resulting cost as the benefit is vested. For defined-benefit pension plans, the employee is guaranteed an amount on retirement. Vasakronan applies IAS 19 for these.

The recognised commitment for defined-benefit obligations is calculated by an independent actuary at the present value of future disbursements discounted by the interest rate on high-quality mortgage bonds with corresponding maturities to the term of the actual pension obligation. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

Employees

All of the Group's staff are employed by the Parent Company, Vasakronan AB. In 2018, the average number of employees was 313 (345), of these 143 (141) were women and 170 (204) men. More details regarding the number of employees is available in the Group's sustainability reporting.

Vasakronan's senior executives refers to the 12 individuals who, together with the CEO, comprise the Management Team, refer to page 105. At the balance-sheet date, the gender breakdown of the Group's senior executives was as follows: 6 (6) women and 7 (7) men, and for the Board: 5 (4) women and 4 (5) men.

Salaries, other benefits and social security costs	Group/ Parent Company	
	2018	2017
Senior executives	30	29
Other employees	194	193
Total salaries and benefits	224	222
Pension costs	88	70
Social security costs	95	90
Total	407	382

Salaries and other benefits

Salaries and other benefits for the CEO and other senior executives consist only of fixed salaries. Variable compensation can be paid to other employees based on the operational focus areas, which for 2018 were net operating income, cost of leasehold improvements and customer satisfaction. The Group has a standardised model for variable compensation, whereby the maximum outcome is capped at two months' salary. A provision has been made in the annual accounts for an estimated outcome corresponding to one month's salary and was established on an individual basis in Q1 2019. Variable compensation for the 2017 financial year was distributed during the year and was also capped at two months' salary. The average outcome corresponded to 1.4 months' salary.

Remuneration to the Board

Remuneration to the Board is determined by resolution of the AGM. From the 2018 AGM, Board fees are paid as salary, previously it was possible for Board members to invoice as a sole trader or through their companies. Board members employed at one of the Swedish national pension funds or at Vasakronan receive no Board fees.

Senior executives 2018 (SEK 000)	Basic salary/Board and committee fees ¹⁾	Other benefits ²⁾	Pension costs	Total
Chairman of the Board				
Ulrika Francke ³⁾	359	–	–	359
Mats Wäppling ⁴⁾	348	–	–	348
Other Board members				
Jan-Olof Backman	265	–	–	265
Ann-Sofi Danielsson	291	–	–	291
Christel Kinning	265	–	–	265
Rolf Lydahl	328	–	–	328
	1,856			1,856
Chief Executive Officer, Fredrik Wirdenius	6,310	57	1,791	8,158
Other senior executives	21,963	373	11,060	33,396
	28,273	430	12,851	41,554
Total	30,129	430	12,851	43,410

Senior executives 2017 (SEK 000)	Basic salary/Board and committee fees ¹⁾	Other benefits ²⁾	Pension costs	Total
Chairman of the Board				
Mats Wäppling	695	–	–	695
Other Board members				
Jan-Olof Backman	260	–	–	260
Ann-Sofi Danielsson ⁵⁾	130	–	–	130
Christel Kinning	260	–	–	260
Rolf Lydahl	320	–	–	320
Per Uhlén ⁶⁾	125	–	–	125
	1,790			1,790
Chief Executive Officer, Fredrik Wirdenius	6,130	57	1,800	7,987
Other senior executives	21,494	367	9,352	31,213
	27,624	424	11,152	39,200
Total	29,414	424	11,152	40,990

1) Remuneration to employees pertains to remuneration paid in 2018, while remuneration to the Board pertains to Board fees as adopted by the AGM.

2) Other benefits pertain primarily to costs for group health insurance and group life insurance.

3) Ulrika Francke was elected to the Board at the May 2018 AGM. Board fees amount to SEK 660,000 per year, Audit Committee fees to SEK 26,000 per year and fees as Chairman of the Remuneration Committee to SEK 32,000 per year.

4) Pertains to fees paid in 2018. Mats Wäppling stepped down from the Board in conjunction with the May 2018 AGM.

5) Ann-Sofi Danielsson was elected to the Board at the May 2017 AGM. Board fees amount to SEK 260,000 per year and Audit Committee fees to SEK 25,000 per year.

6) Pertains to fees paid in 2017. Per Uhlén stepped down from the Board in conjunction with the May 2017 AGM.

Pensions

The pension rights of salaried employees are covered pursuant to the defined-benefit BTP pension plan (the occupational pension plan for Swedish bank employees), which is financed through payments to SPP and, according to a statement from the Swedish Financial Reporting Board UFR 10, this comprises a multi-employer plan. Other employees are covered by defined-contribution pension solutions with AMF. From February 2018, all of the Group's employees are salaried.

The CEO's employment contract extends until the age of 62. The pension terms and conditions adhere to the defined-benefit BTP plan, and are calculated based on a pension age of 65. During the contracted employment period, a supplementary and defined-contribution pension provision is also made. Should the provision amount to less than 30% of pensionable monthly salary, a supplementary payment is made up to that level. Settlement should be carried out by the end of February, the year after the settlement year.

Other senior executives have a "10-pointer" pension solution through the BTP plan, and are calculated based on a retirement age of 65.

Terms and conditions

The CEO must give notice of six months. In the event that notice is given by the company, the notice period is 12 months and the CEO will receive severance pay corresponding to 12 months' salary. Other senior executives are subject to a mutual notice period of six months. If employment is terminated by the company, the senior executive is entitled to severance pay of 12 months' salary, unless the executive is aged over 50 at the time, in which case severance pay is increased to 18 months' salary.

If the CEO or other senior executives receive remuneration from other employment, the severance pay is reduced by a corresponding amount. If the employment is terminated by the CEO or other senior executive, no severance pay is due.

Provision for pensions

The pension solutions primarily encompass retirement, disability and survivors' pensions, and are held in either defined-contribution or defined-benefit pension plans. Defined-contribution pension plans consist of BTPK and ITPK, and defined-benefit plans comprise BTP which is secured through insurance with SPP, as well as a number of retirement and survivors' obligations secured with Skandia.

When Vasakronan was founded as a company in 1993, it took over the defined-benefit pension obligations from Byggnadsstyrelsen, which were administered by the National Government Employee Pensions Board (SPV) and have mainly been secured with KPA. Moreover, Vasakronan has a defined-benefit ITP secured through insurance with Alecta, which is recognised in accordance with the Swedish Financial Reporting Board's statement UFR10 as a defined-contribution pension. The obligation in Alecta has been agreed previously and no new premiums or fees were paid. At the end of the financial year, Alecta had a consolidation ratio of 154 (148).

Under IAS19, all defined-benefit pension rights are vested on a straight-line basis over the period of employment. This means that the pension costs in the consolidated income statement consist of an estimated value which could differ from the actual paid-up pension premiums recognised in the Parent Company. The present value of pension obligations and the fair value of plan assets are recognised net in the consolidated balance sheet.

Pension costs in the income statement	Group		Parent Company	
	2018	2017	2018	2017
Pension costs, defined-contribution	70	54	38	32
Pension costs, defined-benefit	13	12	50	39
Separate payroll tax on pension costs	18	16	20	17
Total pension costs in the income statement	101	82	108	88
<i>Of which recognised as property administration</i>	80	66		
<i>Of which recognised as central administration</i>	21	16		

Pension costs in other comprehensive income, excl. tax

Actuarial gains(-)/losses(+), incl. payroll tax	18	14
Restriction for surplus in pension plan with asset cap, incl. payroll tax	-8	-3
Total pension costs in other comprehensive income, excl. tax	10	11

Net debt defined-benefit pensions, Group	2018	Group		2017
Change in the defined-benefit obligation				
Present value of the pension obligation, opening balance	419			401
Pension rights vested through service ¹⁾	12			10
Interest on pension obligation ¹⁾	9			10
Pension disbursements	-19			-20
Actuarial gains(-)/losses(+) on pension obligations ²⁾	12			18
Present value of the obligation, closing balance³⁾	433	433		419
Change in plan assets				
Fair value of plan assets, opening balance	-370			-359
Interest income ¹⁾	-8			-9
Paid-in premiums	-20			-16
Pension disbursements	19			20
Return on plan assets excluding interest income ²⁾	2			-6
Fair value of plan assets, closing balance	-377	-377		-370
Restriction for surplus in pension plan with asset cap		11		17
Other pension obligations		6		3
Separate payroll tax on net pension debt		18		17
Net debt, defined-benefit pensions		91		86

1) Recognised in profit or loss.

2) Recognised in other comprehensive income.

3) Expected weighted-average duration for the obligation's present value at 31 December 2018 is 17.21 years (16.95).

The plan assets mainly comprise shares, interest-bearing securities and participations in funds.

The difference between the actual and the expected return amounted to negative SEK 2 million (6) and was recognised as the return on plan assets excluding interest income.

Net actuarial gains and losses after tax amounted to SEK 8 million (9) and were recognised in other comprehensive income under the alternative rule in IAS 19.

The Group's payments to defined-benefit plans are expected to amount to SEK 22 million in 2018.

Actuarial and financial assumptions (%):

	Group	
	2018	2017
Discount rate	2.1	2.2
Inflation	2.0	2.0
Expected annual wage growth	3.5	3.5
Expected annual increase in pension disbursements	2.0	2.0
Expected annual increase in income base amount	3.0	3.0

The discount rate assumption has the largest impact on the size of the pension obligation. A 1 percentage point change in the discount rate

would, for example, result in a SEK 66 million change in the present value of the pension obligation.

2.5 Financial income and expenses

§ Accounting policies – Financial income and expenses

Financial income encompasses interest income on bank funds, receivables, financial investments and dividend income. Expenses consist of interest expense and other costs arising in conjunction with borrowing, such as arrangement fees and administrative expenses. The net effect of exchange-rate differences on financial items is recognised as an income or expense depending on the outcome. Financial income and expenses are recognised in profit or loss in the period in which they arise. Financial expenses pertaining to major new construction, extensions or redevelopments are capitalised in the balance sheet as investments during the production period.

Net financial items

Net financial items is not affected by the market values of contracted interest-rate derivatives, which are used to adjust fixed-interest periods, since they are recognised as changes in value under their own item. Refer to Note 6.4 for more information.

Financial income and expenses	Group		Parent Company	
	2018	2017	2018	2017
Interest income	3	2	3	2
Interest income from subsidiaries	-	-	64	55
Other financial income	0	0	0	0
Total financial income	3	2	67	57
Interest expense	-1,042	-1,122	-1,041	-1,122
Capitalised interest	62	47	-	-
Other financial expenses	-66	-92	-66	-62
Total financial expenses	-1,046	-1,167	-1,107	-1,184
Net financial items	-1,043	-1,165	-1,040	-1,127

The average interest rate for the loan portfolio over the period is used for capitalising interest expense. In 2018, the average interest rate was 1.69% (1.89).

NOTE 3 Tax

§ Accounting policies – Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except where the underlying transaction is recognised in other comprehensive income or directly in equity, in these cases the accompanying tax effect is also included.

The current income tax charge is calculated on the taxable income for the period and recognised as an expense or income in profit or loss. Taxable income differs from profit in the form of adjustments for non-taxable income and non-deductible items.

Current tax is tax that is to be paid or received in the current year adjusted with any current tax attributable to previous periods.

Deferred tax is recognised according to the balance sheet method, and deferred tax liabilities and tax assets are recognised in the balance sheet for all temporary differences that arise between the carrying amount and the tax base of an asset or liability. The carrying amounts for deferred tax assets and tax losses are tested at each reporting date and reduced if it is no longer likely that sufficient taxable profits will be available to be utilised fully or in part.

Deferred income tax is calculated based on tax rates and tax laws that have been enacted or substantively enacted by the balance-sheet date and, which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The temporary difference that arises from the initial recognition of assets or liabilities in an asset acquisition is not recognised as deferred tax.

Tax on profit for the year	Group		Parent Company	
	2018	2017	2018	2017
Current tax	-120	-95	0	-94
Deferred tax	-1,464	-2,464	-109	-232
Total tax on profit for the year	-1,584	-2,559	-109	-326

3.1 Summary of tax expense/income

Tax expense	Group		Parent Company	
	2018	2017	2018	2017
Recognised profit before tax	14,486	11,828	6,385	2,587
Tax on profit according to current tax rate, 22%	-3,187	-2,602	-1,405	-569
Tax attributable to previous fiscal years	0	0	0	
Tax effect of:				
Non-taxable sale of subsidiaries	323	52	102	-
Divested goodwill	-13	-6	-	-
Non-taxable dividend	35	-	1,202	247
Impairment of participations	-	-	0	-4
Other non-taxable income/non-deductible costs	-1	-2	-1	0
Effect of lowered tax rates on deferred tax	1,259	-	-7	-
Other adjustments	0	-1	0	0
Tax expense recognised	-1,584	-2,559	-109	-326
Effective tax rate, %	10.9%	21.6%		

Current tax for 2018 has been calculated based on a nominal tax rate of 22%, while deferred tax has been calculated using a lower corporate tax rate of 20.6% in accordance with the government's decision to change

the corporate tax rate from 1 January 2019. In 2017, the calculations of current and deferred tax were based on a tax rate of 22%.

3.2 Deferred tax

Deferred tax liability	Opening balance		Recognised in profit or loss		Recognised directly in equity		Closing balance	
	2018	2017	2018	2017	2018	2017	2018	2017
Group								
Derivatives	-480	-662	133	182	-	-	-347	-480
Investment properties	17,247	15,024	1,303	2,223	-	-	18,550	17,247
Untaxed reserves	53	31	27	22	-	-	80	53
Tax losses	-1	-37	0	36	-	-	-1	-1
Other temporary differences	5	6	1	1	-2	-2	4	5
Total deferred tax	16,824	14,362	1,464	2,464	-2	-2	18,286	16,824
Parent Company								
Derivatives	-480	-662	133	182	-	-	-347	-480
Investment properties	234	216	-24	18	-	-	210	234
Tax losses	-	-32	-	32	-	-	-	-
Total deferred tax	-246	-478	109	232	0	0	-137	-246

3.3 Market value of deferred tax

The deferred tax liability is calculated in the balance sheet using a nominal tax rate and in the case of a market valuation of the deferred tax liability would probably result in a lower value than the carrying amount in the balance sheet. When calculating the EPRA triple net asset value (NNNAV), the fair value is calculated at 30% of the nominal tax rate of 22%, in other words 6.6%, which results in deferred tax of SEK 5,465 million. For more guidance, refer to the key metrics on page 138 and the definition for NNNAV on page 139.

3.4 Depreciation

Vasakronan recognises investment properties at fair value in the consolidated accounts. However, tax legislation permits depreciation of 2–5% for buildings, 5% for land improvements and 20–30% of the fixtures and fittings of a building or of the type of land improvement that constitutes the building and land inventory. Land may not be depreciated.

Properties can be divested directly or indirectly through the divestment of the property-owning subsidiary. Gains from the sale of property are taxable while gains from the sale of companies are in most cases free of taxes.

NOTE 4 Assets

4.1 Intangible assets

§ Accounting policies – intangible assets

Goodwill

The goodwill that arises when preparing the consolidated accounts comprises the difference between any consideration paid and the fair value of the net assets acquired. The Group's goodwill mainly arose from business acquisitions performed by Vasakronan and is recognised in accordance with IFRS 3 Business Combinations. In the Group, goodwill is mainly attributable to the difference between nominal and calculated tax for business combinations and is thus entirely linked to the deferred tax. This item changes if a property with goodwill is divested. When a property is sold, or alternatively if a need for impairment arises, goodwill attributable to the property is eliminated and recognised as "divested/impairment goodwill."

Goodwill

The value of goodwill is tested each quarter to ensure the carrying amount for the property does not exceed the recoverable amount. The recoverable amount is mainly impacted by the assessed market value of deferred tax. The company management bases its assessment mainly on observable market data for completed transactions. When establishing the fair value for goodwill at the end of 2018, when marked-to-market deferred tax averaged 6.2% (5.5).

Other intangible assets

In addition to goodwill, the Group's intangible assets include brands acquired through business combinations that are valued at fair value at the acquisition date as well as investments during the year in a new technical platform for the digital property language RealEstateCore.

Impairment testing

The useful lives for goodwill and the brand have been assessed as indefinite and therefore not subject to amortisation. Instead, their values are tested annually or on any indication of a need for impairment. Goodwill arising on acquisitions that are not considered asset acquisitions is tested for each property or balance-sheet item for which goodwill was allocated at the acquisition date.

Other intangible assets

The value of the brand is tested annually or on any indication of a decline in value to identify any need for impairment and to then recognise the brand at cost less any accumulated impairments.

Intangible assets	Goodwill		Other intangible assets		Total	
	2018	2017	2018	2017	2018	2017
Opening balance	2,045	2,071	100	100	2,145	2,171
Divested/impairment goodwill	-62	-26	0	0	-62	-26
Acquisitions for the year	0	0	7	0	7	0
Amortisation for the year	0	0	-1	0	-1	0
Closing balance	1,983	2,045	106	100	2,089	2,145

Goodwill decreased SEK 62 million (11) in conjunction with the sale of properties and companies in 2018. The remaining SEK 0 million (15) pertained to the impairment of goodwill down to fair value. It is not possible to reverse a previously recognised impairment loss in a later period.

It is not possible to reverse a previously recognised impairment loss in a later period.

4.2 Investment properties

§ Accounting policies – investment properties

Vasakronan's properties are held to generate rental revenue and capital appreciation, and are therefore classified as investment properties. The term investment properties includes land and buildings, land improvements, building and land installations, and ongoing projects. Investment properties are recognised at fair value in the balance sheet, which is determined by the management based on the properties' market values. Changes in the fair value are recognised as realised and unrealised value changes in profit or loss. Vasakronan applies IFRS 13 Fair Value Measurement – Level 3 Unobservable inputs for the asset or liability.

Measurement

Fair value comprises the market value based on the most likely outcome of a sale with a normal marketing period in the open property market.

To establish the properties' fair value at each reporting date, market valuations are conducted for all properties. The valuation process is governed by a valuation policy under which all properties are valued by external parties at year end and mid year, and valued internally at the end of the first and third quarters. If an agreement has been signed regarding the purchase and sale of a property, the agreed property value is used as the market value in the next quarterly accounts.

External valuations are conducted pursuant to RICS Valuation – Global Standards [the Red Book]. In parallel with the external valuation, an internal control of the reasonableness of this valuation is carried out. In 2018, the external valuation was conducted by Cushman & Wakefield or Forum Fastighetsekonomi.

On initial recognition, property is recognised at cost, including directly attributable transaction costs, and thereafter at fair value at each reporting date.

Subsequent expenditure is capitalised when it is probable that future economic benefits associated with the expenditure will accrue to the Group, in other words, when the expenditure adds value. Other repairs and maintenance costs are expensed when incurred.

In the case of major new construction, extensions or redevelopments, interest expense during the production period is capitalised in accordance with IAS 23 Borrowing Costs, see Note 6.2.

Valuation assumptions

The market values are assessed using a yield-based valuation method that utilises cash-flow statements with a horizon of at least ten years.

The cost of capital and requirements for yields are based on the valuers' experience-based assessments of market return requirements for comparable properties. The projections of future cash flows take into consideration the use of the object, its age and maintenance status. Rent payments are based on existing rental contracts and on their expiry, rent levels at market rates are assumed. Cost for operation, maintenance and administration are based on actual costs in combination with projections and experience from comparable objects. Future investments have been assessed based on actual requirements. The external valuers inspect each property every three years.

Valuation assumptions	2018 average
Inflation assumption	2.0%
Cost of capital – cash flow	6.14%
Cost of capital – residual value	6.37%
Yield – residual value	4.35%
Long-term vacancy rate	4.72%
Operating and maintenance costs, year 1	SEK 403 sq. m.
Investments, year 1	SEK 1,653 sq. m.
Market rent (at zero vacancies)	SEK 3,290 sq. m.

Yield requirement – residual value per sub-market	Lowest-Highest	Average
Central Stockholm	3.50–5.40	4.02
Stockholm's inner suburbs	4.25–7.50	5.08
Gothenburg	3.75–4.80	4.27
Malmö	4.10–5.50	4.86
Lund	5.60–5.90	5.73
Uppsala	4.70–5.75	5.13

Change in value of investment properties	Group	
	2018	2017
Development properties	834	1,000
Transactions	369	346
Investment properties:		
Changed yield requirement	2,219	2,278
Change in market rents	7,229	4,349
Total change in value	10,651	7,973

The properties sold in 2018 are detailed on page 71. The total rental value for properties sold was SEK 77 million. Over the year, sales in a corporate wrapper have resulted in a gain of SEK 341 million (-) in the Parent Company.

Investment properties	Group	
	2018	2017
Opening balance	126,875	115,922
Investments	3,335	2,543
Acquisitions, consideration	594	1,049
Sales, consideration	-2,521	-612
Change in value	10,651	7,973
Closing balance	138,934	126,875
Fiscal values	46,234	45,708

Sensitivity analysis

The following table illustrates the effects on the market value of changes in each factor.

Sensitivity analysis	Change in assumption	Value impact, SEK m	Value impact, %
Yield requirement and cost of capital	+1 percentage point	-25,000	-18.0
Yield requirement and cost of capital	-1 percentage point	39,909	28.7
Long-term vacancy rate	+/- 1 percentage point	-/+1,545	-/+1.1
Operating and maintenance costs	+/- SEK 25 sq. m.	-/+1,201	-/+0.9
Market rents	+/- SEK 50 sq. m.	+/-2,402	+/-1.7

Undertakings	2018	2017
Capital expenditure investment properties	6,325	6,286
Acquisitions	-	-

4.3 Equipment

§ Accounting policies – equipment

Equipment mainly comprises office equipment, which is recognised at cost less accumulated depreciation and any impairment losses.

Equipment is depreciated using the straight-line method over a five-year period and residual values are assessed as negligible and not taken into consideration. Depreciation is calculated from the time the asset is taken into use.

Assets that are subject to depreciation are reviewed for impairment whenever an indication arises that the carrying amount may not be recoverable. The impairment is established as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Equipment	Group		Parent Company	
	2018	2017	2018	2017
Cost:				
Opening balance	124	122	70	70
Acquisitions	12	10	1	7
Sales and disposals	-5	-8	-5	-7
Closing balance – cost	131	124	66	70
Depreciation:				
Opening depreciation	-78	-68	-51	-45
Depreciation for the year	-12	-16	-7	-11
Sales and disposals	3	6	3	5
Closing balance – depreciation	-87	-78	-55	-51
Closing balance	44	46	11	19

NOTE 5 Operating receivables and liabilities

Accounts receivable are recognised net after provisions for doubtful receivables and the amount reflects the sum expected to be recovered based on the circumstances known at the balance-sheet date. The payment period for accounts receivable is short and fair value corresponds to amortised cost less accumulated impairment.

Other current receivables, prepaid expenses and accrued income are recognised at carrying amounts as the payment period is short.

5.1 Accounts receivable	Group		Parent Company	
	2018	2017	2018	2017
Tenant receivables	60	48	0	0
Provision for doubtful receivables	-31	-28	0	0
Closing balance	29	20	0	0

The Group reported losses of SEK 12 million (4) for the impairment of tenant receivables.

5.2 Other current receivables, prepaid expenses and accrued income	Group		Parent Company	
	2018	2017	2018	2017
Accrued interest income	173	107	173	107
Accrued rent discounts	103	126	-	-
Deposit account	271	231	271	231
Prepaid financing costs	-	84	-	-
VAT adjustment	18	20	-	-
Prepaid operating expenses	37	11	-	-
Other items	235	238	26	58
Closing balance	837	817	470	396

5.3 Other current liabilities, accrued expenses and deferred income	Group		Parent Company	
	2018	2017	2018	2017
Prepaid rental revenue	1,206	1,140	-	-
Accrued interest expense	324	294	324	294
Accrued expenses for ongoing projects	394	290	-	-
VAT	197	181	12	10
Deposits	271	231	1	2
Accrued operating expenses	43	41	-	-
Property tax	36	45	-	-
Vacation pay, social security expenses and employee withholding taxes	50	45	50	45
Other items	338	330	290	103
Closing balance	2,859	2,597	677	454

NOTE 6 Financing and capital structure

6.1 Goals for financial operations

Owning and developing properties is a capital-intensive business. Interest expense is one of the Group's major cost items and access to cost-efficient financing is strategically important. Vasakronan finances its activities through owners' capital or through external borrowing, the division being decided by weighting the requirements for returns and financial stability.

Vasakronan's financial objective is, within set frameworks and with restrictions, to diversify its financing structure in terms of tenors and financing sources to thereby secure its required funding at the lowest possible cost.

Credit rating

In May 2018, Moody's set a rating of A3 with a stable outlook. The rating is based on the high quality of the property portfolio, healthy financial metrics and the links to the company's owners, the First, Second, Third and Fourth Swedish National Pension Funds.

§ Accounting policies – Financial instruments

Financial instruments

Financial instruments are defined as any form of agreement or contract that gives rise to a financial asset or liability. Financial assets in the balance sheet are: accounts receivable, receivables from joint ventures, cash and cash equivalents, and derivatives. Financial liabilities comprise: accounts payable, borrowings and derivatives.

The Group's financial assets are assigned the following categories in accordance with IFRS9:

- Equity instruments: measured at FVTOCI
- Derivatives: measured at FVTPL
- Debt instruments: measured at FVTPL, or through the other comprehensive income alternative, in accordance with the cost, since the aim of the instrument is the basis for its classification.

Fair value estimation

The fair value of financial instruments traded on an active market is based on market valuations obtained from current market data. The bid price is used for financial assets and the put price for financial liabilities.

Method and decision data

- Derivatives are calculated by discounting future contracted cash flows with the actual market interest rate for the respective tenor.
- Financial liabilities are calculated by discounting future contracted cash flows at the current market interest rate.
- Accounts receivable and accounts payable are based on their nominal values, in other words, consideration is taken to any estimated credits.

Impairment of financial assets

IFRS 9 entails new principles for the classification of financial assets, hedge accounting and credit loss allowances. Vasakronan's business model is based on rents being invoiced and paid in advance, and with minimal credit losses, so the transition has had no material impact on Vasakronan's financial statements as a whole.

Financial risks and reporting

Financing and financial risks are managed pursuant to guidelines set by Vasakronan's Board. The Group is exposed to financing risk, interest-rate risk, credit risk and currency risk in its financing operations.

Financial policy

Goals, governing principles and allocation of responsibilities across treasury operations are set in Vasakronan's financial policy. The policy regulates the risk mandate and the principles for calculating, reporting, following up and controlling financial risks. In accordance with the policy, the duality principle applies in conjunction with transactions in so far as the individual who conducts and registers a transaction does not have authority to control and administer the funds pertaining to the trans-

action. Authority to conclude business transactions is regulated through powers of attorney with the respective counterparty. The financial policy is evaluated on an ongoing basis and adopted each year by the Board.

All financial operations are conducted by a central finance function to ensure efficient management and control of the company's financial risks and to enable the utilisation of economies of scale.

Summary, compliance with financial policy	Policy	31 Dec 2018
Financing risk		
Loan-to-maturity	min. 2 years	3.9
Loans maturing, 12 months	max. 40%	25%
Credit commitments and cash/loans maturing 12 months	at least 100%	134%
Interest-rate risk		
Interest coverage ratio	at least 2.0x (LTM)	4.7
Fixed-interest period	min. 2 years	4.7
Fixed-interest maturity within 12 months	max. 55%	43%
Currency risk		
Currency exposure	No exposure	met
Credit risk		
Counterpart's rating	min. A-, or BBB+ with CSAs	met

6.2 Breakdown of funding sources, share of total loan portfolio

	Loan limit	Amount utilised	Share, %
Commercial paper	25,000	6,157	10
Bonds, SEK	60,919 ¹⁾	26,729	44
Bonds, NOK	-	10,162 ²⁾	16
Bonds, EUR	-	305 ³⁾	1
Secured bank loans	12,907	12,907	21
NIB and EIB	4,827	4,827	8
Credit facility from owners	18,000	-	-
Total		61,087	100

1) The amount corresponds to EUR 6 billion and encompasses all currencies.

2) The amount corresponds to NOK 9,700 million and is fully hedged.

3) The amount corresponds to EUR 30 million and is fully hedged.

Breakdown of funding sources, share of total loan portfolio.

Summary of liabilities arising from financing activities –

Group	Commercial paper	Bonds, SEK	Bonds, NOK	Bonds, EUR	Secured bank loans	Unsecured bank loans	Total
Opening balance	6,948	26,137	6,660	-	15,290	3,386	58,421
Loan repayments	-20,313	-7,510	-	-	-4,400	-	-32,223
New borrowings	19,522	8,076	3,538	307	2,024	1,441	34,908
Repayment premiums/discounts	-	26	-	-	-7	-	19
Exchange-rate differences	-	-	-36	-2	-	-	-38
Closing balance	6,157	26,729	10,162	305	12,907	4,827	61,087

Exchange-rate differences and Repayment premiums/discounts are non-cash items.

Loan terms and conditions

- Agreements for commercial paper and bank loans contain an ownership covenant that allows lenders to terminate the loan and require repayment unless the First, Second, Third and Fourth Swedish National Pension Funds collectively or separately own at least 51% of Vasakronan. A similar ownership covenant is included in bond agreements whereby the bondholder can require repayment if a change in ownership, as above, should lead to a downgrade of the company's rating by at least one level
- The bank loan agreements also contain a covenant specifying that the interest coverage ratio may not fall below a multiple of 1.5
- Unsecured loan agreements also include covenants stating that the LTV may not exceed 65%

Carrying amount

Interest-bearing liabilities are recognised at amortised cost, which is reported in the above tables.

6.3 Financial risks

Currency risk

Currency risk pertains to unfavourable changes in exchange rates that impact the Group's financial position. When borrowing, all currency risk is to be eliminated and the exchange rate for interest payments and loan repayments of foreign currency loans hedged using currency swaps.

At 31 December 2018, borrowing in foreign currency amounted to NOK 9,700 million (6,650) and EUR 30 million (-).

Financing and liquidity risk

Financing risk pertains to the long-term risk that fulfilling the Group's capital requirements and refinancing loans outstanding becomes more difficult or expensive, for example through limitation to several different types of financing sources. This risk is limited since the average remaining tenors for interest-bearing liabilities may not be less than two years.

Vasakronan has a credit facility that extends indefinitely from the First, Second, Third and Fourth Swedish National Pension Funds,

whereby the owners commit to supply the company with liquidity. The agreement has a volume of SEK 18 billion and a notice period of 24 months.

Cash and cash equivalents are recognised at nominal values and include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less. Liquidity risk pertains to Vasakronan's risk of having insufficient cash funds or credit to meet its payment obligations. The risk is balanced since the relationship between credit commitments, cash funds and loans maturing within 12 months must be not less than 100%.

The maturity analysis is based on amounts for future undiscounted cash flows related to financial receivables and liabilities, including interest, allocated over the period until the contractual maturity date. The closing interest rates for the respective loans and derivatives form the basis for estimating future cash flows for all liabilities. The closing exchange rate is used for currency derivatives.

Liquidity risk - maturity analysis

Group	2018				2017			
	0-1 year	1-2 years	2-5 years	>5 years	0-1 year	1-2 years	2-5 years	>5 years
Assets								
Accounts receivable	29	-	-	-	20	-	-	-
Other receivables	837	-	-	-	817	-	-	-
Cash and cash equivalents	2,215	-	-	-	1,423	-	-	-
Total	3,081	-	-	-	2,260	-	-	-
Liabilities								
Bonds	-8,349	-7,543	-17,120	-6,494	-6,035	-9,906	-14,331	-3,806
Bank loans	-1,209	-619	-7,209	-9,465	-1,105	-2,163	-4,989	-11,173
Commercial paper	-6,155	-	-	-	-6,945	-	-	-
Interest-rate derivatives	-587	-610	-1,856	-2,053	-508	-538	-1,587	-1,345
Currency derivatives – inflows	786	1,282	4,149	6,540	103	100	243	186
Currency derivatives – outflows	-611	-1,143	-3,752	-5,927	-22	-23	-61	-41
Accounts payable	-118	-	-	-	-124	-	-	-
Total	-16,243	-8,633	-25,788	-17,399	-14,636	-12,530	-20,725	-16,179

Cash and cash equivalents	Group		Parent Company	
	2018	2017	2018	2017
Cash and cash equivalents	2,215	1,423	2,212	1,420
Closing balance	2,215	1,423	2,212	1,420

Maturity structure current and non-current interest-bearing liabilities in the Group and Parent Company	Group/Parent Company			
	Amount	Fixed-interest Share, %	Loan-to-maturity Amount	Loan-to-maturity Share, %
1	26,565	43	15,131 ¹⁾	25
2	964	2	7,597	13
3	1,652	3	9,975	16
4	1,501	2	5,061	8
5 years or more	30,405	50	23,323	38
Closing balance	61,087	100	61,087	100
of which				
Interest-bearing liabilities – floating rate			26,661	
Interest-bearing liabilities – fixed rate			34,426	

1) The credit facility from owners of SEK 18,000 million and cash and cash equivalents of SEK 2,215 million corresponded to a total of 134% of loans maturing in the next 12 months, see page 68 for more information.

Interest-rate risk

Changes in market interest rates and credit margins influence borrowing expenses. Vasakronan's finance function limits the risk by maintaining an average fixed-interest tenor of at least two years. Interest-rate risk is reflected by the interest coverage ratio which, pursuant to the financial policy, should always exceed a multiple of 2.0 over the last 12 months.

6.4 Derivatives**Derivative contracts**

Derivatives are recognised in the balance sheet at the contract date and are measured on an ongoing basis at fair value pursuant to Level 2 in IFRS 13. All derivatives are recognised as assets when fair value is positive and as liabilities when negative. Gains or losses arising from changes in value are recognised in profit or loss. Derivatives may only be used for risk management within the framework of the financial policy and the electricity trading policy, and are used primarily for controlling fixed-interest tenors and balancing the following risk areas:

Risk area	Derivative contracts
Interest-rate risk	Interest-rate swaps, inflation-linked swaps
Currency risk	Currency swaps
Price risk – electricity	Electricity forwards

Derivative contracts in the consolidated and Parent Company balance sheets

Derivatives – financial assets	2018	2017
Interest-rate swaps	185	246
Currency swaps	35	23
Electricity derivatives	33	6
Closing balance	253	275

Derivatives – financial liabilities	2018	2017
Interest-rate swaps	-2,147	-2,388
Currency swaps	-73	-311
Swaptions	-	-3
Closing balance	-2,220	-2,702

Net Derivatives	-1,967	-2,427
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To reflect counterparty risk, derivatives are adjusted to fair value through the CVA (Credit Value Adjustment) and DVA (Debt Value Adjustment) components. The CVA shows Vasakronan's credit risk in the event of the counterparty defaulting while the DVA reflects the company's own risk of default. Calculation of the valuation adjustment is based on the expected exposure, probability of default and recovery rates for exposed credits. At 31 December 2018, the net value was SEK 24 million (24) and is included in the value of interest-rate swaps.

Credit risk

Credit risk pertains to the risk that Vasakronan's counterparty is unable to discharge its commitments in conjunction with liquidity management and using financial derivatives. This risk is limited by working with a number of different counterparties. The financial policy also states that:

- Derivative agreements are signed with counterparties that have a credit rating of at least A- on Standard & Poor's rating scale or BBB+ with CSAs;
- Cash and cash equivalents may only be invested with counterparties that have a credit rating of at least A- on Standard & Poor's rating scale or alternatively with state- or municipality-owned companies;
- The duration of liquidity investments may not exceed six months; and
- ISDA agreements are required that allow offsetting of payables and receivables from the same counterparty.

Counterparty risk – derivative contracts

As part of managing counterparty risks in derivative contracts, the Group has entered into credit support annexes (CSAs) to International Swaps and Derivatives Association (ISDA) agreements. The annexes are mutual and both parties undertake to post cash collateral for deficit and surplus values in derivative contracts outstanding. As of 31 December 2018, the Group has received and posted such collateral. At 31 December 2018, collateral posted for deficits was SEK 213 million (255). Vasakronan has also received collateral of SEK 19 million (-) for surplus values in derivative contracts outstanding.

Non-current receivables	Group		Parent Company	
	2018	2017	2018	2017
Deposits, CSAs	213	255	213	255
Other non-current receivables	57	58	54	54
Closing balance	270	313	267	309

Other non-current receivables	Group		Parent Company	
	2018	2017	2018	2017
Deposits, CSAs	19	-	19	-
Other non-current liabilities	57	55	53	54
Closing balance	76	55	72	54

6.5 Financial instruments

Fair value corresponds to carrying amounts for the following financial instruments: accounts receivable, accounts payable, derivatives and cash and cash equivalents. Fair value for other instruments is established using the current yield curve along with a borrowing margin,

which currently results in a lower interest rate than that contracted for the loan. Recognition at fair value would increase the Group's liabilities by SEK 362 million and reduce equity by SEK 282 million. All investments in financial instruments are intended to be held till maturity.

Classification of financial instruments, Group	Loans and accounts receivable		Financial assets/liabilities at FVTPL		Other financial liabilities		Total carrying amount		Fair value	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Financial assets										
Accounts receivable	29	20	-	-	-	-	29	20	29	20
Deposits, CSAs	213	255	-	-	-	-	213	255	213	255
Derivatives	-	-	253	275	-	-	253	275	253	275
Cash and cash equivalents	2,215	1,423	0	0	-	-	2,215	1,423	2,215	1,423
Total	2,457	1,698	253	275	-	-	2,710	1,973	2,710	1,973
Financial liabilities										
Bonds	-	-	-	-	37,196	32,797	37,196	32,797	37,401	33,087
Bank loans	-	-	-	-	17,734	18,676	17,734	18,676	17,895	18,836
Commercial paper	-	-	-	-	6,157	6,948	6,157	6,948	6,153	6,948
Accounts payable	-	-	-	-	118	124	118	124	118	124
Deposits, CSAs	-	-	-	-	19	-	19	-	19	-
Derivatives	-	-	2,220	2,702	-	-	2,220	2,702	2,220	2,702
Total	-	-	2,220	2,702	61,224	58,545	63,444	61,247	63,806	61,697

Change in value of financial instruments	Group/Parent Company	
	2018	2017
Interest-rate derivatives	470	824
Early settlement of derivatives	-484	-359
Valuation allowances for foreign currency loans	38	160
Valuation allowances for currency derivatives	-38	-160
Electricity derivatives	27	3
Total	13	468

6.6 Pledged assets and contingent liabilities

Property deeds are pledged as collateral for the Group's interest-bearing liabilities.

Vasakronan is a limited partner in Stora Orsvik KB and its responsibility for the company's undertakings is limited to an amount equivalent to the invested capital of SEK 46 million (46). The Parent Company's contingent liabilities of SEK 488 million (502) pertain to liabilities at the

Group's general and limited partnerships in which the Parent Company is a partner.

For the Järvastaden AB joint venture, Vasakronan has issued surety of SEK 241 million (241) for the performance of the implementation agreement with Svenska Kraftnät.

Pledged assets and contingent liabilities	Group		Parent Company	
	2018	2017	2018	2017
Property deeds	13,049	15,455	None	None
Contingent liabilities	287	287	488	502

6.7 Adjustment for non-cash items

Adjustment for non-cash items	Group		Parent Company	
	2018	2017	2018	2017
Estimated defined-benefit pension costs	-8	-5	-	-1
Sales/discontinuation of Group companies	-	-	-341	-
Equipment sales	-1	-2	-1	-2
Total	-9	-7	-342	-3

NOTE 7 Group structure**7.1 Shares and participations in subsidiaries**

Shares and participations in subsidiaries	Parent Company	
	2018	2017
Opening balance	30,610	30,698
Settlement of earnings shares	35	- 69
Sales	13	0
Impairment	-	-19
Reversed impairment	2	-
Closing balance	30,660	30,610
Of which, assets	30,660	30,610

Companies in the Vasakronan AB Group	Shares/ participations ¹⁾	Share of equity, % ²⁾	Carrying amount in Parent Company	
			2018	2017
Civitas Holding AB, 556459-9164, Stockholm	2,750,000	100	24,685	24,685
Vasakronan Fastigheter AB, 556474-0123, Stockholm	4,000,000	100	-	-
Vasakronan Holdingfastigheter AB, 556611-6850, Stockholm	1,000	100	-	-
Vasakronan Inom Vallgraven 22:3 AB, 556879-7012, Gothenburg	500	100	-	-
Vasakronan Malmöfastigheter AB, 556376-7267, Stockholm	3,601,125	100	-	-
Handelsbolaget Gotic, 969622-2844, Trelleborg	100	100	-	-
Ankarspik 115 AB, 559122-1519, Stockholm	50	100	-	-
Fastighets AB Luxor, 556059-7139, Stockholm	2,000	100	-	-
Vasakronan IC AB, 556497-7279, Stockholm	100,050	100	-	-
Vasakronan Vattenled A, 556577-9088, Malmö	1,000	100	-	-
Vasakronan Lundafastigheter AB, 556137-8562, Stockholm	1,000	100	-	-
Vasakronan Priorinnan 5 AB, 559073-2151, Stockholm	500	100	-	-
Mabrabo AB, 556339-0227, Stockholm	10,000	100	-	-
Vasakronan Kista Science Tower AB, 556649-8043, Stockholm	1,000	100	-	-
Kymlinge Utvecklings A, 556647-7583, Stockholm	1,000	100	-	-
Vasakronan Kista Science Tower KB, 969660-7820, Stockholm	100	100	-	-
Vasakronan Uppsalafastigheter AB, 556651-1092, Stockholm	1,000	100	-	-
Kungspinnen I AB, 556701-4278, Stockholm	1,000	100	-	-
Frösunda Hus I AB, 556704-9183, Stockholm	1,000	100	-	-
Frösunda Hus II AB, 556704-9175, Stockholm	1,000	100	-	-
Frösunda Hus III AB, 556704-6213, Stockholm	1,000	100	-	-
Vasakronan Priorinnan AB, 556675-2423, Stockholm	1,000	100	-	-
Vasakronan Ängen AB, 556637-3550, Stockholm	1,000	100	-	-
Vasakronan Hakberget AB, 556745-5695, Stockholm	1,000	100	-	-
Vasakronan Trähus AB, 556715-4850, Stockholm	1,000	100	-	-
Vasakronan Regndroppen 1 AB, 559010-6000, Stockholm	500	100	-	-
Vasakronan Hammarby Gård 12 AB, 556766-4007, Stockholm	1,000	100	-	-
Vasakronan Boländerna 7:4 AB, 556297-1696, Stockholm	1,000	100	-	-
Ankarpik 113 AB, 556870-5783, Stockholm	500	100	-	-
Ankarpik 116 AB, 559172-8950, Stockholm	500	100	-	-
Vasakronan Fastighetsutveckling AB, 556532-9108, Stockholm	1,000	100	-	-
Järvatorget AB, 556548-5546, Stockholm	1,000	100	-	-
Vasakronan Utvecklings AB, 556611-6900, Stockholm	1,000	100	-	-
Vasakronan Ullevifastigheter Holding AB, 556718-7884, Stockholm	1,000	100	-	-
Vasakronan Ullevifastigheter AB, 556718-6704, Stockholm	1,000	100	-	-
Ullevi Park Holding 1 i Göteborg AB, 556718-6688, Stockholm	1,000	100	-	-
Ullevi Park 1 i Göteborg AB, 556718-6621, Stockholm	1,000	100	-	-
Vasakronan Skänegatan AB, 556870-5791, Stockholm	500	100	-	-
Vasakronan Hekla AB, 559088-2196, Stockholm	500	100	-	-
Vasakronan Hekla Fastigheter AB, 559091-2340, Stockholm	500	100	-	-
Vasakronan Markholding AB, 556675-1771, Stockholm	1,000	100	-	-
Vasakronan Diktaren 1 AB, 556943-7584, Stockholm	500	100	-	-
Ankarspik 41 AB, 556761-8763, Stockholm	1,000	100	-	-

1) Pertains to the Group's total number of shares and participations.

2) Pertains to the Group's total share of equity.

Companies in the Vasakronan AB Group	Shares/ participations ¹⁾	Share of equity, % ²⁾	Carrying amount in Parent Company	
			2018	2017
Fastighets AB Gesimsen Grön, 556011-7698, Stockholm	23,526,807	100	1,778	1,778
Fastighets AB Svava, 556268-6658, Uppsala	500,000	100	-	-
Vasakronan Uppsala City AB, 556057-0896, Uppsala	75,000	100	-	-
Aktiebolaget Nepos, 556238-9105, Stockholm	10,000	100	-	-
Uppsala Science City AB, 556250-5346, Uppsala	300,000	100	-	-
Uppsala Science Park KB, 916512-8126, Uppsala	200	100	-	-
AP Fastigheter AB, 556417-5858, Stockholm	100,000	100	593	593
Vasakronan Ankarspik 47 AB, 556772-0676, Stockholm	1,000	100	-	-
Idun Real Estate Solutions AB, 559016-1245, Stockholm	500	100	-	-
Ankarspik 98 AB, 559016-1559, Stockholm	500	100	-	-
Ankarspik 99 AB, 559016-1450, Stockholm	500	100	-	-
Ankarspik 100 AB, 559016-1427, Stockholm	500	100	-	-
Fastighets AB Skjutsgröden nr 8 & Co KB, 916502-7971, Stockholm	105	100	550	471
Fastighets Aktiebolaget Telefonfabriken, 556577-4535, Stockholm	1,000	100	322	322
Ankarspik 17 AB, 556761-8961, Stockholm	1,000	100	-	-
Ankarspik 117 AB, 559183-0129, Stockholm	500	100	-	-
Ankarspik 118 AB, 559180-1104, Stockholm	500	100	-	-
Nisseshus Nr 1 HB, 916587-3424, Stockholm	-	100	310	315
KB Positionen 2, 969666-7485, Stockholm	1,000	100	278	278
RTB Reval KB, 969635-4886, Stockholm	200	100	-	-
Vasakronan Bassängkajen AB, 556696-1362, Stockholm	1,000	100	214	214
Fastighets Aktiebolaget Bodega, 556031-4246, Stockholm	3,000	100	213	213
Fastighets AB Gesimsen, 556482-7318, Stockholm	1,000	100	-	-
KB Radio Östra, 916625-7007, Stockholm	1,000	100	-	-
Vasakronan Inom Vallgraven 22:16 AB, 556865-4163, Stockholm	500	100	180	180
Allmänna Pensionsfondens Fastighets nr 63 KB, 969646-7522, Stockholm	200	100	173	172
Vasakronan Magasinet 1 AB, 556692-9146, Stockholm	1,000	100	151	151
Förvaltningsbolaget Alvikshus HB, 916501-8004, Stockholm	-	100	147	173
Position Stockholm AB, 556577-3818, Stockholm	1,000	100	120	120
Vasakronan Värtan Exploatering AB, 556984-3963, Stockholm	500	100	-	-
Vasakronan Heden 22:19 AB, 556859-5291, Stockholm	500	100	113	113
Vasakronan Nordstaden 10:20 AB, 556865-4205, Stockholm	500	100	99	99
Ankarskrub 1 AB, 556339-0839, Stockholm	1,000	100	98	98
KB Inom Vallgraven 22:15 Göteborg, 916445-7039, Stockholm	200	100	-	-
Agilia Förvaltnings AB, 556651-1852, Stockholm	1,000	100	-	-
Arkaden Göteborg KB, 969646-3448, Stockholm	200	100	-	-
Allmänna Pensionsfondens Fastighets nr 53 KB, 969646-3836, Stockholm	200	100	-	-
Vasakronan Kaninen 32 AB, 556740-3612, Stockholm	1,000	100	97	97
AB Studentkrapan, 556611-6868, Stockholm	1,000	100	95	95
Vasakronan Stapelbädden 3 AB, 556740-2614, Stockholm	500	100	75	75
Fastighetsbolaget Brödtorget & Co KB, 989200-4418, Stockholm	100	100	63	49
Allmänna Pensionsfondens Fastighets nr 12 KB, 969646-4016, Stockholm	200	100	61	64
Allmänna Pensionsfondens Fastighets AB, 556355-6835, Stockholm	501,000	100	60	60
Vasakronan Inom Vallgraven 20:14 AB, 556865-4361, Stockholm	500	100	59	59
Vasakronan Nordstaden 21:1 AB, 556875-2918, Stockholm	500	100	52	52
Vasakronan Jungmannen 1 AB, 556646-7089, Stockholm	1,000	100	50	50
Vasakronan Kaninen 30 AB, 556740-3604, Stockholm	1,000	100	15	15
Gotic AB, 556708-2101, Stockholm	100,000	100	0	0
Vasakronan Nedo AB, 556772-2805, Stockholm	1,000	100	0	0
Vasakronan Starkströmmarna AB, 556771-7920, Stockholm	1,000	100	4	2
Allmänna Pensionsfondens Fastighets nr 59 KB, 969646-4032, Stockholm	200	100	-	-
Vasakronan Blåmannen AB, 556825-9302, Stockholm	500	100	3	3
Nacka Strand Förvaltnings Aktiebolag, 556034-9150, Stockholm	20,000	100	2	2
Vasakronan Stockholmsstuten AB, 556820-7798, Stockholm	500	100	0	0
Vasakronan Gårda 18:23 Kommanditbolag, 916635-8946, Stockholm	1,000	100	-	12
Total			30,660	30,610

1) Pertains to the Group's total number of shares and participations.

2) Pertains to the Group's total share of equity.

7.2 Shares and participations in joint ventures

Shares and participations in joint ventures	Group		Parent Company	
	2018	2017	2018	2017
Opening balance	368	372	1	1
Settlement of earnings shares	-3	-4	0	0
Contributed capital	-	0	-	0
Closing balance	365	368	1	1

Joint ventures	Corp. Reg. No.	Reg. office	Share of equity, %	Shares/ participations	Carrying amount	Other owners
Companies that pursue the long-term development of development rights at Järvafältet.						
Järvastaden AB	556611-6884	Solna	50	500	285	Skanska
Ursvik Exploaterings AB	556611-6892	Stockholm	50	5,000	0	Bonava
Stora Ursvik KB	969679-3182	Stockholm	50	50	79	Bonava
Companies for property development at Värtahamnen						
Värtan Fastigheter AB	556678-0267	Stockholm	50	1,000	0	Fabege
Värtan Fastigheter KB	969601-0793	Stockholm	50	1	1	Fabege
Companies for marketing and collaboration regarding the research village Ideon in Lund						
Ideon AB	559033-2598	Lund	33	166	0	Fastighets AB Briggen and Wihlborgs Fastigheter AB
Total					365	

7.3 Related parties

Related parties	Transactions
Parent Company	An ordinary dividend of SEK 4,000 million was paid to the Parent Company.
Parent Company shareholders	The First and Third Swedish national pension funds lease premises under market terms and conditions. Vasakronan has a subscription commitment from the First, Second, Third and Fourth Swedish National Pension Funds for its commercial paper, refer to page 68. At the end of 2018, the Third Swedish National Pension Fund had bond holdings with Vasakronan of SEK 390 million.
Board of Directors	Refer to Note 2.4 for details of remuneration. No Board member has participated directly or indirectly in any business transaction with Vasakronan. The Board is presented on page 104.
Management Team	Refer to Note 2.4 for details of remuneration. No senior executive has participated directly or indirectly in any business transaction with Vasakronan. The management are presented on page 105.
Subsidiaries	Specified in Note 7.1
Group companies	Specified in notes 7.1 and 8.1.
Joint Ventures	Specified in Note 7.2

NOTE 8 Parent Company

The Parent Company applies the same accounting policies as the Group in accordance with RFR 2, Accounting for Legal Entities. This means that the IFRS are applied together with the deviations presented in the Parent Company's accounting policies.

- The Parent Company's functional currency is Swedish krona (SEK), which is also the reporting currency for the Parent Company and the Group.
- Shares in subsidiaries are recognised using the cost method. Should the carrying amount exceed the consolidated fair value of the subsidiaries, impairment is charged to profit or loss. Investment properties are measured at fair value when calculating the consolidated value, refer to Note 4.2. Earlier impairment is reversed when it is no longer justified. Carrying amounts are tested each quarter against the subsidiaries' equity.
- Dividends are recognised when the entitlement to receive payment is considered certain.
- Income from the sale of subsidiaries is recognised when the risks and benefits associated with the holding in the subsidiary have transferred to the buyer.
- Group contributions received and paid from and to subsidiaries are recognised as profit from participations in subsidiaries in profit or loss.

8.1 Intra-Group transactions

Of the Parent Company's purchases during the financial year, 5% (12) pertained to purchases from Group companies. Intra-Group costs mainly comprised rent.

Of the Parent Company's sales during the financial year, 99% (97) pertained to sales to Group companies. Intra-Group revenue comprises the property management costs invoiced by the Parent Company to the property-owning Group companies.

8.2 Profit from participations in subsidiaries

Profit from participations in subsidiaries	Parent Company	
	2018	2017
Group contributions received and paid	1,037	1,734
Dividends from participations in subsidiaries	5,463	1,124
Profit from participations in subsidiaries	689	661
Impairment and reversal of impairment in participations in subsidiaries	3	-19
Total	7,192	3,500

Profit from participations in subsidiaries pertains to earnings generated by general and limited partnerships owned by Vasakronan AB.

8.3 Appropriations and untaxed reserves

Appropriations and untaxed reserves	Parent Company	
	2018	2017
Appropriations		
Provision to tax allocation reserve	-	-142
Total	-	-142
Untaxed reserves		
Tax allocation reserve, 2015 fiscal year	44	44
Tax allocation reserve, 2017 fiscal year	142	142
Total	186	186

NOTE 9 Dividend per share

The dividend distributed in 2018 for the previous year amounted to SEK 4,000 million (SEK 100 per share).

At the AGM on 7 May 2019, the Board will propose a dividend of SEK 4,000 million (4,000), corresponding to SEK 100 (100) per share.

NOTE 10 Events after the balance-sheet date

After the end of the financial year, Vasakronan signed a ten-year lease with the Swedish Tax Agency for 42,000 square metres at the Nya Kronan property in Sundbyberg. The letting encompasses two buildings and one existing building undergoing renovation. Occupancy is scheduled for the end of 2021. The agreement with the Swedish Tax Agency means the property is now fully let.

Reasonable and desirable levels for risk assumption

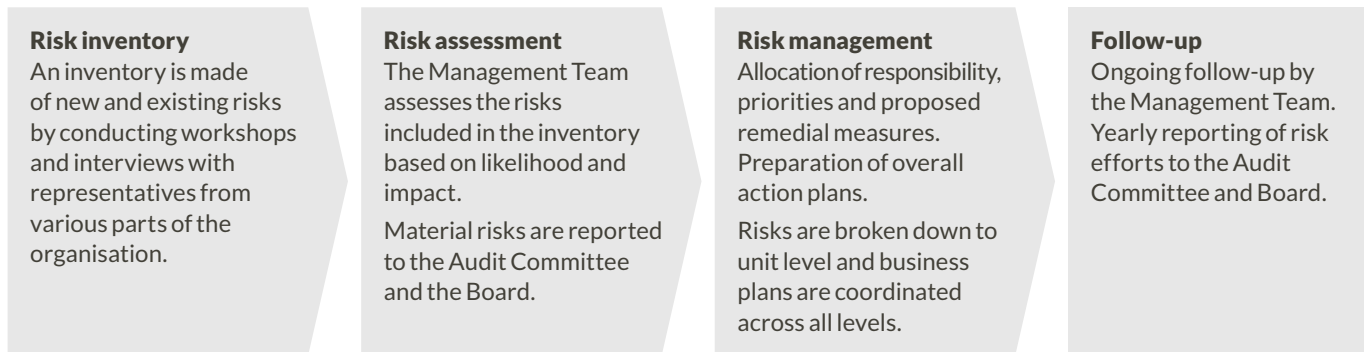
Vasakronan has been tasked by its owners with delivering a high and stable, long-term return. At the same time, the operations should take people, ethics and the environment into consideration. To best achieve these goals, all the opportunities and risks that impact operations must be managed.

All business operations are associated with risks, which when managed correctly can give rise to opportunities. When managed incorrectly, risks can have considerable negative consequences in the form of lower revenue, higher costs or reduced credibility. Efforts to identify, analyse, manage and follow up risks are therefore a prioritised area at Vasakronan.

Ultimately, it is the Board's responsibility to establish appropriate and effective systems for risk management and internal control. The Board has delegated day-to-day responsibility to the CEO and has established guidelines in terms of how to conduct these efforts as well as the risk levels that are acceptable. The CEO is supported by a steering committee

for internal control that, in addition to the CEO, comprises the CFO, General Counsel and Group controllers. The steering committee's responsibilities include follow up and ongoing development of internal control. Vasakronan's day-to-day risk efforts involve all employees and follow a structured process.

Risk management process



Vasakronan has divided identified risks into four categories:

MARKET AND BUSINESS RISKS

Risks related to external factors and market developments that Vasakronan is unable to directly influence, but still needs to relate to, and where the negative effects can be mitigated. These risks also include risks linked to the ownership, management and development of properties.

OPERATIONAL RISKS

Risks in operating activities that result from insufficient or inadequate internal processes or routines, human error or system error.

FINANCIAL RISKS AND REGULATORY COMPLIANCE

Risks related to our funding, our financial reporting and inadequate compliance with ordinances, laws and regulations.

SUSTAINABILITY AND REPUTATIONAL RISKS

Risks connected with environmental impact, climate change, work environment and reputation.

All of the risks are ranked based on their financial impact on operations, the likelihood of the risk occurring after taking into account the company's internal controls, preventive measures and level of priority in

the company. A description of the risks and their rankings is presented in the tables on pages 95–97. The tables also describe how the company's risk focus has changed compared with last year.

MARKET AND BUSINESS RISKS

Risk description	Analysis and exposure	Management	Vasakronan's assessment	
<p>Political decisions Political decisions can lead to changed prerequisites for Vasakronan's operations, both positive and negative. For example, this could pertain to decisions regarding new tax legislation, the relocation of government agencies or energy-related decisions.</p>	<p>Political decisions and regulatory changes are generally outside Vasakronan's control, but could negatively impact future investment opportunities, value growth, returns and cost levels. The effects can be limited through proactive monitoring of plausible decisions, analysis of consequences and action plans for the various alternatives.</p>	<ul style="list-style-type: none"> Competitive intelligence and monitoring of developments in the areas that concern Vasakronan Participate in debate via appropriate forums Analysis of the effects and of possible proactive measures Dialogue with the Board and owners about impact and actions 	Impact Likelihood Priority Focus	<p>● ● ● ↔</p>
<p>Value decline in properties Negative market trend due to raised yield requirements, lower market rents, increased vacancies and higher property expenses leading to a downturn in property values.</p>	<p>In the short term, the single largest impact on the company's financial performance is from changes in the value of the properties, even if it does not directly affect cash flow. Vasakronan has chosen to concentrate its portfolio in markets with strong economic growth. The long-term assessment is that these properties have the best prerequisites for generating a favourable value trend even if, in the short term, they may be the most volatile in terms of yield.</p>	<ul style="list-style-type: none"> Competitive intelligence and close dialogues with tenants Clear strategy for each property Structured process for decisions regarding new construction, extensions or redevelopments Portfolio focused on central and desirable locations Keeping at the forefront in terms of sustainability and technical developments Quarterly valuations of the property portfolio 	Impact Likelihood Priority Focus	<p>● ● ● ↔</p>
<p>Changing macro environment The pace of technical development is rapid. Digital solutions are replacing old technology, new participants are entering the market with a wider offering and customers are demanding new solutions and services. Those who are unable to adapt their operations and offerings to these new conditions risk losing customers, suppliers and employees.</p>	<p>Vasakronan aims to be at the forefront as regards the use of modern technical solutions and of service offerings. This requires the company to diligently monitor the market to identify trends and demand. Vasakronan strives to ensure it has the right skills in combination with close partnerships with customers, suppliers and other companies.</p>	<ul style="list-style-type: none"> Competitive intelligence Organisation structure that focuses on and promotes change and development New innovative energy solutions Collaboration with relevant parties Increased flexibility in the customer offering 	Impact Likelihood Priority Focus	<p>● ● ● ↑</p>
<p>Information and data security In pace with increasing property sector digitalisation, there is an accelerating need for well-functioning information and data security. Development in these areas is rapid and is becoming increasingly complex.</p>	<p>If critical information is lost or falls into the wrong hands as a result of a computer crash, data hacking or inadequate IT security, the financial consequences could be considerable and the company's credibility may be damaged. Vasakronan has prioritised this issue highly and actively monitors developments in the area.</p>	<ul style="list-style-type: none"> Continuously follow developments by participating in seminars, etc. IT and communication policy High degree of awareness of IT security-related risks through, inter alia, internal and external courses Ongoing information via internal channels 	Impact Likelihood Priority Focus	<p>● ● ● ↔</p>
<p>Increased e-commerce Increased e-commerce will lead to fewer purchases in physical stores, which will result in stores closing, entering receivership or demanding smaller premises.</p>	<p>Lower demand for Vasakronan's store space will result in lower rental revenue and higher vacancy rates. Vasakronan's portfolio mainly comprises stores in central locations with considerable natural flows of people. Vasakronan believes demand will remain firm for these types of properties, even for other uses, which will reduce the negative effect.</p>	<ul style="list-style-type: none"> Competitive intelligence Offer flexible solutions Plan for each property and ongoing evaluation of alternative uses for premises Follow-up and analysis of sales statistics reported by store tenants Close dialogues with existing tenants Clear concepts for shopping precincts 	Impact Likelihood Priority Focus	<p>● ● ● ↑</p>
<p>Employees Employees are the company's most important assets, since they create and nurture the company's culture and develop its operations. If it is not possible to keep the right employees or sufficient employees, the business will underperform.</p>	<p>The continued development of operations and remaining relevant for the market requires companies to continuously add competence. Competition is fierce for the best employees. Vasakronan actively strives to be an employer that attracts qualified personnel. The strong brand together with the innovative, values-driven corporate culture engender considerable interest in the company.</p>	<ul style="list-style-type: none"> Strong brand and industry market leader A sustainable company in every dimension Development plans for personnel Collaboration with universities Succession planning for key personnel Strong corporate culture that promotes curiosity, diversity and flexibility. 	Impact Likelihood Priority Focus	<p>● ● ● ↔</p>

- Low impact, likelihood or priority
- Medium impact, likelihood or priority
- High impact, likelihood or priority
- ↑ Increased focus compared with the preceding year.
- ↔ Unchanged focus compared with the preceding year.

OPERATIONAL RISKS			
Risk description	Analysis and exposure	Management	Vasakronan's assessment
<p>Project operations Redevelopments, extensions and new construction projects are associated with risk across all phases, and risks increase in line with complexity. Moreover, in economic booms, when demand is high, risk increases due to the lack of suppliers and employees, among other factors.</p>	<p>Vasakronan has substantial project volumes. Most of the projects are complex, extend over a long period of time and involve many different parties. Calculation errors, delivery delays or increased expense due to unforeseen events or carelessness can lead to substantial negative financial consequences.</p>	<ul style="list-style-type: none"> Quality assurance of internal processes including risk analysis, project reviews and exchanging experiences Highly skilled project organisation Contractual agreements with partners Code of conduct for suppliers Clear supplier procurement process 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↔</p>
<p>Investments Investments are made through new construction, extensions or redevelopments as well as through the acquisition of existing properties. Risk exists of investing in unprofitable projects or properties.</p>	<p>Through its size and focus, Vasakronan has excellent market knowledge of the regions and sub-markets in which it operates. Long lead times apply when starting larger new or redevelopment projects, which always entail market risk. However, Vasakronan never starts new projects in weaker sub-markets without having first leased out the majority of the premises.</p> <p>The acquisition of existing properties always includes a risk of the property not generating the desired yield due to a poorer than expected location, condition or tenant structure. Vasakronan's market insight and its experience and expertise in property acquisitions means such risks are minimised.</p>	<ul style="list-style-type: none"> Clear investment strategy subject to continuous evaluation Clear decision process in terms of risk and opportunities Highly skilled in property investment Active dialogues with municipalities Continuous follow-up of ongoing projects Frequent dialogue between project organisation and the letting organisation. 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↔</p>
<p>Rental revenue Negative trend for rental revenue as a result of lower market rents or higher vacancies leading to poorer cash flow, which negatively impacts the value of properties.</p>	<p>Rental revenue is affected by many different factors such as economic downturns with lower demand, lower willingness to pay, increased insolvencies and as a consequence, higher vacancies. Rental revenue can also be negatively impacted by excessive supply in the market, a dated product or dissatisfied customers. Vasakronan strives actively to limit exposure to any one sector or tenant in combination with an even spread of lease durations.</p>	<ul style="list-style-type: none"> Focused holding at central locations in growth areas. Mix of sectors, tenants, lease durations and premises types in each property/area Close, proactive dialogues with tenants to understand customers' needs Structured procurement process for accepting new tenants Annual Customer Satisfaction Index – measurement 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↑</p>
<p>Property expenses Risk linked to property expenses pertains mainly to increases that Vasakronan cannot offset through rent increases, index adjustments or onward invoicing. The risk primarily resides in those costs that the company has limited ability to influence, such as ground rents or unforeseen costs, mainly related to repairs and maintenance.</p>	<p>Property expenses are impacted, inter alia, by the consumption of electricity and water, the price trends for goods and services, and the utilisation level of resources. Active efforts are ongoing at Vasakronan to optimise and streamline operations at each property from both a sustainability and a cost perspective.</p> <p>Vasakronan has a number of ground rent agreements. The company actively drives negotiations with municipalities to limit the negative effects of ground rent increases.</p>	<ul style="list-style-type: none"> Structured and focused efforts to optimise and streamline energy consumption Maintenance plans for all properties Optimise property administration Terms and conditions for green financing linked to energy consumption Actively negotiate with municipalities regarding ground rents Profit sharing linked to net operating income 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↑</p>
<p>Counterparty risk All business relationships entail a risk of the counterparty not meeting its obligations.</p>	<p>Vasakronan is exposed to counterparty risk in terms of its suppliers, tenants and transaction counterparties. To limit risk, diligent evaluations are always conducted prior to entering into contracts.</p>	<ul style="list-style-type: none"> Structured procurement process for suppliers and accepting new tenants, including credit checks and taking references Consequences from non-delivery are contractually regulated When necessary, a deposit is required 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↔</p>

FINANCIAL RISKS AND REGULATORY COMPLIANCE			
Risk description	Analysis and exposure	Management	Vasakronan's assessment
<p>Financing Property is a capital intensive industry and it is important to secure access to borrowed capital to ensure the survival of the operation. When capital is scarce, risk arises that the cost of new financing or refinancing will be high or impossible.</p>	<p>Vasakronan has an LTV of 41% and a strong financial position. The company's rating from Moody's widens access to financing with longer tenors. In combination with a stable owner structure, this reduces refinancing risk.</p>	<ul style="list-style-type: none"> Use several different sources of finance The average maturity of interest-bearing liabilities is not permitted to be lower than two years Not more than 40% of interest-bearing liabilities are permitted to mature within the next 12 months. Rating A3 from Moody's Strong balance sheet 	<p>Impact ●</p> <p>Likelihood ●</p> <p>Priority ●</p> <p>Focus ↔</p>

<p>Interest-rate risk Interest on borrowed capital is a large cost item in profit or loss and a change in interest rate can have a considerable impact.</p>	<p>Vasakronan has relatively long fixed-interest periods of 4.7 years. The share of fixed-interest maturities within one year was 43% of interest-bearing liabilities, which limits exposure to interest-rate changes. If the interest rate increases 1 percentage point, the interest expense will rise by SEK 229 million.</p>	<ul style="list-style-type: none"> Financial policy with conservative goals for interest coverage ratio, fixed-interest tenors and fixed-interest maturities Interest-rate derivatives aimed at achieving the desired fixed-interest structure 	<p>Impact ● Likelihood ● Priority ● Focus ↔</p>
<p>Financial reporting Financial reporting comprises important decision-data and shortcomings can lead to erroneous decisions for Vasakronan, as well as for external parties such as lenders and investors.</p>	<p>Awareness of financial reporting risks is created by discussion between the employees concerned. The risk of errors in the financial reporting are limited due to Vasakronan having a centralised accounting and finance function with clear allocation of responsibility and follow-up.</p>	<ul style="list-style-type: none"> Policies with clear allocation of responsibility and authorities Good internal control with preventive and follow-up controls External audit Highly skilled accounting and finance function Continuous monitoring and analysis of regulatory changes 	<p>Impact ● Likelihood ● Priority ● Focus ↔</p>
<p>Regulatory compliance Vasakronan has to adapt to numerous different rules, regulations and laws. Non-compliance with regulations can lead to economic consequences, sanctions or damaged confidence.</p>	<p>Regulations can be complex to interpret and comply with. Vasakronan continuously strives to stay updated vis-à-vis current regulations as well as regulatory changes to ensure regulatory compliance.</p>	<ul style="list-style-type: none"> Continuously follow developments in terms of laws, rules and regulations in relevant areas Proactive analysis of the possible effects of changes in rules and acting with the above in mind Active participation in debates to the extent possible in the relevant forums Dialogue with politicians or other influential individuals, for example 	<p>Impact ● Likelihood ● Priority ● Focus ↔</p>

SUSTAINABILITY AND REPUTATIONAL RISKS

Risk description	Analysis and exposure	Management	Vasakronan's assessment
<p>Climate changes Global climate change is leading to higher temperatures, extreme weather events and rising in sea levels. For property companies, this means increased risk of property damage due to temporary flooding, of buildings/material not coping with the new weather conditions or temperature changes. In areas that are close to the sea, this also entails permanent risks in the long term.</p>	<p>Vasakronan's single largest asset comprises properties. Climate change poses new demands on Vasakronan's properties, which the company has to address when making investments. If Vasakronan does not work proactively and monitor climate issues, there is a considerable risk that, in the future, some properties will be unusable and/or the cost of rectifying the damage will be high.</p>	<ul style="list-style-type: none"> Follow research and development in sustainability and the consequences of climate change Make an inventory of the entire portfolio to identify where any risk of a major impact exists and to prepare action plans Risk analyses for new construction and acquisitions, preventive measures 	<p>Impact ● Likelihood ● Priority ● Focus ↑</p>
<p>Negative environmental impact The property sector has a high environmental impact and accounts for around 40% of society's energy consumption, 21% of climate impact and creates a lot of waste.</p>	<p>Vasakronan has a goal of delivering a high and stable long-term return, but never at the cost of the environment. Environmental initiatives should not be seen as an isolated area but rather as a natural and integral part of business activities. The company has a high percentage of green funding (also refer to page 32), which sets stringent requirements on sustainability work.</p>	<ul style="list-style-type: none"> Environmental policy with clear aims for sustainability efforts Clear targets for reducing energy consumption and waste, increasing recycling of materials and reducing environmental impact from Vasakronan's and suppliers transportation Installation of solar photovoltaic panels Environmental certification of properties Preparation and review of a sustainability report 	<p>Impact ● Likelihood ● Priority ● Focus ↑</p>
<p>Reputation Decreased confidence in Vasakronan among the company's stakeholders due to unethical behaviour or breaches of laws and regulations could harm the brand.</p>	<p>As Sweden's largest property company, there is considerable public interest in Vasakronan's operations. This, in combination with the ownership structure and the listing of the company's bonds on the Stockholm Stock Exchange, means stringent requirements are set for the company's behaviour. Lack of confidence in Vasakronan could lead to substantial economic damage in the form of lost business or partnerships.</p>	<ul style="list-style-type: none"> Active valuation efforts involving all employees Policies with clear allocation of responsibility and authorities Codes of conduct for employees and for suppliers Whistle-blower mechanism 	<p>Impact ● Likelihood ● Priority ● Focus ↔</p>
<p>Work environment All activities are associated with risk for both physical and mental injury. The construction industry is particularly closely associated with major occupational health risks.</p>	<p>The employees' occupational health is a strategically important issue for Vasakronan. An unsafe work environment and a negative work climate lead to an ineffective organisation. Vasakronan works actively to minimise the risk of employees, contractors or tenants suffering physical or mental injury in and around Vasakronan's offices, projects or properties.</p>	<ul style="list-style-type: none"> Collaboration between employees, safety officers, managers, company management and suppliers Training in physical and mental health Clear goals linked to worksite accidents and mental health as well as their follow-up Wellness measures Codes of conduct for employees and suppliers Whistle-blower mechanism Work climate that provides the prerequisites and takes responsibility for a healthy working life 	<p>Impact ● Likelihood ● Priority ● Focus ↔</p>

Clear structure provides control

Vasakronan’s corporate governance efforts are based on clearly formulated goals and strategies as well as sound values.

Vasakronan AB is a public limited company. In view of the general interest in the company’s operations, and since the company’s bonds are listed on the Stockholm stock exchange, the Swedish Corporate Governance Code has been applied. The company also has bonds listed on the Oslo Stock Exchange and Euronext Dublin, and has chosen Ireland as its home Member State. Accordingly, the Central Bank of Ireland is responsible for supervision pursuant to the Transparency Directive.

Clear internal structures and processes also ensure that operations are conducted efficiently and appropriately.

Our framework

Corporate governance at Vasakronan is based on both internal and external rules and regulations. The Board of Directors has adopted policy documents based on the values that ought to characterise operations, in order to guide employees at Vasakronan.

Important external regulations:

- The Swedish Companies Act
- Accounting policies, legislation and recommendations
- Nasdaq Stockholm Rule Book for Issuers
- The Issuer Rules for Oslo Børs
- Euronext Dublin’s Rule Book for Issuers
- The Prospective Directive under Irish law
- The EU Market Abuse Regulation (MAR)
- The Swedish Corporate Governance Code
- UN Global Compact

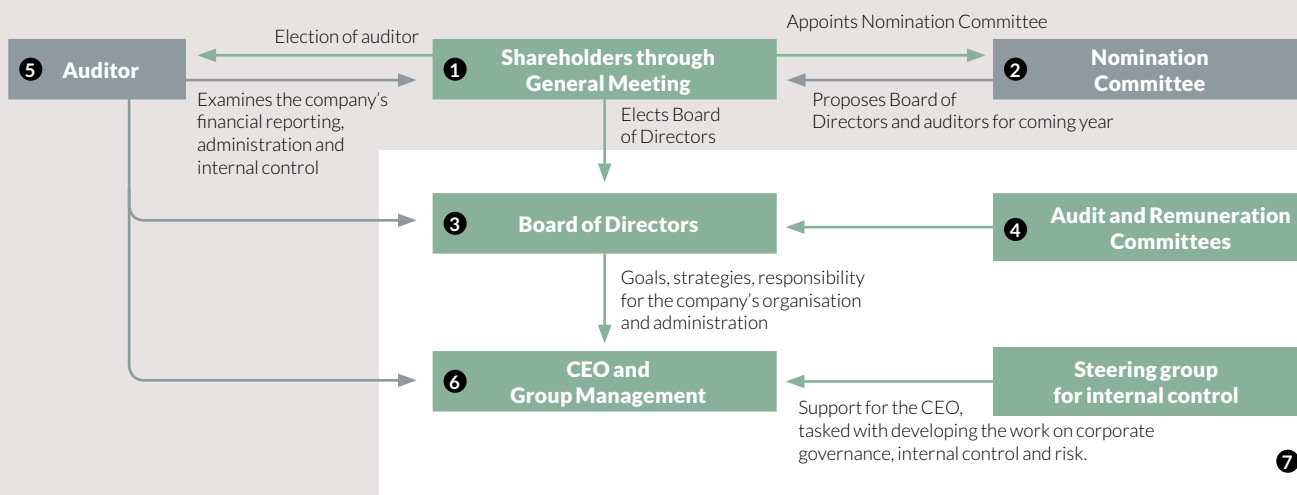
Important internal regulations:

- The Articles of Association
- The Rules of Procedure for the Board of Directors and committees, and the CEO’s Instruction
- Internal guidelines and policies that cover all Vasakronan’s employees and are characterised by business values such as a financial policy, decision-making and delegation processes, an anti-corruption policy, an environmental policy and a Code of Conduct
- Framework for green bonds

Deviations from the Code

As a consequence of its small group of owners, Vasakronan deviates from the Code in two ways: the Nomination Committee’s proposals for Board members and notices of General Meetings and minutes from General Meetings are not published on the company’s website. None of the members of the Nomination Committee are independent in relation to the owners.

Governance structure



1 Shareholders and General Meeting

Vasakronan is owned in equal shares by the First, Second, Third and Fourth Swedish national pension funds. Shareholders exercise their influence through participation in the Annual General Meetings (AGMs), which are the highest decision-making body. Under the Articles of Association, the AGM of shareholders must be held within six months of the end of the financial year. The Companies Act and the Articles of Association regulate what is to be resolved at the AGM. Extraordinary general meetings are held if any of the owners so request, or if the Board of Directors considers there is reason to do so.

The tasks of the AGM include:

- Adopting the income statement and balance sheet
- Discharging the Board members and CEO from liability
- Resolving on the proposed distribution of profit
- Resolving on fees for the members of the Board and the committees, as well as the auditors
- Electing Board members, members of the Audit and Remuneration committees, and auditors
- Establishing principles for remuneration and other employment terms and conditions for senior executives

The latest AGM was held on 3 May 2018 at Vasakronan's head office in Stockholm. All shares were represented and the auditors were present.

2 Nomination Committee

The task of the Nomination Committee is to present proposals regarding:

- The number of Board members
- Election of Board members and Chairman of the Board
- Fees for the Board of Directors and members of the Board committees
- Auditors and auditors' fees
- Instruction for the Nomination Committee

The Nomination Committee consists of one representative from each of the owners, who are appointed in accordance with the instructions for the Nomination Committee as adopted by the AGM. The Nomination Committee met four times in 2018.

In the Committee's work on producing proposals for Board members, an equal gender distribution must be taken into account, and that the Board in general should be characterised by diversity based on competence, experience and background. The Nomination Committee has studied the internal evaluation of the work of the Board, the Chairman's account of the work of the Board and the company's strategy, and interviewed individual Board members as part of its work. The goal of the Committee is to propose a composition of Board members that complement each other as regards experience, personalities and knowledge, in order to thereby create the best value for Vasakronan. No fees were paid to the Nomination Committee in 2018.

3 Board of Directors

Composition of the Board

The Articles of Association stipulate that the

Board is to comprise at least three and at most ten members, excluding any employee representatives. The owners can, but do not need to be, represented on the Board. In addition to the owner representatives, the ambition of the owners is that the Board of Directors also consist of members who are independent in relation to the company and the owners. The independent members will supplement the Board with specific industry competence. The AGM on 3 May 2018 elected Ulrika Francke as the new Chairman of the Board. The other eight members were re-elected. The CEO is not a member of the Board, but is present at all Board meetings.

Tasks and responsibilities of the Board

The overall task of the Board is to be responsible for organisation and administration of operations, and financial reporting. It also decides on the company's strategy, establishes financial, social, and environmental targets, and is responsible for establishing efficient and appropriate systems for governance, internal control and risk management. The work is regulated through rules of procedure that are established at the statutory Board meeting every year. These rules include instructions on the Board's areas of responsibility and limitations in relation to the committees and the CEO.

The Chairman of the Board monitors the Board's performance of its tasks. The Chairman also monitors operations in dialogue with the CEO and is responsible for ensuring the other members receive the information necessary to maintain a high level of quality in discussions and decisions. The Chairman is also responsible for evaluating the work of both the Board and the CEO.

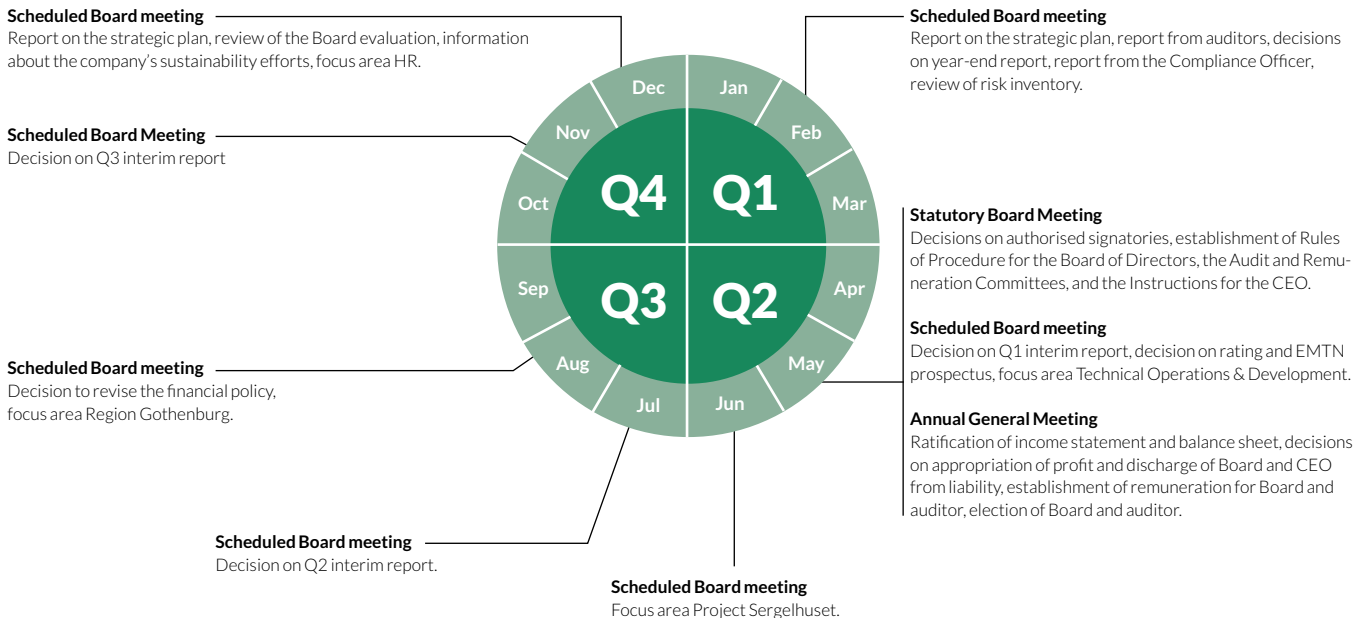
Composition of the Board

	Elected	Indep. of company	Indep. of major owners	Board and Committee fees, KSEK	ATTENDANCE		
					Board meetings	Audit Committee	Remuneration Committee
Mats Wäppling ¹⁾	2010	Yes	Yes	348	2/2	1/2	2/2
Ulrika Francke ²⁾	2018	Yes	Yes	359	10/10	3/3	1/1
Jan-Olof Backman	2011	Yes	Yes	265	12/12		
Ann-Sofi Danielsson	2017	Yes	Yes	291	12/12	5/5	
Niklas Ekvall	2016	No	No	No remuneration	11/12		
Eva Halvarsson	2006	No	No	No remuneration	12/12	5/5	
Kerstin Hessius	2004	No	No	No remuneration	11/12		
Christel Kinning	2014	Yes	Yes	265	11/12		
Rolf Lydahl	2007	Yes	Yes	328	12/12	5/5	
Johan Magnusson	2008	No	No	No remuneration	11/12		2/3

1) Stepped down May 2018. 2) Elected May 2018.

Governance structure

Standing items on the Board's agenda comprise market and business conditions, ongoing projects and transactions, market valuations, financing, ongoing disputes and reporting from the Audit and Remuneration Committees. In addition to these items, the following items were addressed at the past year's Board meetings.



Work of the Board of Directors in 2018

The work of the Board of Directors follows an annual cycle of scheduled meetings on fixed dates, adjusted for such matters as the Board needing to adopt the financial reporting.

The CEO, CFO and General Counsel (in the capacity of the secretary of the Board) attended the scheduled meetings. Other persons from the organisation such as regional Senior Vice Presidents and SVPs for Finance and Property Development participate as needed, presenting reports on particular cases. Vasakronan's Compliance Officer (the company's General Counsel) also reports annually to the Board on cases that have come in to the company's whistleblower function.

The Board meetings follow a fixed agenda on which the CEO's information on general operations are a standing point. In cases where committee meetings have been held, the chairpersons of the respective committees also report on their work.

Meetings in addition to the scheduled Board meetings are also held as needed, for example when a business decision requires the approval of the Board.

In total, the Board had eight scheduled meetings in 2018, one of which was statutory. Issues of strategy and risk management are always high on the agenda. Over the past year, the focus has been on developments in the property sector, primarily regarding the entry of new market participants and the impact of digitalisation. Considerable focus was also dedicated to larger ongoing new construction and renovation projects at Vasakronan. Four extra Board meetings were held during the year and took decisions on the MTN programme and the dividend policy. In addition to the Board meetings, the Board also conducted two strategy conferences that were held together with the Management Team. For more information, refer to the section CEO and Management Team.

The auditors were present at the Board meeting held in February where the year-end report was adopted.

Evaluation of the Board of Directors

According to the Rules of Procedure, the Board of Directors must conduct an annual evaluation of its work. In 2018, this was conducted using a written survey prepared by an

external party. The results of the survey were presented to the full Board and were thereafter followed up by the Chairman interviewing each Board member. The purpose of the evaluation is to ensure that the Board is focused on the correct area, that the Board has the correct competence and that it is correctly composed. The results of the evaluation are also used as the basis for the Nomination Committee's work with bringing forward new candidates for the Board of Directors and as a basis for improving the Board's work.

Remuneration to the Board

The AGM passes resolutions on remuneration to the Board. Board fees are not paid to members who are employed by any of the owners. For the period until and including the 2018 General Meeting, the AGM resolved that the Chairman will receive SEK 660,000 and the other independent members SEK 265,000 in fees. For the Audit Committee, it was resolved that a fee to its Chairman of SEK 63,000 and to independent members of SEK 26,000 would be paid, and a fee of SEK 32,000 to the Remuneration Committee.

4 The committees

In order to enhance the efficiency of its work, the Board has established an Audit Committee and a Remuneration Committee. The primary task of these committees is to prepare the decisions of the Board in these two areas.

Audit Committee

The Board of Directors has appointed an Audit Committee consisting of four Board members. The Committee's areas of responsibility are regulated in the rules of procedure established by the Board. The overall responsibilities of the Audit Committee include:

- Preparing the work of the Board on quality assurance of the financial reporting, which in turn includes addressing material accounting issues.
- Monitoring the work of company management on internal control, tax management and risk and corporate governance issues.
- Evaluating the audit work and preparing the election of an auditor.
- Issuing guidelines concerning the advance approval of non-audit related services performed by the elected external auditor.

The Audit Committee meets with the auditor on a continual basis in order to obtain information about the orientation, scope and results of the audit. This take place through

the Committee studying the auditor's written reporting and the auditor being present at certain Committee meetings.

For 2018, the Audit Committee consisted of Rolf Lydahl, who was also the chairman, Eva Halvarsson, Ann-Sofi Danielsson and Mats Wäppling, who was replaced in May by Ulrika Francke. All members have the competence in accounting required under the Annual Accounts Act.

The Committee held five meetings during the year. The company's auditor was present at three of them to report on the audit. In addition to this, the Committee primarily discussed the company's financial statements and the work of the Management Team on risk and internal control. The CEO, the CFO and SVP for Group Control (the secretary of the committee) participated in the meetings. Over the year, the Committee also completed an evaluation of its work with the aim of ensuring the right questions were addressed within the Committee. At least once each year, the Committee meets with the auditor without the participation of company management.

Remuneration Committee

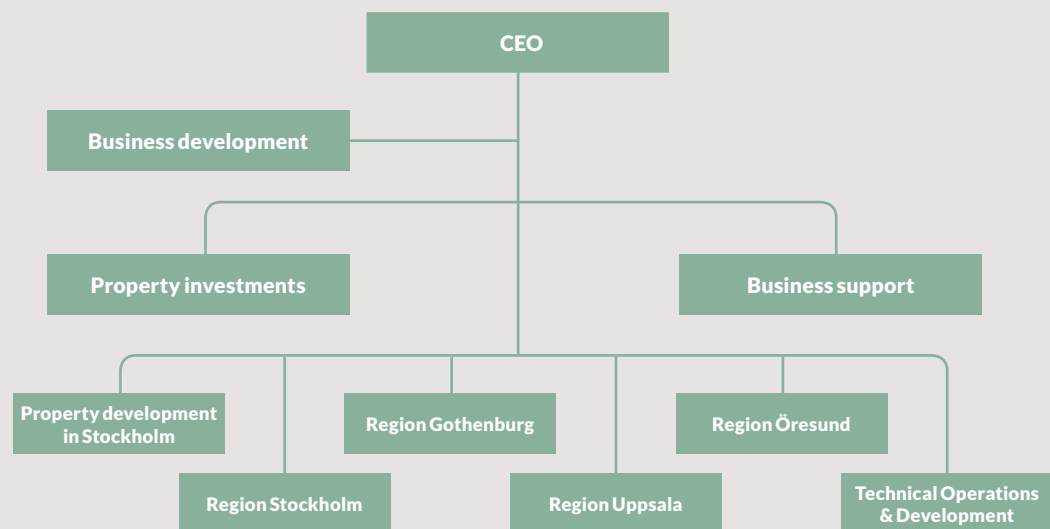
The Board of Directors has appointed a Remuneration Committee consisting of two Board members. The Committee's areas of responsibility are regulated in a rules of pro-

cedure established by the Board and consists primarily of:

- Preparing the work of the Board of Directors on remuneration for senior executives and in the profit-sharing programme for other employees.
- Monitor and evaluate compliance with the "Guidelines for Terms of Employment for Senior Executives in state-owned Companies" that Vasakronan is to comply with as regards remuneration and other terms of employment for company management (refer to Point 6 below for more information).

For 2018, the Remuneration Committee consisted of Mats Wäppling, who was also the Chairman, until he stepped down in May, and thereafter of Ulrika Francke as Chairman and Johan Magnusson. During the year, the Committee held three meetings at which issues of remuneration for senior executives and principles for profit-sharing for other employees were primarily discussed. The work of the Committee was also evaluated at the meeting in January. The CEO and the SVP for Human Resources, who is the secretary of the Committee, participated in all the meetings and the company's auditor submitted their report from the review of remuneration for senior executives at the meeting in May.

Organisation



5 External audit

In accordance with the Articles of Association, the general meeting must appoint at least one and at most two authorised public accountants with an equal number of deputies. If an auditing company is appointed as auditor, deputies will not be appointed. The auditor is elected for one year at a time. The Board of Directors has decided that the selection of an auditor will be preceded at least once every four years by a procurement to be prepared by the Audit Committee.

In addition to issuing the Auditors' Report, the selected auditor examines the annual accounts, the consolidated financial statements and accounting records, the Board's and the CEO's administration of the company and the annual accounts of the subsidiaries. The audit will take place in accordance with the Annual Accounts Act, international auditing standards and generally accepted auditing principles in Sweden.

At the 2018 AGM, PricewaterhouseCoopers was elected as auditor for the coming year, with Helena Ehrenborg as Auditor in Charge. In addition, Daniel Algotsson was elected as auditor. More information about the auditors can be found on page 104. Information about the auditors' fees can be found in Note 2.3 on page 77.

6 CEO and Management Team

The CEO is appointed by the Board of Directors and is responsible for daily operations in Vasakronan, in accordance with the Board's instructions established each year. The CEO is responsible for keeping the Board continually updated on operations and ensures that the Board is provided with the necessary basis for decisions in order to take well-founded decisions. Fredrik Wirdenius has been the CEO of Vasakronan since 2008.

The CEO has formed a Management Team that, in addition to the CEO, consists of twelve directly subordinate Senior Vice Presidents; refer to the presentation on Page 105. The Management Team meets regularly in order to handle Group-wide and strategic issues.

Ten meetings were held in 2018. At four of them, the interim reports and operational monitoring were discussed, and two were longer strategy meetings. One strategy meeting is held in the spring, and focuses on the trends and operating environment factors that impact the company. The other strategy meeting is held in the autumn, and the strategic portion of the business plan is developed with focus areas and key issues for operations.

Vasakronan's operations are organised in four regions, with a special unit for property development in Stockholm. Technical Operations & Development are organised separately, with central support functions and local staffing. As support for the organisation, there are central units for property investments and business support, which included finance, communications and IT, legal and HR. A Head of Sustainability has been appointed to govern and monitor the company's work on sustainability topics.

The AGM passes resolutions on principles of remuneration for the CEO and the Management Team. Salaries and other benefits for the Management Team, including the CEO, consist only of fixed salaries with no variable remuneration. In addition, Vasakronan applies the Government's "Guidelines for Terms of Employment for Senior Executives in state-owned Companies" as regards remuneration and other terms of employment for company management. The company can, however, deviate from the guidelines if there is reason to do so. Vasakronan deviates from the Government's guidelines in two aspects. The CEO's period of notice totals twelve months instead of the six indicated by the guidelines, and remuneration for the Management Team, exclusive of remuneration for the CEO, is not recognised at the individual level in the Annual Report.

7 Governance and control

The Board of Directors is responsible for the company having satisfactory and relevant risk management and internal control. The purpose is to ensure that operations are pursued efficiently and sustainably, that external

reporting maintains a good level of quality, and that applicable laws and regulations are observed.

Planning, governance and monitoring of operations follows the organisational structure, with a clear delegation of responsibilities and authorisations. The business planning conducted every year creates clear, well-supported plans for how operations are to be pursued in all sections. Business planning starts with the Management Team's strategy days in the spring and concludes with the Board of Directors deciding on the plan at its December meeting. In between, business plans are developed for both underlying units and for the company as a whole. The plans formulate both short- and long-term financial, environmental and social goals. The business plan is thereafter monitored continually during the subsequent year.

A risk inventory and risk assessment are conducted every year in conjunction with business planning. The material risks identified are managed in the business plans for the units. The work on risk management is described in more detail on pages 94–97. A framework of guidelines, policies and instructions established by the Board of Directors and the CEO govern the organisation and its employees for the purpose of ensuring long-term value creation. The framework is to be followed by all employees, and monitoring occurs annually.

As support for the CEO, a special steering group has been established in order to develop the work on corporate governance, internal control and risk. In addition to the CEO, the group consists of the General Counsel, the CFO and the SVP for Group Control. The work is conducted in close collaboration with the Audit Committee, which is responsible for risk work, and internal control is continually tested and evaluated. Since existing structures for evaluation and monitoring have so far been deemed sufficient to provide a basis for evaluation by the Board, no special unit for internal auditing has been established. The decision is, however, taken up annually for re-examination.

Internal control of financial reporting

This report was prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code, and is limited to describing how internal control regarding financial reporting is organised. Vasakronan's goals for internal control regarding financial reporting are to make it relevant and efficient, that is results in reliable reports, and that it ensures that relevant laws and regulations are observed. The report contains no statements on how well internal control functioned during the past financial year, and it has not been audited by the company's auditors.

Control environment

The basis for internal control in Vasakronan consists of a control environment with a clear organisation, clear decision-making paths and a clear allocation of responsibilities. Vasakronan's Board of Directors has overall responsibility for internal control of financial reporting. The Board annually ratifies a number of steering documents such as the Rules of Procedure for the Board of Directors, instructions for the CEO, and financial policy in order to establish and clarify the allocation of responsibilities and authorisations in the organisation. The Board has also appointed an Audit Committee with particular responsibility for preparing quality assurance by the Board of the financial reporting as well as monitoring the work of company management on internal control. The control environment also encompasses the culture and values that both the Board and company management communicate and work from as conveyed by such documents as Vasakronan's Code of Conduct, which is ratified yearly by the Board of Directors. A whistleblower function has been established to which the company's employees or other stakeholders can turn with suspicions of improper conduct or crime. A Compliance Officer (Vasakronan's General Counsel) is tasked with managing issues of improper conduct and deficient compliance with regulations in the company. Reporting to the Board of Directors takes place annually.

Based on the steering documents that concern accounting and financial reporting, the CEO is responsible for formulating internal processes and for establishing policies and instructions.

The CFO is responsible for guidelines for financial reporting and ensuring that they are prepared in accordance with applicable accounting standards, and the legal and listing requirements in force.

Risk assessment

As part of business and operations planning, Vasakronan annually conducts an overall risk evaluation. Risks in all the company's key processes are then evaluated based on likelihood and impact. For more detailed information on the company's risk evaluation process, refer to page 94. In addition, risks are continually assessed based on the company's income statement and balance sheet, where every item is evaluated based on its existence, appraisal and completeness.

Risks linked to tax, legal issues or other non-current transactions are evaluated regularly for preventive purposes. These risks are described separately on pages 95–97 in the Annual Report. Risks are built on management's best assessment of impact and likelihood. The risks in the financial reporting are routinely discussed with the company's auditors.

Control activities

Control activities are formulated based on the risk assessments. At Vasakronan, there are controls built into all key processes through standardised system solutions, documented and well-established routines and a clear allocation of responsibilities in a centralised financial function. Control activities comprise a mix of preventive and monitoring functions that can be both manual and automatic.

The financial reporting process is constantly reviewed. The finance function has a clear responsibility for adapting the process as needed to ensure quality in the reporting and that laws and external requirements are observed.

Information and communication

Employees' understanding of Vasakronan's risk situations is an important part of the work of internal control. Awareness of the risks in the financial reporting is created through discussion and dialogue with employees being a natural element both in annual business and operations planning and in routine work.

This communication is facilitated by a centralised finance function, with which employees are in close contact on a daily basis. Guidelines and instruction of essential importance for financial reporting are routinely updated and communicated to the employees concerned. All the routine descriptions and tools needed are available on Vasakronan's intranet together with Group-wide policies and instructions.

Monitoring of internal control

The Board of Directors of Vasakronan has overall responsibility for monitoring internal control. The Audit Committee has particular responsibility for preparing quality assurance by the Board of the financial reporting. Monitoring of the financial reporting takes place continually through the controls and analyses performed by the Board of Directors, the Audit Committee, management and the finance function. These controls and analyses also capture the need for measures or proposals for improvements. Monitoring also takes place through the audit performed by the company's external auditors. The observations from this audit are reported to the Board of Directors, the Audit Committee and company management as well as to the employees concerned.

The company's external auditors regularly report back on the results of their audit to the CFO and to the Audit Committee.

The Board of Directors and auditors



Ulrika Francke



Jan-Olof Backman

Ulrika Francke

Chairman, since 2018.

Born: 1956

Education: University studies

Other assignments: Chairman of Knightec, Deputy Chairman of Swedbank. Board member of Hexagon, SIS (Swedish Standards Institute) and avd III IVA.

Previous experience: President and CEO of Tyréns AB, CEO SBC (Sveriges Bostadsrättscentrum AB), Director of Administration and City Commissioner City of Stockholm, President and CEO of Fastighets AB Brommastaden

Independent: Independent in relation to the owners, the company and company management.

Kerstin Hessius

Board member since 2004.

Born: 1958

Education: Master of Business Administration and Economics

Other assignments: CEO, Third National Pension Fund. Board member of Hemsö, Trenum, Handelsbanken, SVEDAB and Öresund Konsortiet.

Previous experience: CEO of the Stockholm Stock Exchange, Deputy Governor of Swedish Central Bank, executive positions at Östgöta Enskilda Bank and Alfred Berg. Chairman of Finansmarknadsrådet.

Independent: Owner representative.



Ann-Sofi Danielsson



Niklas Ekvall

Jan-Olof Backman

Board member since 2011.

Born: 1961

Education: M.Sc. in civil engineering.

Other assignments: Own operations. Board assignments at Microsystemation, Logent, 24Storage and Tagehus.

Previous experience: Executive positions in Coor Service Management, McKinsey & Company and Byggnads AB O. Tjärnberg.

Independent: Independent in relation to the owners, the company and company management.

Christel Kinning

Board member since 2014.

Born: 1962

Education: Finance and marketing

Other assignments: Own operations. Board member of Stadium, Reima, Zound-industries, Venue Retail Group and Björn Borg.

Previous experience: CEO of Polarn O. Pyret, CEO of RNB Retail and Brands and executive positions at Kellermann Scandinavia.

Independent: Independent in relation to the owners, the company and company management.



Eva Halvarsson



Kerstin Hessius

Ann-Sofi Danielsson

Board member since 2017.

Born: 1959

Education: Master of Business Administration and Economics

Other assignments: CFO and Head of IR at Bonava. Board member of Pandox AB.

Previous experience: CFO and other executive positions at the NCC Group.

Independent: Independent in relation to the owners, the company and company management.

Rolf Lydahl

Board member since 2007, Chairman of the Audit Committee since 2011.

Born: 1945

Education: Master of Business Administration and Economics

Other assignments: Own operations. Board assignments at various smaller entrepreneurial driven companies.

Previous experience: CEO at finance company Probo, Vice President of Nordstjärnan, executive positions at Retrieva and representative of Credit Suisse.

Independent: Independent in relation to the owners, the company and company management.



Christel Kinning



Rolf Lydahl

Niklas Ekvall

Board member since 2016.

Born: 1963

Education: Ph.D. Financial Economics and M.Sc Industrial Engineering

Other assignments: CEO, Fourth National Pension Fund. Board member of the Hans Dalborg Stiftelse för Bank- och Finansforskning and the KVA Investment Committee.

Previous experience: CEO of Nordea Investment Management; Vice President, Third National Pension Fund; executive positions in Nordea, Carnegie and Handelsbanken.

Independent: Owner representative.

Johan Magnusson

Board member and member of the Remuneration Committee since 2008.

Born: 1959

Education: Graduate in Economics

Other assignments: CEO of the First Swedish National Pension Fund.

Board member of Willhem

Previous experience: Executive positions at SEB Wealth Management, SEB Private Banking and ABB Investment Management.

Independent: Owner representative.



Johan Magnusson

Eva Halvarsson

Board member since 2006 and member of the Audit Committee since 2008.

Born: 1962

Education: Master of Business Administration and Economics

Other assignments: CEO, Second National Pension Fund. Board member of UN-PRI, the Swedish Royal Opera, IWF, Finans-KompetensCentrum and WIN WIN Award.

Previous experience: Tax auditor and head of State ownership administration.

Independent: Owner representative.

AUDITORS

Öhrlings PricewaterhouseCoopers AB

Helena Ehrenborg

Auditor in charge

Born: 1965

Other important assignments: Auditor at Pandox, Jernhusen, HSB and Akademiska Hus.

Daniel Algotsson

Authorised Public Accountant

Born: 1982

Other important assignments: Auditor at Avida Finans, FCG Fonder, Catella and Proventus.

Mats Wåppling

Stepped down from the Board at the 2018 AGM

Senior executives

Fredrik Wirdenius

CEO
Born: 1961
Employed: 2008
Joined Management Team: 2008
Education: Civil Engineer
Previous experience: Skanska
Other assignments: Board assignments at Scandic Hotels.

Ronald Bäckrud

SVP, Stockholm Region
Born: 1958
Employed: 1995
Joined Management Team: 2008
Education: Civil Engineer
Previous experience: J&W, Vattenbyggnadsbyrån, Skandia and Arne Johnson Förvaltning.
Other assignments: Board member of Byggherrarna.

Sheila Florell

SVP, General Counsel
Born: 1965
Employed: 2005
Joined Management Team: 2006
Education: B. Law and estate agent exam.
Previous experience: If Skadeförsäkring and Association of Swedish Real Estate Agents.
Other assignments: Board assignments at SSM Holding.

Jan-Erik Hellman

SVP, Uppsala Region
Born: 1975
Employed: 2010
Joined Management Team: 2017
Education: Civil Engineer
Other assignments: Board assignments at Citysamverkan AB
Previous experience: JLL, ICA Fastigheter.

Christer Nerlich

SVP, CFO
Born: 1961
Employed: 1995
Joined Management Team: 1998
Education: Master of Business Administration and Economics
Previous experience: Newsec and FastighetsRenting.
Other assignments: Board assignments at Akademiska Hus.

Anna Nyberg

SVP, Property development Stockholm
Born: 1973
Employed: 2007
Joined Management Team: 2015
Education: Civil Engineer
Previous experience: Hufvudstaden, Ericsson, Dalkia and Stadshypotek.

Kristina Pettersson Post

SVP, Gothenburg Region
Born: 1964
Employed: 1993
Joined Management Team: 2011
Education: Civil Engineer
Previous experience: Byggnadsstyrelsen.
Other assignments: Board member of Nordstans Samfällighet, Trophi Fastighets AB, CMB Chalmers and the non-profit organisation Göteborg citysamverkan.

Johanna Skogestig

SVP, CIO
Born: 1974
Employed: 2015
Joined Management Team: 2015
Education: Civil Engineer
Previous experience: AP Fastigheter, Sveafastigheter and Areim
Other assignments: Board member of Fastighets AB Regio and Cibus.

Anna Stenkil

SVP, Öresund Region
Born: 1968
Employed: 2011
Joined Management Team: 2016
Education: Graduate in Economics
Previous experience: Proffice, Newsec, Wihlborgs.
Other assignments: Board member of Fastigheter and Ideon Open.

Cecilia Söderström

SVP, Human Resources
Born: 1962
Employed: 2008
Joined Management Team: 2008
Education: B. Sc. Sociology
Previous experience: Svenska Spel and Ericsson.
Other assignments: Board member of Almega Fastighetsarbetsgivarna.

Per Thiberg

SVP, Business Development
Born: 1959
Employed: 2002
Joined Management Team: 2010
Education: Civil Engineer
Previous experience: JM and Newsec.

Nicklas Walldan

SVP, Technical Operations & Development
Born: 1971
Employed: 2001
Joined Management Team: 2008
Education: Civil Engineer
Previous experience: Tyréns.
Other assignments: Board member of Svensk Byggtjänst and Samhällsbyggnadslänken at KTH Royal University of Technology.

Peter Östman

SVP, Corporate Communications
Born: 1961
Employed: 1998
Joined Management Team: 1998
Education: Master of Business Administration and Economics
Previous experience: Storstaden.



Fredrik Wirdenius



Ronald Bäckrud



Sheila Florell



Jan-Erik Hellman



Christer Nerlich



Anna Nyberg



Kristina Pettersson Post



Johanna Skogestig



Anna Stenkil



Cecilia Söderström



Per Thiberg



Nicklas Walldan



Peter Östman

Signing by the Board of Directors

The Board and CEO affirm that the annual accounts have been prepared in accordance with the Annual Accounts Act and RFR2, and provide a fair and accurate overview of the Parent Company's financial position and results. The consolidated accounts have been prepared in accordance with the International Financial Reporting standards (IFRS) as adopted by the EU and provide a fair and accurate overview of the Group's financial position and results. The Administration Report for the Group and Parent Company provides a fair and accurate overview of the Group and Parent Company's operations, position and results, and describes material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Stockholm, 25 March 2019

Ulrika Francke
Chairman of the Board

Jan-Olof Backman
Board Member

Ann-Sofi Danielsson
Board Member

Niklas Ekvall
Board Member

Eva Halvarsson
Board Member

Kerstin Hessius
Board Member

Christel Kinning
Board Member

Rolf Lydahl
Board Member

Johan Magnusson
Board Member

Fredrik Wirdenius
Chief Executive Officer

Our Auditors' Report was submitted on 25 March 2019
Öhrlings PricewaterhouseCoopers AB

Helena Ehrenborg
Authorised Public Accountant
Lead partner

Daniel Algotsson
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Vasakronan AB (publ), corporate identity number 556061-4603

Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts of Vasakronan AB (publ) for the year 2018 except for the corporate governance statement on pages 98–105. The annual accounts and consolidated accounts of the company are included on pages 60–97 and 106 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 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 their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 98–105. 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 Responsibilities section. We are independent of the parent company and the

group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of my (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.

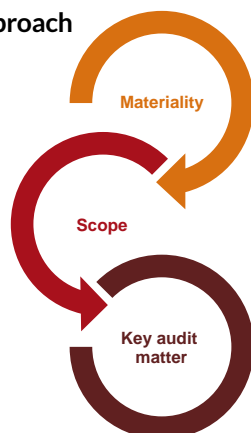
Audit scope

Vasakronan is the leading property company in Sweden with investment properties valued at SEK 139 billion. The company's strategy is to manage and develop commercial investment properties in Stockholm, Gothenburg, Malmö and Lund.

Our audit has a group approach which includes audits of all the significant investment properties within the group. This group approach means that the significant business processes for the financial reporting in the group, such as rental income, purchasing, payroll and valuation process is audited centrally from a group perspective even though the investment properties legally is in several legal entities. As 96% of the group assets consist of investment properties that are valued at fair value, the audit's main focus is to evaluate if the Annual report reflects the investment properties' book value according to the company's valuation principles and that these principles are according to IFRS.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of fair value of investment properties that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was

Our audit approach



Materiality

Overall group materiality: SEK 720 million, representing 0.5% of the group's total assets.

Scope

Our audit has a group approach. In this approach, we focus on the central business processes and on the audit of the valuation of investment properties from a group perspective. The overall purpose of the audit is to evaluate that Vasakronan's financial statements have been prepared and presented according to IFRS.

Key Audit Matter

Valuation of investment properties.

evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of Vasakronan, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality

SEK 720 million

How we determined this level

A threshold representing 0.5% of the Group's total assets.

Rational for the materiality benchmark applied

We chose total assets as the benchmark due to the fact that, in our view, this is the benchmark against which the performance of a group, over time, is most commonly measured. We have chosen 0.5% of total assets and this is a generally accepted benchmark and is in our view an acceptable overall materiality level.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 50 MSEK as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matter

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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p>Valuation of investment properties</p> <p>We refer to the Administration Report and the description of the Vasakronan group's summary of important accounting and valuation principles in Note 2, as well as referring to Note 4.2, Changes in the values of investment properties.</p> <p>As at 31 December 2018, The value of the investment properties totaled SEK 139 billion. Investment properties comprise a significant portion of the balance sheet and the valuation of these properties is inherently subjective and is the object of company management's judgements as regards, for example, the location of the specific property, its condition and future rental income. Valuation objects incurring a major degree of uncertainty in terms of their market value assessment are comprised of ongoing development projects properties.</p> <p>The valuation of all of the investment properties is executed at the end of each year and every six months by external valuers, Cushman & Wakefield and Forum Fastighets-ekonomi. At the end of the other quarters, the properties are valued internally. The valuations are executed on the basis of The Royal Institute of Chartered Surveyors' ("RICS") valuation standards and processes which are based on an adopted, established valuation policy. In addition, Vasakronan has an internal process for the quality assurance of the external valuations as at year-end and after the first six months of the financial year. These internal quality assurance processes include an analysis and control of the data taken from the company's systems and registered in the valuation models as regards, for example, rental levels, surface area, vacancy levels and also includes an overall analysis of the value development of each property. These valuations are assessed both centrally and in consultation with the respective property managers.</p> <p>In determining the fair value of the properties, the valuers consider current information regarding the specific property, such as the rental agreements in place, rental income and operating costs. In order to achieve a final valuation, the valuers apply assumptions and undertake judgements on future yields, net operating expenses and estimated market rents, and these assumptions and judgments are impacted by the direct yield requirements in place and by comparable market transactions.</p> <p>The significance of the estimations and judgments applied in establishing the fair value of the investment properties, together with the fact that the amounts are significant, implies that the valuation of the investment properties comprises a Key Audit Matter in the audit.</p>	<p>Amongst other things, our audit has focused on the company's internal control and quality assurance as regards the externally executed valuations as at 31 December 2018. The audit team, including our valuation specialists, have obtained copies of and examined a selection of the valuation reports and have ensured that the valuations comply with Vasakronan's guidelines for valuations and with the correct valuation methods.</p> <p>The external valuers' work are based on the same calculation model as applied by Vasakronan, which implies that the company's quality assurance of the external valuations is facilitated. We have assessed the external valuers' competence and experience and have also studied the groups' valuation agreements with the external valuers to determine if there are any circumstances in the agreements which could impact the valuers' objectivity or if there are any limitations to their work.</p> <p>In addition, we have tested, on a sample basis, company management's input data registered in the valuation models and taken from the company's systems. This was done to ensure that the information for the investment property valuations applied in the external valuations is correct and fair.</p> <p>We have had meetings with the individuals responsible for the valuations in which important assumptions and judgments have been discussed. Our work has focused on the largest investment properties in the portfolio, development project properties and on the properties incurring the largest variations in value compared with previous quarters. We have assessed the applied yield requirements used by the external valuers by comparing the estimated intervals of the expected yield requirements and thresholds with the available market data for the current markets. We have also assessed the reasonableness of other assumptions which are not directly comparable based on available public data. In the case the assumptions and parameters have been outside our initial expectation, these deviations have been discussed with representatives of the company and additional audit evidence has been obtained as support for the applied assumptions.</p> <p>The valuations are based on assessments and incur, inherently, a degree of uncertainty. Based on our audit, it is our assessment that the assumptions applied by Vasakronan are within a reasonable interval. Based on our audit, we have not identified any significant observations to report to the Audit Committee.</p>

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–59, 111–126, 128–132, 134–141. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditor's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Vasakronan AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether

the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 98-105 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is 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 statement 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.

Öhrlings PricewaterhouseCoopers AB was elected auditor of Vasakronan AB by the general meeting of the shareholders on the 3 May 2018 and has been the company's auditor since the 28 April 2016.

Stockholm 25 March 2019

Öhrlings PricewaterhouseCoopers AB

Helena Ehrenborg

Authorized Public Accountant
Lead Partner

Daniel Algotsson

Authorized Public Accountant



In December, the property Sirius in Nyhamnen, Malmö was reopened following extensive renovation. Windows have been replaced, floors sanded and the interior spruced up. The glazed atrium offers excellent opportunities for tenants to meet.

About Vasakronan's sustainability report 2018

Vasakronan's sustainability report follows the Global Reporting Initiative (GRI) guidelines and is prepared in accordance with the GRI Standards: Core option. In addition to GRI Standards, Vasakronan has chosen to recognise the sector-specific indicators that were previously recognised in accordance with GRI G4.

Vasakronan aims to run its entire business in a sustainable way. Consequently, reporting of our sustainability agenda has been integrated into the company's annual report. The GRI index contains references to where the information can be found in the annual report. In individual cases, all of the information the GRI framework requires could not be reported. These exceptions are presented in the GRI index on pages 114–115.

Information on boundaries, responsibility, monitoring and governance for each material sustainability topic can be found in the sustainability notes on pages 116–126. The information is described in accordance with Standard 103, and all standards used were published in 2016.

The sustainability report has been prepared pursuant to the provisions in the Swedish Annual Accounts Act Chapter 6 Section 11. Part of the information submitted pursuant to these provisions is described in other sections of the annual report. A description of the company's business model can be found on pages 8–9, and further information on Vasakronan's risk management can be found on pages 94–97.

The sustainability report is produced once per year, and 2018 was its tenth year of publication. The report is reviewed in summary by Öhrlings PricewaterhouseCoopers AB, and their limited assurance report can be found on page 127. The sustainability report covers the Parent Company and all wholly owned subsidiaries. Joint venture companies co-owned by Vasakronan are not covered, and are not considered to constitute a significant part of operations. Nor does the sustainability report cover operations controlled by individual tenants or suppliers.

Planning, governance and monitoring of sustainability efforts follow the organisational structure, with a clear delegation of responsibilities and authorisations via a management system consisting of policies, guidelines, general measurable targets and detailed action plans. There are also a number of external laws, guidelines and regulations including the UN's Sustainable Development Goals (SDGs). The SDGs that Vasakronan's operations contribute to are detailed on pages 116–126.

Stakeholder dialogue and prioritised areas

Surveying and analysing the expectations of our stakeholders for Vasakronan's operations is a prerequisite for attaining our goals and creating sustainable value. That is why we are in continual dialogue with our most important stakeholders. The forms for the continual dialogue are illustrated in the image on page 113.

In addition to the continuing dialogue with our stakeholders, a workshop was conducted as recently as 2017, in which some 30 representatives distributed among the various stakeholder categories took part. The aim was to identify which sustainability topics stakeholders expect Vasakronan to report on.

Based on the stakeholders' expectation inventory and on competitive intelligence, an internal prioritisation of which sustainability topics were considered material was performed. When setting priorities, Vasakronan took into account the actual impact on people, the environment, economy and society, and consideration was also given to Vasakronan's vision and business strategy. Prioritised sustainability topics were then validated by Vasakronan's Management Team. The sustainability topics deemed material are as follows: economic performance, anti-corruption, materials, energy, climate impact through emissions, waste, water, safe work environments at suppliers, occupational health and safety, diversity, tenants' safety and security, public transport and local services, and customer satisfaction.

In 2018, the materiality analysis was evaluated to assess whether it was still relevant. It showed that all of the sustainability topics previously identified continued to be material. At the same time, the evaluation showed that certain issues had increased in significance compared with previous years, of which climate impact was one.

TCFD

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) presented its recommendations for climate-related disclosures. The recommendations are aimed at companies and investors and include supplements for certain types of sectors.

Reporting in accordance with TCFD should encompass a description of the company's governance and strategy for climate change, but it is primarily aimed at providing investors with information about the risks and possibilities that will impact the company in conjunction with a transition to a society with lower carbon emissions and a changing climate.

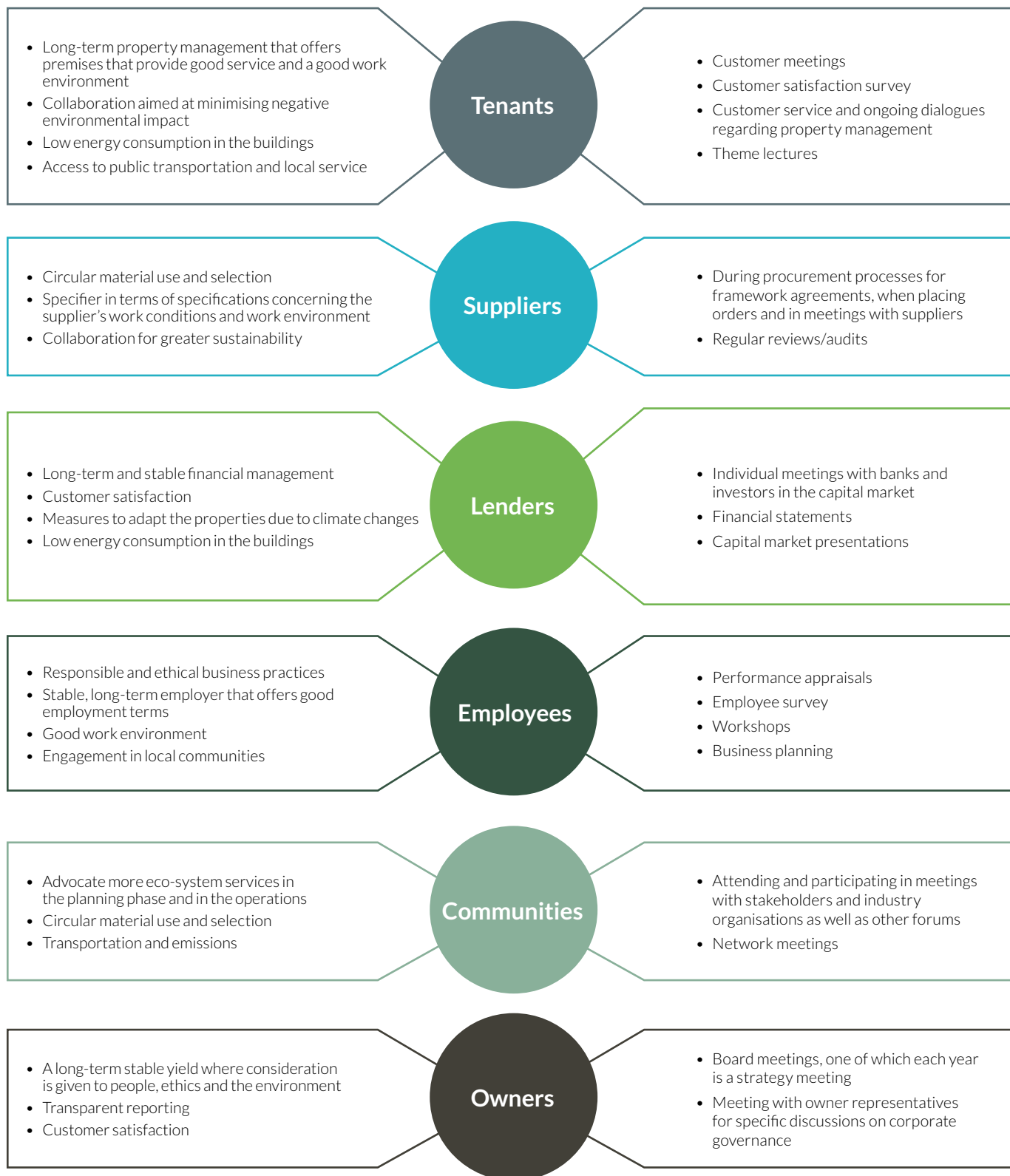
During the year, Vasakronan started to implement the TCFD's recommendations. Much of this information was already included in the annual report. Pages 117–121 detail how we work with and measure our climate impact in the areas of energy, material, waste and emissions. In recent years, we have focused strongly on direct climate emissions and, since 2009, we have more than halved energy consumption among other achievements. The results of our annual climate accounting show that our focus in the future should primarily be on reducing indirect emissions, an area where construction activities are one of the largest emission sources.

As regards adapting the property portfolio based on climate changes, we have worked since 2012 on identifying actions that need to be taken in existing buildings, new construction projects and portfolio composition to be able to manage warmer, windier and more humid weather and increased risk of flooding. For example, we have reviewed our building design requirements to ensure that buildings are adapted to the climate conditions that will prevail later in the building's lifecycle.

During the year, more risks related to the environment and climate change were added to the company's risk analysis. For more information on Vasakronan's climate-related risks, refer to page 97.

STAKEHOLDER EXPECTATIONS

DIALOUGE OPPORTUNITIES



SUSTAINABILITY

GRI Standard	Disclosure	Page	Comments
102-1	Name of the organisation.	Front cover of the Annual Report	
102-2	Primary brands, products, and services.	Page 1	
102-3	Location of the organisation's headquarters.	Page 75	
102-4	Number of countries where the organisation operates.		Vasakronan only conducts operations in Sweden.
102-5	Nature of ownership and legal form.	Inside front cover; page 75	
102-6	Markets served by the organisation.	Inside front cover	
102-7	Scale of the organisation.	Pages 28–32, 37, 78	
102-8	Total number of employees by employment contract (permanent and temporary), and by gender.	Pages 122–123	
102-9	A description of the organisation's supply chain.	Page 122	
102-10	Significant changes to the organisation's size, structure, ownership, or supply chain.		No significant changes during the year.
102-11	Whether and how the organisation applies the Precautionary Principle or approach.		The precautionary principle forms the basis of how environmental work is designed.
102-12	A list of external guidelines endorsed by the organisation.	Page 98	
102-13	Membership of associations.	Page 20	
102-14	Statement from senior decision-maker.	Pages 4–7	
102-16	A description of the organisation's values, principles, standards, and norms of behaviour.	Pages 8, 19	
102-18	Report on the governance structure of the organisation.	Pages 98–103	
102-40	List of stakeholder groups.	Page 113	
102-41	Percentage of total employees covered by collective bargaining agreements.	Page 122	
102-42	Identifying and selecting stakeholders.	Pages 112–113	
102-43	Approach to stakeholder engagement.	Page 113	
102-44	Key topics and concerns that have been raised through stakeholder engagement.	Page 113	
102-45	Organisation structure, entities, business areas, subsidiaries and joint ventures.	Pages 90–92, 101	
102-46	The process for defining the materiality analysis.	Page 112	
102-47	List of material topics.	Page 112	
102-48	The effect of any restatements of information given in previous reports, and the reasons for such restatements.		No corrections have been made to previous reports.
102-49	Significant changes from previous reporting periods in the list of material topics and topic Boundaries.		No significant changes.
102-50	Reporting period.	Cover	
102-51	Date of most recent report.		The report for 2017 was published in March 2018.
102-52	Reporting cycle.		Published annually in connection with the release of the Annual Report.
102-53	The contact point for questions regarding the report or its contents.		Anna Denell, Head of Sustainability
102-54	The reporting level pursuant to the GRI Standards.	Page 112	
102-55	A table, which specifies each of the GRI Standards used and lists all disclosures included in the report.	Page 114	
102-56	A description of the organisation's policy and current practice with regard to seeking external assurance for the report.	Page 112	
103-1	Explanation of the material topic and its Boundary.	Pages 116–126	
103-2	The management approach and its contents.	Pages 116–126	
103-3	Evaluation of the management approach.	Pages 116–126	

Material topic	Disclosure	Page	UN SDGs	Comments
Economic topics				
Economic performance	201-1, Direct economic value generated and distributed.	Page 116	17	
Fiscal management ¹⁾	-	Page 116	17	
Anti-corruption	205-3 Number of confirmed incidents of corruption and actions taken.	Page 116	16	
Environment				
Materials	301-1 Materials used by weight.	Pages 24, 117, 134	3, 8, 12	Information on the amount of material in renovation projects is not available, and are therefore estimated. Work is in progress on being able to gather and report this information over the long term.
Energy	302-1 Energy consumption within the organisation. CRE1, Building energy intensity.	Pages 16-18, 117, 134	7	
Water	303-1 Water withdrawal by source. CRE2, Building water intensity.	Page 118	6	
Emissions	305-1 Direct (Scope 1) GHG emissions. 305-2 Energy indirect (Scope 2) GHG emissions. 305-3 Other indirect (Scope 3) GHG emissions. CRE3, Greenhouse gas emissions intensity from buildings.	Pages 18, 20, 118-119, 134	11, 12, 13	
Effluents and waste	306-2 Waste by type and disposal method.	Pages 18, 22, 24, 120, 134	11, 12	The amount is based partly on estimations owing to absence of data. Work is under way to be able to eventually gather this information.
Product labeling, environment ¹⁾	CRE8, Number of sustainability certified buildings.	Pages 18, 121, 134		
Supplier environmental assessment	308-1 New suppliers that were screened using environmental criteria.	Pages 20, 122, 134	5, 8, 10	
Social				
Occupational health and safety	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	Pages 20, 24, 125	3, 8	Reporting covers sick leave and accidents concerning Vasakronan's employees. There is also an ambition to report accidents at our construction work sites in the future.
Diversity and equal opportunity	405-1 Composition of the Board of Directors, Management Team and other employees according to age and gender.	Pages 78-79, 104-105, 123	5, 8, 10	
Supplier social assessment	414-1 Percentage of new suppliers that were screened using social criteria and human rights.	Pages 19, 124, 134	3, 5, 8	
Customer health and safety	416-A Measures taken to maintain a high level of safety and security in and around properties.	Pages 19, 24, 126	5, 10, 11, 16	
Public transportation and local services	Measures taken to create opportunities for public transportation to and from our properties and proximity to local services.	Pages 24, 126	9, 11	
Customer satisfaction	Results of customer surveys.	Pages 19, 126		

1) Areas that have not been prioritised in the materiality analysis but are still deemed important to report based on stakeholder expectations.

Financial responsibility



201-1 Direct economic value generated and distributed

Taking financial responsibility for our operations and having stable, sound finances are fundamental to be able to deliver on the assignment of long-term, stable returns to our owners. This is also important to be able to act with a long-term horizon and meet the financial expectations of our other stakeholders.

Boundaries

The reporting only covers the economic value created at Vasakronan. The value is impacted partly by factors that Vasakronan controls but also by external factors such as the state of the market and interest rates, as well as our owners' decisions about the distribution of the dividend.

Responsibility and monitoring

Vasakronan's CEO and Management Team have overall responsibility for steering operations toward the financial targets. The outcome is monitored on a quarterly basis in connection with interim reports and through internal steering parameters established for the operations.

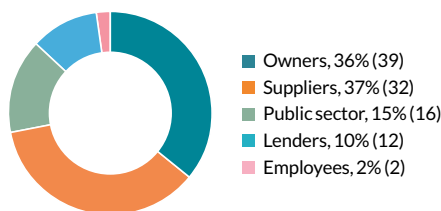
Governance and objectives

The overall financial objective is a return that, in relation to risk, is greater than the return our owners could obtain from other comparable investment alternatives. The overall financial objective is a total yield of at least 6.5% per year. In addition, the total yield must be at least 0.5 percentage points higher than the outcome for the rest of the industry, measured as the average according to the MSCI Swedish Property Index (excluding Vasakronan). The average outcome is evaluated over rolling ten-year periods, together with monitoring and analysis of the outcome for each individual year. In addition, a number of key financial indicators are set for the coming year. These are monitored on a quarterly basis in connection with internal review and in the quarterly reports to the Board of Directors. For more information, refer to page 134.

Outcomes

Detailed information on Vasakronan's financial position can be found in the company's financial reports on pages 62–73. The economic value created totalled SEK 20.7 billion (17.5) in 2018 and comprises rental revenue, investments and changes in the values of properties. The remaining value totalled SEK 9.6 billion (7.1). The value distributed to the owners pertains to the dividend presented to the owners, which is also to be regarded as a value to the public. The "Public sector" item includes property tax, ground rent and VAT. In 2018, property tax was an expense of SEK 527 million (expense: 544), of which SEK 491 million (497) was invoiced to tenants.

Economic value distributed



Taxes

Tax is a statutory expense in our operations that affects the return, and at the same time it is also a responsibility issue that can impact the company's reputation and standing. Tax is defined as income tax, VAT, property tax, stamp duty, advertising tax and withholding tax. The Board of Directors has overall responsibility for managing taxes. The Board of Directors has established a tax policy to ensure tax issues are managed in alignment with fulfilling the requirement of achieving a high return, and of the company meeting the requirements set for being a responsible social actor. For more information on the company's tax policy, visit www.vasakronan.se.

Vasakronan's operations are conducted only in Sweden. Country-by-country reporting of taxes paid is therefore not applicable. Vasakronan is not currently the subject of any tax cases. More information about recorded taxes can be found on pages 81–82.

Donations and sponsorship

During the year, voluntary contributions and investments in the community in the form of gifts and donations were presented to various organisations. The two largest contributions in 2018 totalled SEK 350,000 (750,000).

205-3 Number of confirmed incidents of corruption and actions taken



Corruption in the Swedish property and construction industries, in which a large amount of products and services is sold every year, is regarded as being widespread and extensive. We must therefore have a process that eliminates the risk of corruption in all situations.

Boundaries

The anti-corruption work pertains firstly to our efforts to prevent corruption within the company, but we also set requirements on our suppliers having a systematic process to counteract corruption in their operations.

Responsibility and monitoring

The efforts toward counteracting corruption and bribery are being led by the company's General Counsel in the capacity of Compliance Officer. Violations are not acceptable and may result in disciplinary measures, termination or legal proceedings. There is also a whistle-blower function to make it easier for employees and those outside the company to report suspicions of corruption or other impropriety.

Governance and objectives

Internally, operating activities are governed by policies and guidelines for purchasing, communication, equal treatment and the environment, among other factors. Our policies, routines and training work together with our Code of Conduct to counteract all forms of corruption and improprieties. All of Vasakronan's employees and suppliers are expected to comply with the internal regulations as well as with the laws in force. All employee-related policies are available on the intranet, and the organisation is monitored continually to ensure compliance.

The goal is zero tolerance for all forms of corruption.

Outcomes

No suspicions of corruption were reported in 2018.

Environmental responsibility

301-1 Materials used by weight



Large amounts of materials are used in new construction, redevelopment and leasehold improvements of properties. The materials used in our projects give rise to major environmental impact when they are extracted and produced, and in addition they generate considerable transportation needs. That is why it is important to reduce the amount of material used and to use renewable raw materials, and recycled or reused material to much greater extents. In addition, we need to ensure that the materials used do not contain hazardous substances that are spread into indoor environments or into ecosystems outside our buildings. That is why all the construction material used in our buildings is always evaluated and documented. The Byggarubedömningen system is applied in this work.

Boundaries

The reporting covers the material used in new construction and renovation projects, as well as improvement work on the premises. The impact lies primarily with our suppliers, since they are the ones purchasing and using the materials when they perform services for us. The materials Vasakronan purchases and uses internally — office and consumables, as well as construction material for operational and maintenance work, for example — have been deemed to be without significance.

Responsibility and monitoring

The Regional SVPs are responsible for the materials used in project development. This responsibility covers how much, and what type, of material is used and for using the Byggarubedömningen system in all projects.

The amount of materials used is monitored during each project and is reported when the project is completed. Used material per square metre, the proportion of renewable and non-renewable raw materials, and the proportion of recycled material are then all compiled. The proportion of reused material is also monitored. This monitoring is performed on a quarterly basis in each region.

Governance and objectives

The environmental impact of the project is governed by the environmental certification scheme, and the "Miljöprogram för projekt" (Environmental Programme for Projects) an internal policy document, which is followed by all project designers and contractors. The programme states that we must save materials, only use materials that are possible to reuse or recycle, and to build proactively and as flexibly as possible to reduce the need for future redevelopment. Environmental certification of the project also steers towards reduced used of materials and a larger proportion of reused and recycled material. The Environmental Programme also prescribes using the Byggarubedömningen system for selecting and documenting construction materials. That is checked both through internal audits and supplier audits. The requirement for using the Byggarubedömningen system is also found in the majority of lease agreements, which is important since tenants sometimes renovate under their own management.

Prior to 2018, a goal was set for all new construction and renovation projects to report their use of materials. At year end, it was noted that all projects that had begun construction during the year had started reporting material use. For more information, refer to page 134.

Outcomes

No new construction project was completed during the year, and accordingly, material used in new construction totalled zero tons (17,819), equivalent to zero kg/sq. m. (1,018). 2017 was the first year that the use of material in new construction projects was based on actual measurement. The use of materials in that new build was based on actual measurements over the course of the entire project and reporting used a web-based tool that all contractors and subcontractors had access to. The use, for example, of concrete, rebar, steel and wood are based on the actual amounts reported. Of the material used, 2% consisted of renewable raw material and the remaining 98% of non-renewable raw material. Of the non-renewable material, 8% consisted of recyclable material. The aim is for material use over time to be reported in the same manner in both renovation and new construction projects, and ahead of 2018, a goal was set for the company for all major projects to report their material use.

A total of three renovation projects were completed during the year. Used material in renovations is reported as the cost of material purchased and shows that, in these three projects, Vasakronan purchased construction material for SEK 124 million (706), which corresponded to SEK 4,430/GFA (13,201) where the area is based on the gross area for the project. The difference between the years was mainly attributable to the scope of the renovations completed.

Material use in leasehold improvements is also based on an estimate, and during the year totalled SEK 299 million (387), corresponding to SEK 1,369/sq. m. (2,282). The year-on-year decline is the result of work conducted within the organisation

over the year to decrease costs for leasehold improvements, which also resulted in lower material costs.

The audits conducted during the year show that the Byggarubedömningen system was used in all major projects.

302-1 Energy consumption within the organisation CRE 1 Building energy intensity



The property sector accounts for almost 40% of society's energy consumption. Therefore, Vasakronan's efforts to decrease energy consumption and only use renewable energy is an important environmental issue. Low energy consumption is also a prerequisite for environmentally certifying buildings with high ratings, something that is in demand by many tenants and is a prerequisite for being able to issue green bonds.

Boundaries

As a property owner, Vasakronan can impact the energy consumption in properties, for example through the investments made in HVAC-systems and in the building envelope of the properties. Another part of the impact comes from tenants, and is determined by the type of operation they conduct and their preferences as regards indoor climate, for example.

The reporting covers energy consumption from the whole portfolio of properties, and fuel used in vehicles owned by Vasakronan. Only building-related energy consumption is reported (i.e. energy consumption related to heating, air conditioning and the building's electrical needs). Tenants' own electricity consumption is not included, but an estimate of that is taken into account when reporting our scope 3 emissions.

Responsibility and monitoring

The technical organisation is responsible for the energy consumption of the existing buildings and type of energy source. The regions are responsible for designing for low energy consumption in the development projects.

Energy consumption is monitored on a monthly basis at the property, regional, and company level by an energy monitoring system in which all the values measured are recorded and processed. Energy consumption for new construction and major renovation projects is monitored against calculated values in connection with a project being finalised and occupied.

Governance and objectives

The energy efforts are governed by the company's energy strategy and environmental policy. For new construction and major renovation projects, the goal is to come in at least 25% under the BBR requirements (National Board of Housing, Building and Planning's regulations for new construction). For major renovations not covered by the BBR requirements, the aim is to halve energy consumption compared with prior to the renovation.

Reducing energy consumption in existing buildings also requires close collaboration with our tenants. Since 2017, there is a clause in all rental agreements that entails, inter alia, collaboration with tenants around reduced energy consumption and mutual reporting of energy data. This also requires tenants to procure renewable energy if tenants have their own energy supply contracts.

Vasakronan only purchases electricity from renewable resources (hydro and wind power), and in all our agreements with suppliers of district heating and district cooling there are requirements for renewable and/or climate neutral energy.

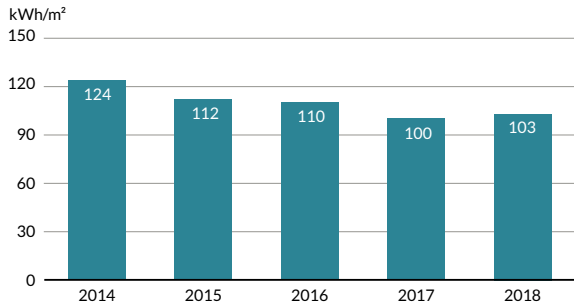
Ahead of 2018, a target was set to reduce energy intensity by 3%, which corresponds to an energy intensity of 99 kWh/sq. m. Moreover, a target was set to increase the number of solar photovoltaic systems to 60 by the end of the year. The outcome and comments on the target are available on page 118 and 134.

Outcomes

Energy consumption

GWh	2018	2017
Cooling	49.2	38.1
Property electricity	86.0	85.6
Heating	154.9	158.8
Vehicle fuel consumption	0.1	0.1
Total	290.2	282.6

Energy intensity

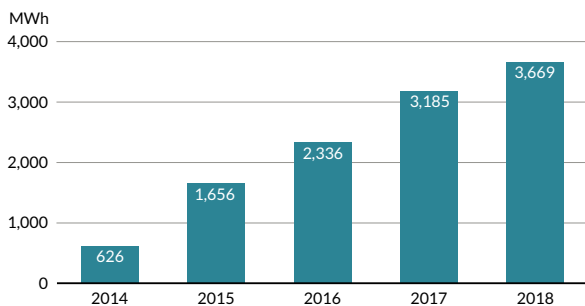


In 2018, energy intensity averaged 103 kWh/sq. m. (100). The increase compared with previous years is explained by the cold winter and hot summer.

The fuel used during the year consisted primarily of petrol and diesel, pertained to fuel in company-owned vehicles, and totalled 0.1 GWh (0.1). Fuel consumption is not included in energy intensity data, but in the climate calculations (Scope 1). Tenants' own energy consumption is not included in energy intensity, but is included in the climate impact reporting (Scope 3). For definitions of energy intensity and temperate area, refer to pages 140–141.

In 2018, an additional 6 solar photovoltaic systems (12) were put into operation in the property portfolio; in total, 2,944 MWh (2,060) of electrical energy was produced in our solar photovoltaic systems. A total of 55 solar photovoltaic systems (49) were in operation at year end and these are estimated to generate a total of 3,700 MWh (3,200) per year. The installations are located throughout the entire property portfolio; Stockholm has the most with 24 installations followed by Uppsala with 16, Öresund with 9 and Gothenburg with 6.

Energy from solar photovoltaic systems



303-1 Water withdrawal by source CRE 2 Building water intensity



Water consumption is an important issue from a global perspective. Over the last few years, even in Sweden, access to drinking water has been restricted in certain parts, including Uppsala where Vasakronan owns properties. Vasakronan uses water from municipal systems, and even though a shortage has only arisen in one of the locations where we operate, we are working continually on monitoring and on cost-efficient measures to reduce consumption. Low water use is a prerequisite for environmentally certifying buildings with high ratings.

Boundaries

As a property owner, we have a great opportunity to impact the amount of water used in our buildings, since we are the ones who decide and make investments in

technical systems. This impact consists primarily of our tenants, the type of operations they conduct and how they choose to act.

The reporting covers water use in all properties. It does not cover any water use where tenants have their own water supply contracts.

Responsibility and monitoring

The technical organisation has primary responsibility for the water use of the existing properties. The regions are responsible for designing all new construction and redevelopment so that their water use is low. Water efficient equipment is selected during planning – low flush lavatories and low flow fixtures, for example. Any landscaping adjacent to the buildings is planned to reduce the need for irrigation. Water use is monitored on a monthly basis at the property, regional, and company level via an operations monitoring system in which all the values measured are recorded and processed.

Governance and objectives

Water use is governed by the company's environmental policy, and is included as a requirement in environmental certification of buildings.

Outcomes

The total amount of water consumed during 2018 amounted to 1,162,908 cubic metres (1,211,187), equivalent to a water intensity of 0.5 m³/sq. m. per year (0.5).

305-1 – 305-3 and CRE 3

Direct and indirect emissions



Buildings use large amounts of energy in the operations phase, which may result in emissions of greenhouse gases. In addition, our operations generate emissions from own vehicles, business travel and commuting. Operations also generate large amounts of indirect emissions in the form of use of building materials, waste and construction-related transportation.

Boundaries

Climate impact within our own organisation (Scope 1) is marginal, since we do not have our own central heating boilers in the buildings and since the majority of vehicles we own are electric cars. What we can largely impact is energy consumption in the properties as well as with what type of energy we choose to supply our buildings. Owing to low average energy consumption and agreements on renewable and/or climate-neutral energy, the indirect emissions from energy consumption (Scope 2) have already been decreased drastically. We have therefore chosen to focus our work on emissions that occur outside our own organisation, indirect emissions (scope 3). We are primarily trying to reduce are emissions from tenants' own electricity contracts and waste. We also strive to reduce emissions from our construction activities, where building materials, waste and transportation to and from construction sites are the greatest contributors.

Our greenhouse gas reporting covers the aspects identified as material based on scope of the emissions and our ability to influence.

Responsibility and monitoring

The responsibility for the materials used (301-1), energy consumption (302-1) and waste (306-2) forms the basis for the responsibility for our emissions. In addition, the Management Team is responsible for creating the conditions and guidelines for reducing emissions from employees' business travel and commutes.

Annual monitoring of greenhouse gas emissions is conducted under the GHG protocol, and in 2018 the greenhouse gas report was prepared by the consultants 2050 AB.

Governance and objectives

Efforts to reduce the company's emissions are mainly governed through systematic work to reduce our material and energy consumption, waste from our tenants and our own construction waste. To reduce climate impact from transportation, a decision was taken to phase out all our fossil-fuel vehicles by 2019, and to set requirements for 100% renewable fuel for all transportation in new construction projects. Therefore, supplements were made to Vasakronan's internal policies for project completion, which are to be adhered to in all major projects, with the requirement of using renewable fuel for transporting material and waste.

In 2018, we analysed our climate goals in accordance with Science Based Targets. The analysis showed that our goals are well below the level we need to reach by 2030, if our operations are to be deemed in line with the requirements of the Paris climate agreement.

Outcomes

Compilation of total greenhouse gas emissions, 2006 and 2014–2018

Vasakronan has been reporting its greenhouse gas emissions since 2006, which is the base-line year for our reporting. For purposes of comparison, the emissions for 2006 have been adjusted so that AP Fastigheter's emissions are also included. Since the base year, emissions have decreased approximately 98% (comparable emissions, i.e. Scope 1, Scope 2 and emissions from air travel). The tremendous decrease is due to reduced energy consumption and a transition to renewable or climate-neutral energy sources.

Over the past few years, a gradual improvement of input data — as well as amended accounting principles — have led to an increase in the scope of which emissions are included in the reporting. Since 2012, the reports relate not only to emissions of carbon dioxide but to all greenhouse gases that impact the climate.

During the year, Scope 1 and Scope 2 emissions decreased 38%. The largest decreases took place in the categories of district heating and electricity. One reason is that one of the district heating suppliers has switched to climate neutral fuels, and that

the proportion of property electricity not purchased by Vasakronan has decreased.

In Scope 3, part of the report is based on actual data and part on estimated values. Emissions from the production and distribution of energy fuel increased during the year. These emissions are based on actual data, and the increase is explained by changes in the shares of wind and hydro power over the year. Of the emissions in Scope 3 that are largely built on estimated values, emissions from construction activities have decreased. This was mainly due to the completion of fewer projects in the year. The reason that emissions from tenants' own use of electricity has decreased is that the assumption of how much electricity the tenants consume has changed.

Vasakronan undertakes climate compensation for the remaining direct emissions — as well as certain indirect emissions — by purchasing shares in compensation projects.

All amounts in the table below refer to tons, if not otherwise stated.

	Base year 2006 ¹⁾	2014	2015	2016	2017	2018
Scope 1						
Oil	3,335	14	0	0	0	0
Own vehicles	67	19	11	21	20	22
Private vehicles used for business and service vehicles	236	21	2	16	11	10
Refrigerants	–	555	371	280	256	215
Total Scope 1	3,638	609	384	317	287	246
Scope 2						
District heating	25,740	267	187	189	182	69
District cooling	606	229	179	121	4	6
Electricity ²⁾	30	2,404	626	415	314	164
Total Scope 2	26,376	2,900	992	725	500	239
Climate compensated Scope 3 emissions						
Air travel	303	92	201	118	130	206
Rail travel	–	0	0	0	0	0
Taxis	–	6	0	6	6	3
Hotels	–	4	4	7	2	4
Commutes	–	232	181	157	159	118
Production and distribution of vehicle fuels (in Scope 1)	–	12	3	9	7	6
Production and distribution of energy fuels (in Scope 1 and 2) ³⁾	–	1,282	1,131	1,451	862	922
Total Climate compensated Scope 3 emissions	303	1,629	1,521	1,748	1,166	1,259
Other Scope 3 emissions⁴⁾						
Waste from tenants	–	880	2,523	1,727	1,840	1,649
Waste in construction projects ⁵⁾	–	670	598	1,157	1,795	1,329
Transportation in construction projects ⁵⁾	–	1,279	1,853	1,013	596	393
Materials in construction projects ^{5,6)}	–	40,321	59,031	30,175	37,602	28,055
Electricity consumed by tenants ⁷⁾	–	–	41,047	24,830	25,294	20,738
Total Other Scope 3 emissions	–	43,150	105,052	58,901	67,127	52,164
Sum total of compensated emissions	–	5,137	2,896	2,791	1,954	1,744
Sum total of emissions (Scope 1, 2 and 3)	30,318	48,287	107,948	61,693	69,080	53,908
Emissions intensity, Scope 1 and 2 (kg per lettable sq. m.)	8.14	1.4	0.55	0.38	0.32	0.20
Emissions intensity, Scope 1 and 2 (after climate compensation)	8.14	0	0	0	0	0

1) Including AP Fastigheter's emissions before the merger with Vasakronan. Only Scope 1, 2 and air travel, and only CO₂.

2) As of 2012, temporary agreements without certificate of origin are included.

3) This category includes emissions that occur upstream of production of water power, wind power, biopower, other power, district heating and district cooling and the extraction, refinement and distribution of oil.

4) New categories since 2014 for waste, materials and transportation and since 2015 for tenants' electricity use.

5) Emissions for entire construction projects, for projects concluded during the reporting year.

6) As of 2016, new methods are applied for calculating emissions from leasehold improvements. The equivalent emissions for 2015 have been re-calculated using the same method. However, corrections further back in time have not been made.

7) Electricity procured by tenants themselves. For 2018, all comparative figures were restated after taking into consideration the area of vacant projects when estimating tenant electricity consumption.



306-2 Waste by type and disposal method

Large amounts of waste arise in new construction and renovation projects, and a large portion of that waste currently goes to incineration or landfill. Moreover, there is a national target that by 2020, 70% of all construction and demolition waste should be reused or recycled.

In addition to construction waste, we also take care of large amounts of waste from our tenants' operations. Most of the time, we are the ones who determine how well the waste is sorted since we are responsible for the waste recycling facilities in the buildings.

Boundaries

Our influence is mainly exercised outside the organisation at our construction contractors, who do the work in our construction projects, and at our tenants when they conduct operations at our properties. The waste that arises owing to our own administrative operations is not deemed to be material in relation to the waste from project development and tenant waste. Since we are tenants at our own properties, the reporting also covers our own waste from operations, included in the tenant's waste.

Reporting covers the waste that we help our tenants take care of, but not any waste for which the tenant is responsible for removal. This could encompass hazardous waste and confidential papers, for example. Construction waste includes the waste that arises in direct connection with construction work at the construction site.

Responsibility and monitoring

The technical organisation is responsible for meeting the tenant's waste target. The regional SVPs are responsible for meeting our construction waste targets.

Tenant waste and construction waste are monitored annually in connection with preparing the sustainability and impact reports. The project waste monitored pertains to projects that were finalised during the current year.

Governance and objectives

The EU waste hierarchy governs our waste policy. Vasakronan strives to minimise waste, to increase the proportion that is recycled or reused, and minimise the share that goes to landfill or incineration. Vasakronan's long-term goal is that neither our own nor our tenants' operations should generate waste that cannot be recycled or reused.

- To reach this long-term goal, Vasakronan collaborates with tenants and suppliers to:
1. Reduce the total amount of waste by resource efficiency practises
 2. Create conditions for reuse of waste
 3. Manage waste so that it goes from being waste to being a new resource
 4. Hazardous waste that arises will be properly taken care of

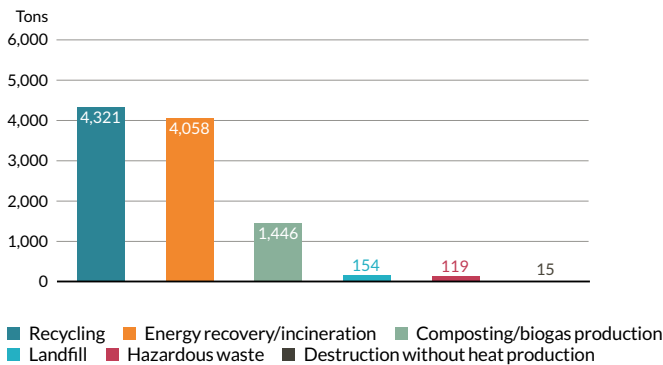
All new construction and major renovation projects should conduct waste minimising workshops to decrease the amount of waste and setting tangible waste reduction goals for the project. Ahead of 2018, the company set a goal to increase the amount of reused material in construction work, and to reduce waste generated in construction works. The outcome and comments on the target are available under the heading "outcome."

Outcomes

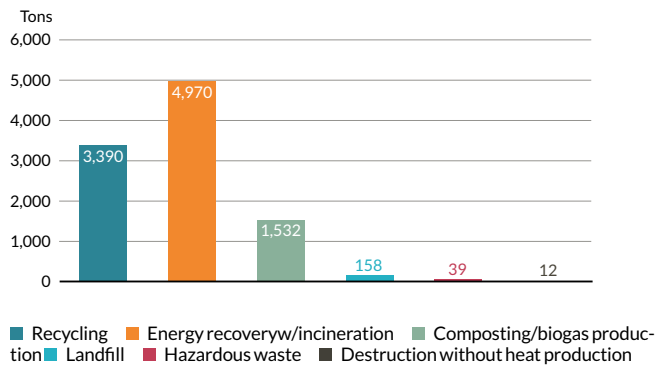
In 2018, tenant waste totalled 10,044 tons (10,101). Construction waste amounted to a total of 3,955 tons (5,346) and pertained to three renovation projects completed during the year as well as waste from leasehold improvements. The breakdown into different fractions is set out in the following diagram.

In 2018, the amount of reused materials was 51 tons (116). The year-on-year decline was due to reused material in project Sergel, where volumes were unusually high, being included in the outcome for the preceding year. Waste from renovation projects averaged of 77 kg/sq. m. (43). The outcome refers to the major renovation projects that were completed during the current year. No new construction projects were completed during the year.

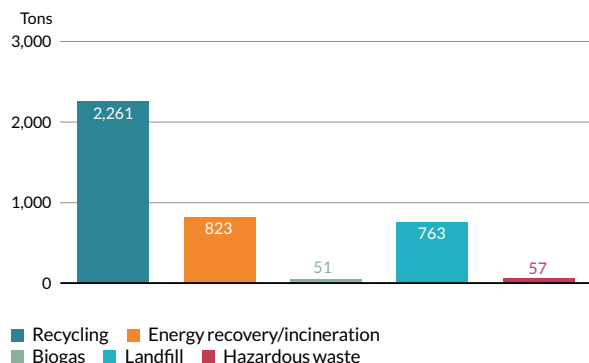
Tenant waste, 2018



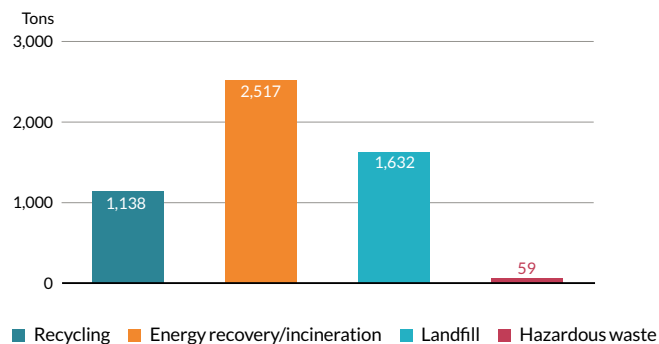
Tenant waste, 2017



Construction waste, 2018



Construction waste, 2017



Reporting the amount of waste generated by us and our tenants is built partly on estimates. Part of the waste in the category of tenant waste ('household' waste or comparable thereto) may only be collected by contractors appointed by the respective municipalities. It is often difficult, and sometimes even impossible, to get data from the municipalities on how much waste is collected in each building. Portions of the waste have therefore been estimated, based on key metrics per square metre from the actual information that could be obtained.

In construction waste, there are detailed statistics from the larger projects. Information about how much waste arises in smaller projects – the "leasehold improvements" – is data that is not systematically collected at present. The waste originating from this type of project has therefore been estimated by calculating a key metric per krona expended, based on a smaller number of reference projects with actual data.

CRE8 Number of environmentally certified buildings

Environmental certification of both existing buildings and new construction projects is important from several perspectives. It is proof from a third party that our properties have low environmental impact, which means we can meet our tenants' growing environmental requirements. Environmental building certification is also a prerequisite for our green financing.

Boundaries

Many aspects are assessed when environmentally certifying buildings, and we cannot always have full control over some of them. However, it is always the organisation that takes decisions on which buildings will be certified, which certification will be chosen and which rating we will have as an objective.

Reporting covers all properties.

Responsibility and monitoring

Responsibility for environmentally certifying our new construction and major renovation projects lies with the regional SVPs; responsibility for existing buildings lies with the Technical Operations & Development Unit.

Governance and objectives

The environmental intensity of the project is governed by the environmental certification scheme chosen and the "Miljöprogram för projekt" (Environmental Programme for Development Projects) an internal policy document. The environmental programme for the project indicates that all projects are to be certified under LEED, with the goal of reaching Platinum certification. Information on the choice of certification and the level set as a goal must also be indicated in the decision memoranda produced for the respective projects.

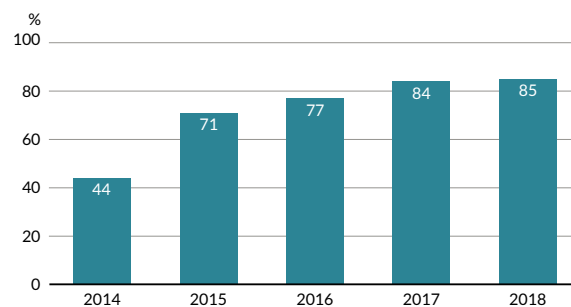
From 2018, almost all existing properties have been certified. In some cases we have chosen to wait with certification since the building was awaiting a major renovation or other extensive measures. Instead, the work now aims to recertify all existing buildings, since certification normally expires after five years. Recertification is planned for 51 buildings in 2019. The technical organisation is responsible for certification work with the existing properties.

For 2018, the goal was to increase the proportion of environmental certifications. The outcome and comments on the target are available under the heading "outcome."

Outcomes

At the end of 2018, 85% (84) of our property portfolio was environmentally certified. Vasakronan counts only BREEAM, LEED and Miljöbyggnad as satisfactory certifications; GreenBuilding is excluded as it only encompasses the environmental topic energy.

Environmental certifications



Share of total area.

	Area, thousand sq. m.	Share, %
BREEAM Excellent	28	1
LEED Platinum	126	6
LEED Gold	1,486	74
LEED Silver	276	14
LEED Certified	97	5
	2,013	100

To the extent the property is environmentally certified under several systems, it has been counted as LEED certified in the table above.

102-9 A description of the organisation's supply chain

308-1 Percentage of new suppliers that were screened using social criteria



In order to successfully conduct our operations, we need to engage suppliers of various types. Each purchase must be conducted with professional correctness, objectivity and honesty while observing good business practice. Additionally, purchasing must take place through competitive procurements where suppliers and tenders are assessed and prioritised based on how well they meet the requirements set, taking into consideration competence and efforts toward quality, sustainability, and health and safety as well as risk function, performance, design and price. Since a large part of our environmental impact arises in the supply chain, assessing suppliers based on how they conduct their environmental work is of great importance.

Boundaries

We ourselves are the ones who determine which demands we will place on our suppliers. Whether the demands are met is determined by our suppliers.

Reporting covers the supplier agreements signed by the purchasing department.

Responsibility and monitoring

The work on signing agreements with our suppliers is managed by a central purchasing division. The Purchasing Director reports to the SVP for the technical organisation. The purchasing division is responsible for purchases meeting strict requirements for quality and sustainability and that they take place at the lowest possible cost, and for procurement of new suppliers. Prior to every tender, an evaluation of potential suppliers is conducted based on several criteria. The purchasing division continually monitors the proportion of new suppliers who have signed the Code of Conduct for suppliers. Vasakronan works continually to reduce the number of suppliers engaged and to have all supplier agreements managed directly by the purchasing division.

Governance and objectives

Environmental requirements for our suppliers — environmental programmes for development projects, for example — are placed in specific appendices to the agreement. General environmental requirements are summarised in our environmental policy and in our Code of Conduct for suppliers. The agreements with new suppliers always include the Code of Conduct for Vasakronan's suppliers; as of 2017, all new suppliers under framework and service agreements will be evaluated as regards the environment, working conditions and human rights. Ahead of 2018, a target was set for all suppliers to accept our Code of Conduct and we completed several supplier audits. Refer below to the heading "Outcome" for more information on how the target was met.

Audits are conducted to check that our suppliers are living up to their commitments in the Code and additional specifications, if any. Selection for audit takes into consideration how much we buy from the supplier, as well as particular risks and focus areas.

Outcomes

The total number of suppliers engaged directly by Vasakronan totals approximately 2,587 (2,632). In turn, these suppliers often have subcontractors. The number of subcontractors is difficult to estimate, since the number per supplier varies drastically. The suppliers that are primarily engaged are contractors (mainly construction contractors), consultants (technical consultants and architects, for example), utility suppliers (electricity, district heating and district cooling), and service suppliers.

Since Vasakronan conducts operations exclusively in Sweden, our suppliers most often are also based in Sweden.

Vasakronan's Code of Conduct for suppliers is applied to all new supplier agreements, and is now included in all supplier agreements signed by the purchasing division.

In 2018, a total of two (three) major supplier audits were conducted. In addition to these, eight (nine) smaller supplier audits were conducted and one factory visit. The outcomes of these audits show that the audited suppliers met our environmental requirements in a satisfactory manner.

Social responsibility

102-8 Total number of employees by employment contract (permanent and temporary), and by gender

405-1 Composition of the Board of Directors, management and other employees according to age and gender



We want to be a company that reflects the society we operate in. We believe we will be more successful if we avoid entirely overly homogeneous groups, since groups with a more heterogeneous composition are often more innovative, solving problems more efficiently.

Boundaries

The impact within our own organisation occurs only in connection with recruitment of new employees. Reporting covers only individuals employed at Vasakronan, and not individuals who perform work under conditions similar to employment.

Responsibility and monitoring

The work on diversity and equal treatment is managed by the company's SVP for Human Resources, but responsibility for creating groups marked by diversity and for no employees being discriminated against lies with the respective directors.

Any cases of discrimination are captured by one of the following channels: employee surveys, immediate supervisors, the HR division, union parties, the company's Compliance Officer or our external whistle-blower function.

To ensure that no unreasonable differences in pay occur at Vasakronan, wage surveys are conducted annually. The survey is performed by a third party to ensure the highest possible level of objectivity.

Governance and objectives

All employees and job applicants will be treated equally, and no discrimination is permissible. Women and men must be given equal opportunities for development and advancement, as well as equal pay for equal work. The purpose and goal of efforts around equal treatment are summarised in an equal treatment policy that clearly explains that all the company's operations must be free from discrimination

and harassment. In addition, there is an internal Code of Conduct for employees and Board members.

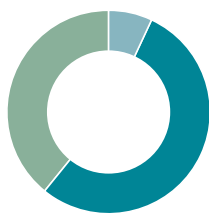
Prior to 2018, a target was set for the entire operation that all employees should know how to prevent discrimination and harassment. Targets for increasing the number of employees with non-Swedish backgrounds were also set. See more information on targets and fulfilment on pages 134–135.

Outcomes

At 31 December 2018, the number of employees was 309 (349), of which 308 (343) were permanent employees and the remainder on time-limited contracts. One employee in the organisation had a part-time contract. All employees are covered by collective agreements. Of these employees, 309 (274) were salaried employees and none (75) were employed under a collective agreement at year end. At the end of the year, around 230 consultants were employed in operations. Of these, about half were hired in as external project managers in new construction and renovation projects. Other consultants were hired primarily as replacements for existing personnel, for example in connection with parental leave or sick leave. In addition to the consultants hired in, contractors are engaged for project operations. As the extent of these contractors varies markedly over time, no estimates have been made of their proportions.

From the 2018 salary survey, it emerged that women earned 90% (99) of what men earned. The decrease was mainly due to the technical organisation being reorganised during the year and to a skills shift. The organisational changes mean that the average salary for those men remaining at the company increased somewhat year-on-year. Moving forward, efforts will increasingly focus on identifying unwarranted pay differences and taking actions.

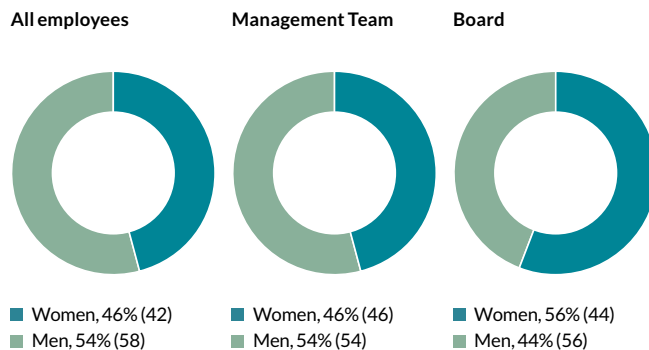
Age distribution



- <29, 7% (7)
- 30-49, 54% (53)
- >50, 39% (40)

Age distribution among all employees.

Distribution, women and men



Distribution, women and men

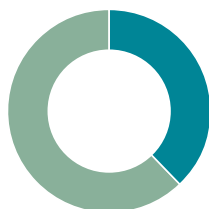
Stockholm



- Women, 47%
- Men, 53%

At the end of the year, the number of employees in Stockholm was 193.

Gothenburg



- Women, 38%
- Men, 62%

At the end of the year, the number of employees in Gothenburg was 47.

Öresund



- Women, 46%
- Men, 54%

At the end of the year, the number of employees in Öresund was 35.

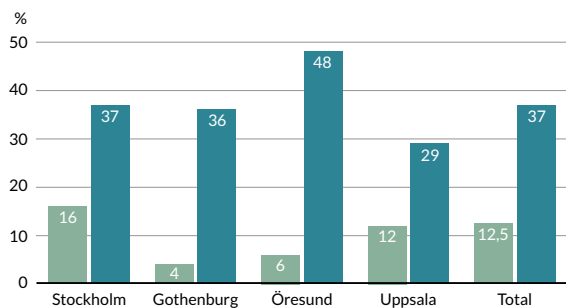
Uppsala



- Women, 53%
- Men, 47%

At the end of the year, the number of employees in Uppsala was 34.

Share of employees with a non-Swedish background, 2018

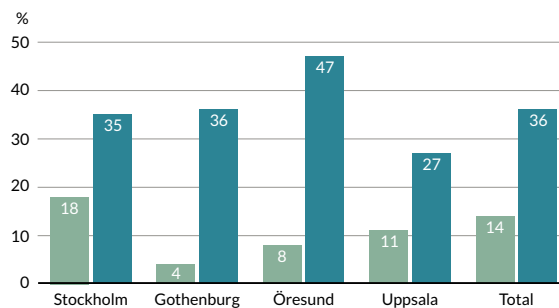


- Vasakronan 2018
- Population, aged 20-67

Share of employees with a foreign background in Vasakronan 2018 compared with non-Swedish background in the population (20-67) in the same locations.

Source: Statistics Sweden

Share of employees with a non-Swedish background, 2017



- Vasakronan 2017
- Population, aged 20-67

Share of employees with a foreign background in Vasakronan 2017 compared with non-Swedish background in the population (20-67) in the same locations.

Source: Statistics Sweden



414-1 Percentage of new suppliers that were screened using social criteria

In order to successfully conduct our operations, we need to engage suppliers of various types. Each purchase must be conducted with professional correctness, objectivity and honesty while observing good business practice. Additionally, purchasing must take place through competitive procurements where suppliers and tenders are assessed and prioritised based on how well they meet the requirements set, taking into consideration competence and efforts toward quality, sustainability, and health and safety as well as risk function, performance, design and price.

Boundaries

We ourselves are the ones who determine which demands we will place on our suppliers. Whether the demands are met is determined by our suppliers.

Reporting covers the supplier agreements signed by the purchasing department.

Responsibility and monitoring

The work on signing agreements with our suppliers is managed by a central purchasing division. The Purchasing Director reports to the SVP for the technical organisation. The purchasing division is responsible for purchases meeting strict requirements for quality and sustainability and that they take place at the lowest possible cost, and for procurement of new suppliers. Prior to every tender, an evaluation of potential suppliers is conducted based on several criteria.

The purchasing division continually monitors the proportion of new suppliers who have signed the Code of Conduct for suppliers. A number of agreements are not signed by the purchasing division, however, which is why it is difficult to estimate how many agreements and suppliers have the relevant environmental requirements in their contracts. Vasakronan works continually to reduce the number of suppliers engaged and to have all supplier agreements managed directly by the purchasing division.

Governance and objectives

Through its Code of Conduct for suppliers, Vasakronan places demands on its suppliers regarding such aspects as working conditions and human rights. The agreements with new suppliers always include the "Code of Conduct for Vasakronan's suppliers;" as of 2017, all new framework and service agreement suppliers will be evaluated as regards the environment, working conditions and human rights. To reinforce the opportunity for employees or external parties to anonymously report suspicions of breaches of laws and regulations regarding working conditions or human rights, there is a whistle-blower function. Vasakronan's Compliance Officer (who is also the General Counsel) receives and investigates the reports that come in. Since 2015, there has also been an external whistle-blower function to provide the opportunity for reporting suspicions of any impropriety to an external party.

Audits are conducted to check that our suppliers are living up to their commitments in the Code and additional specifications, if any. Selection for audit takes into consideration how much we buy from the supplier, as well as particular risks and focus areas.

Outcomes

Vasakronan's Code of Conduct for suppliers is applied to all new supplier agreements, and is now included in all supplier agreements signed by the purchasing division.

In 2018, a total of two (three) major supplier audits were conducted. In addition to these, eight (nine) smaller supplier audits were conducted and one factory visit. The outcomes of these audits show that the audited suppliers met our work environment and human rights requirements in a satisfactory manner.

No suspicions of deviations from laws or regulations regarding working conditions or human rights were reported in 2018.

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



The health and safety of our employees is of the greatest importance, since sick leave leads both to direct costs in the form of sick pay and to indirect costs in the form of loss of output and unnecessary human suffering.

Boundaries

It is the employers' responsibility to ensure a good physical and psychosocial work environment. Therefore, a lot of impact arises within the organisation. However, some impact arises outside the organisation since other factors also impact employees' health. As the employer, we can help prevent ill-health by, for example, offering wellness activities, such as massage, an exercise subsidy and an active personnel association that offers interesting activities. The greatest impact from the perspective of accidents occurs outside the organisation at the construction work sites in our project activities.

Reporting covers sick leave and accidents concerning persons employed at Vasakronan. There is also an ambition to report accidents at our construction work sites. A uniform system for this reporting currently does not exist, but will be introduced.

Responsibility and monitoring

The SVP for Human Resources is responsible for providing access to measures that promote health and the opportunity for rehabilitation. The respective directors are responsible for reviewing employees' work situations, since a portion of sick leave is related to burnout syndrome.

The regional SVPs are responsible for the company's project development, and thereby also for the working environment for the contractors operating at our construction work sites. The equivalent responsibility for operation and maintenance contracts lies with the technical organisation.

Monitoring of sick leave and long term illness absence is conducted monthly, over a rolling twelve months. The number of workplace accidents is monitored on a yearly basis.

Governance and objectives

Great emphasis is placed on activities that promote health, such as preventing workplace accidents and rehabilitating people on long-term sick leave. Vasakronan offers health insurance to all its employees.

Incidents and accidents are reported in the "Kris och incidenter" (Crisis and incident) tool, which currently covers only Vasakronan's employees.

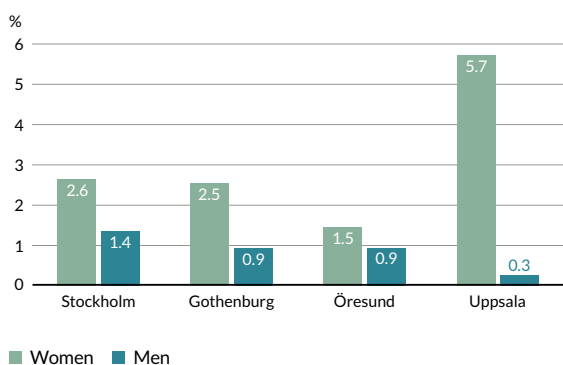
As regards the contractors operating on our construction work sites, requirements for work environment and safety are set in our contractor agreements.

In addition, work is in progress on improving the routine for reporting accidents and in 2018, it was included as a company-wide goal. Refer to pages 134–135 for more information.

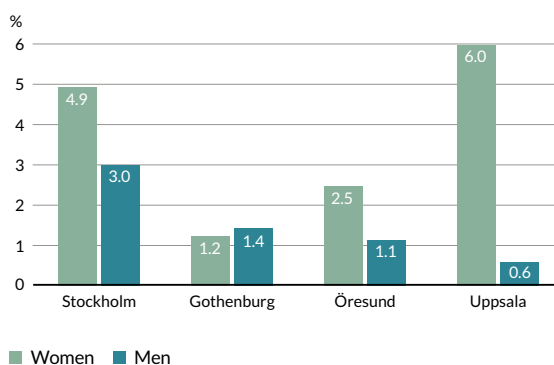
Outcomes

Total sick leave in 2018 amounted to 1.9% (3.1); the distribution by region and gender is shown in the diagram below. In 2018, a total of four accidents were reported for Vasakronan's employees, of which two were near misses, which mean that no injury was sustained. None of the reported injuries resulted in any absentee days. For those projects completed during the year, a total of six accidents over the duration of the projects were reported. In these cases, no information has been provided by the contractors regarding any absentee days the accidents may have led to.

Sick leave 2018



Sick leave 2017



416-A Measures taken to maintain a high level of safety and security in and around properties



It is important for everyone to feel safe and secure in their local surroundings. As employers, our tenants want to ensure that their employees have a safe workplace and a safe commute. This is becoming an increasingly important issue when selecting premises.

Boundaries

Impact occurs within the organisation as a result of the fact that this indicator pertains to measures we ourselves have taken.

Reporting covers only the measures Vasakronan takes.

Responsibility and monitoring

The responsibility for ensuring that day-to-day safety routines in and around the properties is maintained lies with the technical organisation.

In connection with project development, responsibility lies with the respective regions for taking action at the start, during the planning of new construction and renovation projects.

Governance and objectives

Vasakronan continually takes measures to create a safe, secure environment in and around our properties. An important part of this work is creating a mix of offices, commerce and leisure, thereby creating a more lively environment during the evenings as well. In addition, measures are taken in administration to increase lighting in darker areas such as parking, or in the area around our development properties.

Other measures include pruning trees and bushes to create better visibility, reviewing security alarms and introducing safer entry systems.

Vasakronan's long-term objective is for the design of our properties to contribute to the safety, security and health of our tenants. Ahead of 2018, the goal was to carry out at least 50 measures to create security in our properties and our development projects.

Outcomes

Over the year, numerous measures were implemented in all of Vasakronan's regions to increase security in and around the properties. Examples in the existing portfolio include improved lighting, more frequent security patrols, pruning of trees and the preparation of a strategy for camera surveillance.

Purple Flag certification continued during the year of the areas Fredstan, Nordstan and Lilla Bommen in Gothenburg. Purple Flag is a collaboration with the Swedish Property Federation that aims to showcase sites that have successfully worked to improve safety and access, and that also offer a diverse selection at night.

In its project activities, Vasakronan focused right from the design phase on having the area perceived as being secure and safe. For example, in project Sergel in Stockholm City, Malmskillnadsgatan will transform from what was previously a dark back street that people avoided at night to a central inner-city street with a dynamic and vibrant city life. The area will contain restaurants, cafés with outdoor seating, stores on the ground floor and housing on the upper floors, which will create round-the-clock activity and security. Another part was removing unsafe alleys, dark sections and narrow staircases in the area.



Measures taken to increase accessibility to public transportation and local services

As a property owner, being able to offer premises with good connections to public transportation and proximity to various types of social services is important. It facilitates daily life for our tenants and contributes to a reduced climate impact, which will be increasingly important when choosing location.

Boundaries

Impact occurs within the organisation as a result of the fact that this indicator pertains to measures we ourselves have taken.

Reporting covers only the measures Vasakronan takes.

Responsibility and monitoring

The organisations for project development in the respective regions are responsible for ensuring during the planning phase that we choose to develop properties with good public transport links and create conditions for a mix of different operations in the property. The transaction division is responsible for including access to public transportation and local services when considering any potential acquisition. The regions are responsible for ongoing dialogue with municipalities and public transportation companies in terms of factors such as tour frequency and locations of stops.

Monitoring of the effect of the measures occurs in continual dialogue with our tenants and through the surveys of travel habits performed in conjunction with environmental certification of our properties.

Governance and objectives

We work continually on ensuring that the properties we own are located so that public transportation is already good, or where there are plans to expand it. We are also working actively on trying to improve public transportation with regard to frequency and locations of stops.

Many of our properties are located in city centres where the level of local services is often already high. We also own properties in more peripheral locations, where we work actively on ensuring that there is a varied offering of restaurants and cafés, gyms, hairdressers and other types of services that our customers demand in proximity to their workplaces. We also offer access to dry cleaners and shoemakers in many of our properties.

Outcomes

In Uppsala, Vasakronan worked actively over the year with the Municipality of Uppsala and Akademiska Hus to plan stops for forthcoming tram traffic to Uppsala Science Park where around 140 companies and government agencies operate.

In Gårda, in Gothenburg, Vasakronan is working together with other property owners in the area to expand Västtrafik's public transport services to the area. In the same area, Vasakronan expanded the range of local services during the year through lettings, including one to a restaurant. Moreover, electrical charging stations were installed in the square in Gårda.

Customer satisfaction

To succeed at the task of a high level of return over the long term, a high level of customer satisfaction is a must. The more satisfied the customers, the greater their loyalty towards us.

Boundaries

The results of customer surveys pertain to our own evaluation of our tenants' satisfaction.

Responsibility and monitoring

Customer initiatives are managed by the company's four regions, and the regional SVPs have overall responsibility for customer satisfaction. Customer satisfaction surveys are carried out regularly to monitor how we are perceived and to identify areas for improvement. This occurs primarily through Vasakronan's own customer survey, Tyck om Vasakronan, which is conducted at the beginning of every year, and also using event-governed customer surveys.

Governance and objectives

To have satisfied customers, good customer relations are needed. This work includes routines for communication, meetings and surveys for monitoring.

Outcomes

The latest survey was conducted at the beginning of 2019, where the outcome was a score of 76 (76) for offices and 73 (75) for shops. The scale of the survey is from 1 to 100, where a score of at least 80 corresponds to a grade of Very good.

Auditor's Limited Assurance Report on the Sustainability Report and Opinion on the Statutory Sustainability Report

To the annual general meeting of shareholders of Vasakronan AB (publ), Corp.ID 556061-4603

Introduction

We have been engaged by the Group Management of Vasakronan AB ("Vasakronan") to undertake a limited assurance engagement of Vasakronan's Sustainability Report for the year 2018. The Company has defined the scope of the Sustainability Report on page 112 in the Annual Report 2018. The Sustainability Report also constitutes the Statutory Sustainability Report.

Responsibilities of the Board of Directors and Group Management

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the Statutory Sustainability Report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 112, and consist of the parts of the framework for sustainability reporting published by GRI (Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to provide an opinion on the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* published by IAASB. 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. We have conducted our examination of the Statutory Sustainability Report in accordance with FAR's recommendation RevR 12, *The Auditor's Opinion on the Statutory Sustainability Report*. A limited assurance engagement and an examination according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and other generally accepted auditing standards.

The audit firm applies ISQC 1 (*International Standard on Quality Control*) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to Vasakronan in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed in a limited assurance engagement and an examination according to RevR 12 do not allow us to obtain such a level of assurance that we become aware of all significant matters that could have been identified if an audit was performed. Consequently, the conclusion based on a limited assurance engagement and an examination in accordance with RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and Group Management as described above. We consider these criteria as 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, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A Statutory Sustainability Report has been prepared.

Stockholm, March 25, 2019

Öhrlings PricewaterhouseCoopers AB

Helena Ehrenborg

Authorised Public Accountant

Fredrik Ljungdahl

Sustainability Expert
Member of FAR

Impact Report – green financing

Vasakronan issued the world's first green corporate bond in November 2013, and remains the largest issuer of green bonds in Sweden. In 2018, Vasakronan launched a revised and expanded framework, which encompasses all debt instruments. The framework has been reviewed by the Center for International Climate Research (CICERO) and has received the highest rating, Dark Green.

Vasakronan's total investments approved for financing with green bonds totalled SEK 24.3 billion (14.2) at the end of 2018. Of these, SEK 23.4 billion (13.8) comprised investments in existing properties, of which SEK 5.5 billion (5.1) consisted of properties that had previously undergone new construction or redevelopment. Investment in ongoing projects totalled SEK 0.9 billion (0.4).

In 2018, Vasakronan issued SEK 7.4 billion in green bonds and SEK 2.0 billion in green commercial paper. The total volume of green bonds and commercial paper outstanding at year end was SEK 16.8 billion (8.0), equivalent to 28% (14) of the total interest-bearing liabilities.

Properties account for nearly 40% of energy consumption in Sweden. Continuing the work on reducing energy consumption in our properties is therefore self-evident to us. Through investments and close collaboration with our tenants, we have managed to halve our energy consumption since 2009, and by providing our properties with renewable or climate-neutral energy we have reduced our carbon dioxide emissions in Scope 1 and 2, and emissions from air travel in Scope 3 by 98% since 2006.

Large amounts of materials are used in new construction, redevelopment and leasehold improvements of properties. The materials used in our projects give rise

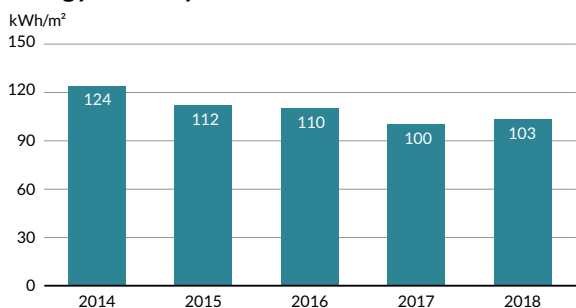
to major environmental and climate impact when they are extracted and produced, and in addition generate considerable transportation needs. That is why it is important to reduce the amount of material used and to use renewable raw materials, and recycled or reused material to much greater extents. In addition, we need to ensure that the materials used do not contain hazardous substances that are spread into indoor environments or into ecosystems outside our buildings. That is why all the material built into our buildings is always evaluated and documented. The Byggsvarubedömningen system is applied in this work.

Large amounts of waste arise in new construction and renovation projects, and a large portion of that waste currently goes to incineration or landfill. We also take care of large amounts of waste from our tenants' operations. Frequently, we are the ones who determine how well the waste is sorted since we are responsible for the waste recycling facilities in the buildings. The EU waste hierarchy governs our work with both types of waste, and the goal is to minimise landfill and incineration and to increase the proportion that is recycled or reused.

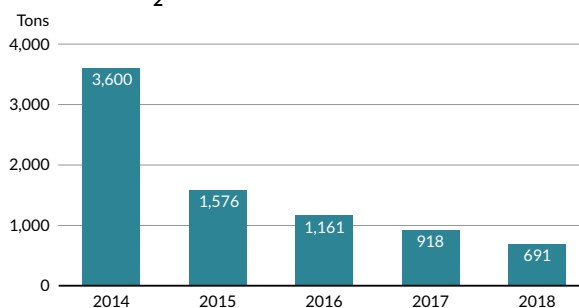
Water consumption is an important issue from a global and a local perspective. Vasakronan uses water from municipal systems, and even though no shortages have yet arisen in the locations where we operate, we are working continually on monitoring and on cost-efficient measures to reduce consumption. Low water use is also a prerequisite for environmentally certifying buildings with high ratings.

Each year, the company prepares business plans and financial, environmental, and social goals are set based on these business plans. For more information on our environmental goals for 2018 and how well we achieved them, refer to page 134.

Energy intensity



Reduced CO₂-emissions



Pertains to Scope 1 and 2 and emissions from air travel in Scope 3.

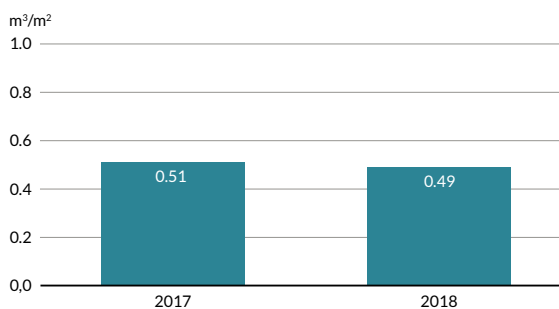
Larger share of waste recycling



- Recycling, 57% (49)
- Energy recovery through incineration, 40% (49)
- Landfill and hazardous waste, 2% (2)

Pertains to tenant waste for 2018, where tenant waste totalled 10,044 tons (10,101).

Greater focus on water use



Water intensity

Criteria under the framework

As a basis for the selection of assets that can be financed with Green Finance Instruments, there is a framework that has been reviewed by the Center for International Climate Research (CICERO), a Norwegian climate research institute. Since 2017, Vasakronan's framework also allows for investments in existing properties. The criteria to be met for financing an existing property is that the building must be certified according to LEED for existing buildings on a Gold level or higher and have an energy intensity below 100 kWh/sq. m. per year.

The financing of new construction and renovation projects requires that they be certified according to LEED for new construction or renovation at Platinum level, or BREEAM-SE at Outstanding level, and have an energy intensity 25% below the National Board of Housing, Building and Planning's guidelines (BBR requirements). The framework and CICERO's report can be found at www.vasakronan.se.

Vasakronan has a special account for transactions attributable to the issue of green debt instruments. If the approved investment amount is less than the volume of green debt instruments outstanding, Vasakronan has undertaken to place a corresponding amount in this special account. At year end, the approved investment amount exceeded the volume of green debt instruments outstanding, and the account balance was therefore zero.

Approved investment amount green bonds, 31 Dec 2018, SEK m

Eligible investments in ongoing projects	852
Existing properties	23,444
– of which previously new construction and renovation projects	5,489
Total approved investment amount	24,296
Volume outstanding, green bonds	14,865
Volume outstanding, green commercial paper	1,971
Remaining approved investment amounts	7,460

Ongoing new construction and major renovation projects forming basis for investment

Property	Location	Certification	Energy performance (F), kWh/sq. m.	Energy intensity BBR ²⁾ , kWh/sq. m.	Estimated reduction in energy consumption, %	Estimated emissions avoided (annual), tons	Waste, kg/sq. m.	Materials, kg/sq. m.
Kronåsen 1:1 (Hubben) ¹⁾	Uppsala	LEED Platinum (F)	30	115	74	465	38	1,018
Hilton 7 ¹⁾	Stockholm	LEED Platinum (F)	50	80	38	107	–	–
Priorn 5	Malmö	LEED Platinum (F)	33	45	27	130	–	–
Kronåsen 1:1 (Celsius)	Uppsala	LEED Platinum (F)	51	96	47	284	–	–
Total			41	84	51	986		

1) The project is financed in part by green bank loans via the NIB. See page 30, for more information.

2) Maximum permitted energy intensity under National Board of Housing, Building and Planning guidelines.

(F) = Forecast

Waste and materials are not reported for the Hilton 7, Priorn 5 and Kronåsen 1:1 (Celsius) projects, as these were not completed as of 31 December 2018.

Existing properties forming basis for investment

Property	Location	Certification	Energy performance, kWh/sq. m. at 31 Dec 2018	Energy performance, kWh/sq. m. at 31 Dec 2009 ¹⁾	Reduction in energy consumption 2009–2018, %	Reduction in climate impact (annual), tons ²⁾	Water intensity, m ³ /sq. m. at 31 Dec 2018
Lorensberg 45:16	Gothenburg	LEED Gold	82	126	35	111	0.24
Heden 22:19	Gothenburg	LEED Gold	62	102	39	577	0.20
Heden 42:4	Gothenburg	LEED Gold	81	125	36	386	0.83
Inom Vallgraven 11:6	Gothenburg	LEED Gold	90	114	21	362	0.62
Inom Vallgraven 20:14	Gothenburg	LEED Gold	73	135	46	132	0.51
Inom Vallgraven 33:10	Gothenburg	LEED Gold	74	102	28	60	0.36
Inom Vallgraven 59:14	Gothenburg	LEED Gold	91	104	12	176	0.46
Inom Vallgraven 61:11	Gothenburg	LEED Gold	91	108	16	178	0.49
Gullbergsvass 16:1	Gothenburg	LEED Gold	89	113	21	358	0.32
Gullbergsvass 1:16	Gothenburg	LEED Gold	69	81	14	586	0.28
Björnen 1	Malmö	LEED Gold	90	122	26	125	0.24
Kaninen 32	Malmö	LEED Gold	60	124	52	168	0.39
Magnus Stenbock 4	Malmö	LEED Gold	95	119	20	153	0.23
Nereus 1	Malmö	LEED Platinum	73	124	41	440	0.20
Priorn 2	Malmö	LEED Gold	91	103	12	149	0.59
Jungmannen 1	Malmö	LEED Gold	81	133	39	97	0.13
Bylgia 1	Malmö	LEED Gold	75	125	40	235	0.10
Uggleborg 12 ³⁾	Stockholm	LEED Platinum	66	127	48	796	0.49
Rosenborg 3 ³⁾	Stockholm	LEED Platinum	54	105	49	453	0.35
Riga 2	Stockholm	LEED Gold	47	104	55	525	0.35
Hekla 1	Stockholm	LEED Gold	31	62	50	242	0.24
Albydal 3	Stockholm	LEED Gold	72	89	19	143	0.25
Tre Vapen 2	Stockholm	LEED Gold	93	115	19	438	0.19
Dragarbrunn 24:5	Uppsala	LEED Gold	91	145	37	609	0.51
Modemet 1, Hus 8 ³⁾	Stockholm	LEED Platinum	34	105	68	763	0.36
Dragarbrunn 18:9	Uppsala	LEED Gold	86	168	49	333	0.27
Dragarbrunn 28:5	Uppsala	LEED Gold	66	80	18	471	0.45
Dragarbrunn 31:1	Uppsala	LEED Gold	84	125	33	870	1.07
Kvarngärdet 1:19	Uppsala	LEED Gold	70	189	63	295	0.37
Hammarby Gård 12	Stockholm	LEED Platinum	72	94	23	85	0.39
Kurland 11	Stockholm	LEED Gold	78	127	38	52	0.51
Skjutsossen 8	Stockholm	LEED Gold	68	111	39	132	0.38
Total			74	116	36	10,500	0.39

1) Pertains to the properties' energy intensity as of 31 December 2009, alternatively the energy intensity at the time the property was acquired. In the case of newly constructed or renovated properties, the highest permitted energy consumption under the BBR requirements at the completion date has been applied.

2) Pertains to the difference between the annual GHG emissions that the property would have had in 2018, without improvement to the energy intensity (compared with 31 Dec 2009) or agreements for renewable/climate neutral energy, and the property's actual emissions in 2018 (based on measured energy consumption in 2018 and taking into account Vasakronan's renewable/climate neutral energy agreements).

3) Properties that underwent new construction or renovation, and were financed over the course of the project in accordance with the criteria for new construction and renovation projects. After the project was finished, the property was reclassified to the existing properties category. As of 31 December 2018, these properties comprised SEK 5.5 billion out of a total SEK 23.4 billion. For further information, see Other information.

Other information

The Impact Report has been prepared in accordance with the guidelines in the framework for Green Finance Instruments. The framework was produced in accordance with the Green Bond Principles, and has been reviewed by CICERO, the independent climate and environmental research institute. The framework is available at www.vasakronan.se. The environmental data reported was produced in accordance with the same principles and methods as the Sustainability Report and is shown on page 112.

Investments in new construction and renovation projects corresponded to the amount that as of the balance-sheet date had been invested in the property. Existing properties are recognised at market value. The market value is updated mid-year and at the end of the year in connection with external evaluations being performed. Reporting of market value and amounts invested follows the accounting policies indicated on page 83.

The emissions reported for existing properties pertain to emissions attributable to energy consumption in buildings after taking into consideration the agreements contracted by Vasakronan with the respective energy suppliers. Tenant electricity is not included in energy intensity and the emission calculations. The Existing prop-

erties category includes properties that previously underwent new construction or renovation, and were financed over the course of the project in accordance with the criteria for new construction and renovation projects. In connection with the completion of new construction or redevelopment, an evaluation was conducted against the criteria set for investment in existing properties. Reclassifying a property from new construction and renovation projects to the category for existing properties requires that the new build or renovation is reported to the Board of Directors, that final certification has been obtained and that energy intensity has been measured over at least a rolling twelve-month period.

In addition to funding with green commercial paper and bonds, Vasakronan has green unsecured loans with the Nordic Investment Bank and the European Investment Bank that totalled SEK 4,827 million at year end. The loans will finance the redevelopment of Sergelhuset in central Stockholm, the Platina new build in Gothenburg, the new build of Kronåsen 1:1 (Hubben) in Uppsala and the new build of Hilton 7 in Stockholm. The aim is for these properties to achieve LEED Platinum certification. The percentage of green funding consisting of green bonds, green commercial paper and green loans increased during the period to 35% (20) of the total debt portfolio.



CELSIUS
New build

Celsius was started in 2018 and will comprise 10,000 square metres of offices and advanced laboratories. The building is being raised at Uppsala Science Park and will provide workplaces for around 600 people. The largest tenant will be the National Food Agency, which will lease around 8,000 square metres.

A few examples of environmental measures:

- Environmental certification LEED Platinum
- Projected energy intensity of 51 kWh/sq. m., which is 47% lower than the regulatory requirement
- Water saving by catching rainwater to use for flushing toilets
- Solar photovoltaics

Priorn was started in 2017 and will comprise 13,000 square metres of offices. The property is located a few minutes walk from the Triangeln's railway station. A few examples of environmental measures:

PRIORN
New build

- Environmental certification LEED Platinum
- Projected energy intensity of 33 kWh/sq. m., which is 27% lower than the regulatory requirement
- Installation of geo-energy plant to supply the property with heating and cooling
- Solar photovoltaics
- Green roofs
- Parking and other facilities for bicycles
- Electric vehicle charging stations



BOHUSGATAN
Renovation

Bohusgatan was built in 1984 and is located by Heden in central Gothenburg with good public transportation links. The property was renovated from 2013–2018. A few examples of environmental measures:

- Environmental certification LEED Gold
- An average energy intensity of 62 kWh/sq. m.
- Parking and other facilities for bicycles, including recharging stations
- Tree planting and green facades
- New external sunshades to reduce solar irradiation and cooling needs



SKJUTS-GOSSEN 8
Existing

Skjuts-gossen in Södermalm, Stockholm was constructed from 1942–1944 and initially contained a clothing factory. The property was renovated and modernised from 2009–2010. The building is located close to Mariatorget’s metro station. A few examples of environmental measures:

- Environmental certification LEED Gold
- An average energy intensity of 68 kWh/sq. m.
- Solar photovoltaics
- Electric car rechargers
- Parking and other facilities for bicycles

Björnen 1 on Södra Förstads-gatan in central Malmö was built in 1903 using period architecture. In 2001, the property underwent a major renovation and today it contains office and retail premises. The property is located walking distance from Triangeln’s railway station. A few examples of environmental measures:

BJÖRNEN 1
Existing

- Environmental certification LEED Gold
- An average energy intensity of 90kWh/sq. m.
- Improved ventilation and a new fan room



OXEN
Existing

Oxen, or Dragarbrunn 28:5, comprises a number of buildings. The oldest section is from 1889 and one of the other sections was built in 1948 and houses the Uppsala City Theatre. The property is located in central Uppsala only a few minutes walk from Uppsala railway station and within easy reach of a plethora of local services and public transportation links. A few examples of environmental measures:

- Environmental certification LEED Gold
- An average energy intensity of 66 kWh/sq. m.
- Parking and other facilities for bicycles

Auditor's Limited Assurance Report on Green Finance Investor Report

To the annual general meeting of shareholders of Vasakronan AB (publ), Corp. ID 556061-4603

Introduction

We have been engaged by the Group Management of Vasakronan AB ("Vasakronan") to undertake a limited assurance engagement of Vasakronan's Green Finance Investor Report ("the Investor Report") for the year 2018. The Investor Report consists of pages 128–132 in the Annual Report.

Responsibilities of the Board of Directors and Group Management

The Board of Directors and the Group Management are responsible for the preparation of the Investor Report in accordance with the applicable criteria, as explained on page 128 of the Annual Report and consists of the parts of Vasakronan's Green Finance Framework which are applicable to the Investor Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of an Investor Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Investor Report based on the limited assurance 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 Investor Report, and applying analytical and other limited assurance procedures. A limited assurance engagement has a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and other generally accepted auditing standards.

The audit firm applies ISQC 1 (*International Standard on Quality Control*) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and

applicable legal and regulatory requirements. We are independent in relation to Vasakronan in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed do not enable us to obtain such a level of assurance that we would become aware of all significant matters that might be identified in an audit engagement. Consequently, the conclusion based on a limited assurance engagement does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Investor 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 Investor Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and the Group Management.

Stockholm, March 25, 2019

Öhrlings PricewaterhouseCoopers AB

Helena Ehrenborg

Authorised Public Accountant


Fredrik Ljungdahl

Sustainability Expert
Member of FAR

Financial targets 2018

Target fulfilment 2018

Targets 2019




A total yield of at least 6.5% per year and on average over a rolling ten-year period.	The total yield was 12.5% for 2018, and 10.0% on average over the latest ten-year period. <i>Read more on page 34.</i>
A total yield of at least 0.5 percentage points higher than the industry per year and on average over a rolling ten-year period.	The total yield for the industry was 10.4% for 2018, and 9.1% on average over the latest ten-year period. <i>Read more on page 34.</i>
An increase in net operating income for comparable property holdings of 5% compared with 2017.	Net operating income for comparable property holdings was 6%. <i>Read more on page 64.</i>
An occupancy rate of at least 93.5% at the end of 2018.	The occupancy rate was 93.1% at the end of the year. <i>Read more on page 63.</i>
A 10% decrease in the percentage of premises with long-term vacancies.	The percentage of premises with long-term vacancies was on par with last year.
The cost of leasehold improvements in conjunction with new office lettings should average less than SEK 3,000 per square metre.	The cost of leasehold improvements in conjunction with new office lettings declined to less than SEK 2,454 per square metre.
Price changes in conjunction with renegotiations should exceed the result for 2017 of 10.6%.	Price changes in conjunction with renegotiations totalled 12.4% (10.6).

- A total yield of at least 6.5% per year and on average over a rolling ten-year period
- A total yield of at least 0.5 percentage points higher than the industry per year and on average over a rolling ten-year period
- An increase in net operating income for comparable property holdings of 6% compared with 2018
- An occupancy rate of at least 94% at the end of 2019
- A 10% decrease in the percentage of premises with long-term vacancies
- The cost of leasehold improvements in conjunction with new office lettings should average less than SEK 2,900 per square metre
- Price changes in conjunction with renegotiations should exceed 9.5%

Environmental targets 2018

Target fulfilment 2018

Targets 2019




Energy intensity to be improved 3% compared with the results for 2017.	Energy intensity increased to an average of 103 kWh/sq. m. (100) at year end due to the extremely hot summer and cold winter. <i>Read more on page 18 and pages 117-118.</i>
Increase the percentage of buildings with environmental certification.	The share of environmentally certified buildings increased to 85% (84). <i>Read more on page 121.</i>
60% of the buildings should have an energy intensity of less than 100 kWh/sq. m.	At the end of the year 47% of the buildings had an energy intensity below 100 kWh/sq. m.
At the end of the year, 65 solar photovoltaic systems were in operation.	At the end of the year, 55 solar photovoltaic systems were in operation. <i>Read more on page 118.</i>
Introduce new solutions to cut peak loads.	Over the year, a number of new solutions were implemented to cut peak loads. During the year, a strategy for adaptation of ventilation was prepared, among other actions. Moreover, Vasakronan has entered into a collaboration to prepare control algorithms for heating.
Increase reuse of materials in construction activities.	In 2018, the amount of reused materials was 51 tons (116). The year-on-year decline was due to reused material in project Sergel, where volumes are unusually high, being included in the outcome for the preceding year.
Decrease the amount of construction waste generated.	Waste from renovation projects averaged 77 kg/sq. m. (43). The outcome refers to the Board-approved projects that were completed during the current year. No new construction projects were completed during the year. <i>Read more on pages 120-121.</i>
We have specified the use of renewable fuel for the transportation of materials and waste in all new Board-approved construction projects.	During the year, supplements were made to Vasakronan's internal policies for projects with the requirement of using renewable fuel for transporting material and waste for all new major projects.
All Board-approved new construction and renovation projects report their use of building materials.	All new construction and renovation projects that started in 2018 have begun to report on their use of materials in the project.
Increase the percentage of green financing.	The share of green financing increased and was 35% (20) at year end.
Better ranking in the global sustainability survey, GRESB.	Vasakronan raised its number of points in GRESB, and was ranked as the most sustainable property company in Europe within the office segment.

- Energy intensity to be improved 3% compared with the results for 2018
- 60% of the buildings should have an energy intensity of less than 100 kWh/sq. m. and year
- At the end of the year, at least 70 solar photovoltaic systems should be in operation
- We have completed at least eight projects that have led to a reduction in energy consumption
- The share of tenant waste sent for incineration has decreased
- Waste generated from project development activities must decrease
- We have used recycled material in at least 10 leasehold improvements
- We have set requirements for the reporting of the share of renewable fuel used for transportation in all new Board-approved projects
- All Board-approved new construction and renovation projects will report their use of materials
- At least half of financing should be green
- The share of properties certified in accordance with LEED Gold or higher should have increased
- Better ranking in the global sustainability survey, GRESB

Social targets 2018

Target fulfilment 2018

Targets 2019

	<p>All employees act in accordance with our values and comply with our internal Code of Conduct.</p>	<p>The year's employee survey showed that 98% of the employees know our values and 88% believe they permeate our operations.</p>	<ul style="list-style-type: none"> All employees act in accordance with our values and comply with our internal Code of Conduct Our employees feel that stress levels at work are reasonable and that they have an opportunity to recover between workdays All employees perceive that our work-places are free from discrimination We have completed another 50 security measures in our properties and projects We have assessed at least 50 of our suppliers with respect to compliance with our Code of Conduct Uniform accident reporting at our major projects Increase the percentage of employees with foreign backgrounds
	<p>All employees know how to prevent stress and contribute to a good work environment.</p>	<p>In this year's employee survey, the psychosocial index (PAI) scored 82, compared with the benchmark of 77. PAI evaluates the psychosocial work environment with the aim of identifying early signals of any work-place factors that could lead to ill-health.</p>	
	<p>All employees know how to prevent discrimination and harassment.</p>	<p>The score in this year's employee survey regarding whether the workplace was free from discrimination was 97 out of a maximum of 100. The benchmark was 92.</p>	
	<p>We have carried out at least 50 security measures in our properties and projects.</p>	<p>Some 60 security measures were carried out at our properties and projects during the year. Measures implemented included improved lighting, pruning of trees, more frequent security patrols and increased surveillance. <i>Read more on page 126.</i></p>	
	<p>All suppliers accept our Code of Conduct and we have completed more supplier audits.</p>	<p>Vasakronan's Code of Conduct for suppliers is applied to all new supplier agreements, and is now included in 100% of the supplier agreements signed by the purchasing division. A total of 11 (12) supplier checks were conducted during the year.</p>	
	<p>Our projects will issue correct and uniform accident reporting.</p>	<p>Efforts continued in 2018 with the implementation of an accident reporting methodology and will continue in 2019.</p>	
	<p>Increase the percentage of women and the percentage of employees with foreign backgrounds.</p>	<p>The percentage of employees with a foreign background was 13% (14) and the percentage of women was 46% (42) at the end of the year. <i>Read more on page 123.</i></p>	



Not always taking the lift is good for your health and the environment. But if we are honest, how much fun is it to walk up a drab, white staircase? At Mäster Samuelsgatan 56 in Stockholm, some of Sweden's best street artists have transformed each floor into an urban art gallery, #WayUpArt, which makes the effort worthwhile.

Quarterly overview

Amounts in SEK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018
INCOME STATEMENTS				
Net sales	1,712	1,673	1,690	1,643
Operating expenses and property administration	-277	-256	-255	-280
Maintenance costs	-26	-25	-28	-29
Property tax	-127	-126	-137	-137
Ground rents	-29	-46	-30	-41
Net operating income	1,253	1,220	1,240	1,156
Earnings from services	0	-	-	-
Central administration	-31	-19	-28	-23
Result from participations in joint ventures	161	-2	1	-1
Net interest	-230	-277	-265	-271
Profit before value changes and tax	1,153	922	948	861
Change in value of investment properties	3,959	900	4,084	1,708
Change in value of financial instruments	-157	162	32	-24
Divested/impaired goodwill	-16	-10	0	-36
Profit before tax	4,939	1,974	5,064	2,509
Tax	-939	-347	184	-482
Profit for the period	4,000	1,627	5,248	2,027
BALANCE SHEETS				
Investment properties	138,934	134,303	133,518	128,339
Equity	60,271	56,279	54,652	53,404
Interest-bearing liabilities	61,087	61,244	62,315	58,903
Total assets	145,201	140,469	140,123	135,382
KEY METRICS				
Property-related information				
Closing area, thousand sq. m.	2,372	2,382	2,400	2,400
Closing number of properties	174	176	180	176
Closing market value of property, SEK m	138,934	134,303	133,518	128,339
Net investments, SEK m	707	-115	1,095	-244
Closing economic occupancy rate, %	93.1	92.8	92.9	92.8
Surplus ratio, %	73	73	73	70
Financial metrics				
Closing average interest rate, %	1.6	1.7	1.7	1.7
Average fixed-interest tenor, years	4.7	4.4	4.2	4.3
Interest coverage ratio for the period, multiple	6.0	4.3	4.6	4.2
Closing equity/assets ratio, %	42	40	39	39
Other metrics				
Closing number of employees	309	310	312	314

Five-year overview

Amounts in SEK million	2018	2017	2016	2015	2014
INCOME STATEMENT					
Rental revenue	6,718	6,490	6,251	6,009	5,899
Operating expenses and property administration	-1,068	-993	-981	-998	-982
Maintenance costs	-108	-110	-105	-106	-112
Property tax	-527	-544	-544	-474	-492
Ground rents	-146	-165	-162	-157	-141
Net operating income	4,869	4,678	4,459	4,274	4,172
Earnings from services	-	-	-	-	-
Central administration	-101	-97	-87	-88	-93
Result from participations in joint ventures	159	-3	-3	-1	-1
Net interest	-1,043	-1,165	-1,152	-1,121	-1,256
Profit before value changes and tax	3,884	3,413	3,217	3,064	2,822
Change in value of investment properties	10,651	7,973	12,056	10,212	3,519
Change in value of financial instruments	13	468	-764	598	-2,956
Divested/impaired goodwill	-62	-26	-18	-71	-21
Profit before tax	14,486	11,828	14,491	13,803	3,364
Tax	-1,584	-2,559	-3,019	-2,859	-642
Profit for the year	12,902	9,269	11,472	10,944	2,722
BALANCE SHEETS					
Investment properties	138,934	126,875	115,922	103,894	91,889
Equity	60,271	51,377	46,117	41,245	35,094
Interest-bearing liabilities	61,087	58,421	55,240	50,750	46,839
Total assets	145,201	132,283	122,056	109,786	97,184
KEY METRICS					
Property-related information					
Closing area, thousand sq. m.	2,372	2,430	2,426	2,509	2,509
Closing number of properties	174	179	179	180	185
Closing number of apartments	1,169	1,168	1,161	1,164	1,163
Closing market value of property, SEK m	138,934	126,875	115,922	103,894	91,889
Closing market value, SEK/sq. m	58,573	52,212	47,783	41,409	36,624
Net investments, SEK m	1,407	-2,980	-28	1,753	1,243
Acquisitions, SEK m	594	1,049	58	916	4
Divestments, SEK m	-2,521	-612	-2,121	-1,387	-1,574
Investments in projects, SEK m	3,335	2,543	2,035	2,224	2,813
Closing rental value, SEK m	7,403	7,190	6,949	6,783	6,621
Closing economic occupancy rate, %	93.1	93.1	94.2	92.6	92.0
Closing surplus ratio, %	73	72	71	71	71
Environmental certification of properties, share of total area, %	85	84	77	71	44
Energy intensity on closing date, kWh/sq. m.	103	100	110	112	124
Yield, total holdings, %	3.8	3.9	4.1	4.5	4.7
Value change in the total portfolio, % ¹⁾	8.5	6.9	11.7	11.1	4.2
Total yield, total holdings, %	12.5	11.0	16.3	16.0	9.1

1) Outcome in accordance with MSCI Swedish Property Index.

Amounts in SEK million	2018	2017	2016	2015	2014
Financial metrics					
Closing average interest rate, %	1.6	1.7	2.0	2.1	3.3
Average fixed-interest tenor, years	4.7	4.5	4.3	4.3	5.1
Closing interest coverage ratio, multiple	4.7	3.9	3.8	3.7	3.2
Closing equity/assets ratio, %	42	39	38	38	36
Closing NAV, SEK m ¹⁾	78,542	68,581	61,333	53,416	44,852
Closing NNNNAV, SEK m ²⁾	70,823	60,872	55,083	47,927	39,225
Closing debt/equity ratio, multiple	1.0	1.1	1.2	1.2	1.3
Return on equity, %	23.1	19.0	26.3	28.7	7.6
Cash flow metrics					
Cash flow from operating activities before changes in working capital, SEK m	3,567	3,383	3,137	2,855	2,789
Cash flow from operating activities, SEK m	3,635	3,468	3,439	3,210	2,902
Cash flow from investing activities, SEK m	-1,297	-2,985	23	-1,775	-1,273
Cash flow from financing activities, SEK m	-1,546	-1,207	-3,616	-891	-2,442
Cash flow for the year, SEK m	792	-724	-154	544	-813
Other metrics					
Average number of employees	313	345	338	348	356
Closing number of employees	309	349	339	346	353
Basis for key metrics					
1) NAV, SEK m					
Equity	60,271	51,377	46,117	41,245	35,094
Add back goodwill	-1,982	-2,045	-2,071	-2,088	-2,159
Add back derivatives	1,967	2,426	2,925	2,903	3,385
Add back recognised deferred tax	18,286	16,824	14,362	11,356	8,532
	78,542	68,581	61,333	53,416	44,852
2) NNNNAV, SEK m					
Equity	60,271	51,377	46,117	41,245	35,094
Add back goodwill	-1,982	-2,045	-2,071	-2,088	-2,159
Add back recognised deferred tax	18,286	16,824	14,362	11,356	8,532
Deferred tax at fair value	-5,465 ⁴⁾	-4,933 ⁴⁾	-3,219 ³⁾	-2,533 ³⁾	-1,672 ³⁾
Adjustment of interest-bearing liabilities to fair value	-287	-351	-106	-53	-570
	70,823	60,872	55,083	47,927	39,225

3) Calculated on the basis of a 25% current tax rate, i.e. 5.5%.

4) Calculated on the basis of a 30% current tax rate, i.e. 6.6%.

Definitions

Area, sq. m.

Lettable area, not including garages and parking spaces on the closing date.

Return on equity, %

Earnings after tax divided by the average of opening and closing equity. Intended as an indication of the return on equity.

Loan-to-value (LTV) ratio, %

Net interest-bearing liabilities divided by total assets on the closing date. Intended as an indication of the company's financial risk.

Central administration, SEK m

Costs at the Group level that are not directly related to property management, such as costs associated with the Group management team, property investments, financing and central marketing.

Yield, total holdings, %

Net operating income as a percentage of the sum of the properties' opening market value, plus half of the year's investments and less half of net operating income during the year. Calculated according to the same method as the MSCI Swedish Property Index and pertains to the entire property portfolio including projects and transactions. Intended as an indication of the return on current earnings from the properties.

Net operating income, SEK m

Rental revenue less operating expenses, repairs and maintenance, property administration, property tax and ground rent. Intended as an indication of the current earnings in property management activities.

Energy intensity kWh/sq. m.

The annual total for energy consumption, adjusted to the level of a normal year, from heating, comfort cooling and property electricity, divided by the temperate area (indoor area for all floors of a building that are heated to more than 10°C). Reported energy intensity also includes some tenant electricity and process cooling which, for technical reasons, is not possible to remove from the calculation.

Property acquisitions, SEK m

Acquisition of investment properties. Intended as an indication of the company's acquisitions during the period.

Property divestments, SEK m

Divestment of investment properties. Intended as an indication of the company's divestments during the period.

Property category

The primary use of the property based on rental revenue.

FFO/net debt, %

Cash flow from operating activities before change in working capital for the last 12 months divided by average interest-bearing liabilities, net. It measures the portion of the company's net liabilities that can be paid by its cash flow from operating activities.

Average loan-to-maturity, years

The volume-weighted remaining maturity on interest-bearing liabilities and derivatives on the closing date. Intended as an indication of the company's financial risk.

Average interest rate, %

The volume-weighted interest rate on interest-bearing liabilities and derivatives on the closing date. Intended as an indication of the company's cost of capital.

Average fixed-interest tenor, years

The volume-weighted remaining maturity on fixed-interest rates on interest-bearing liabilities and derivatives on the closing date. Intended as an indication of the company's interest-rate risk.

Average remaining term to maturity, years

The total contract value of commercial facilities divided by contracted rent for commercial facilities.

Rental value, SEK m

Contracted rent plus the assessed market rent for vacant premises.

Investments in existing projects, SEK m

Investments in ongoing projects. Intended as an indication of the company's investment volume.

Comparable property holdings

Properties included in holdings during the entire reporting period, and during the entire comparison period. Properties that were classified as development properties, or that were acquired or sold during the reporting period or comparison period are not included.

Addresses and website

VASAKRONAN AB

Box 30074, SE 104 25 Stockholm
Street address:
 Mäster Samuelsgatan 56
Tel: +46 8 566 20 500

REGION STOCKHOLM

Box 30074, SE 104 25 Stockholm
Street address:
 Mäster Samuelsgatan 56
Tel: +46 8 566 20 500

REGION GOTHENBURG

Box 11264, SE-404 26 Gothenburg
Street address:
 Götgatan 15
Tel: +46 31 743 42 00

REGION UPPSALA

Box 1050, SE-751 40 Uppsala
Street address:
 Dragarbrunnsgatan 38
Tel: +46 18 489 20 00

REGION ÖRESUND

Box 334, SE-201 23 Malmö
Street address:
 Rådmansgatan 16
Tel: +46 40 691 71 00

CORP. REG. NO.

556061-4603

WEBSITE

www.vasakronan.se

Contracted rent, SEK m

Total annual rent from contracts in effect as of the closing date.

Contracted rent by property type

Contracted rent categorised according to the assigned premises use, for each lease, broken down as offices, retail and other. The category "other" includes residential space, parking and hotels.

Cash and cash equivalents, SEK m

Cash and bank balances, along with current investments with maturities of less than three months. Intended as an indication of the company's liquidity.

Environmental certification, %

Total area of properties that have obtained certification in accordance with BREEAM, LEED or Miljöbyggnad, divided by the area for the entire property portfolio, on the closing date.

NAV (Net asset value), SEK m

Recognised equity, adding back goodwill, derivatives and deferred tax. The metric shows the company's EPRA NAV; refer to the calculation on page 138.

NNNAV (Triple net asset value), SEK m

Recognised equity adding back goodwill and the fair value of loans, and adjusted for estimated actual deferred tax. Calculated on the basis of a 30% current tax rate. The metric shows the company's actual NAV, refer to the calculation on page 138.

Net investments, SEK m

The purchase price for property acquisitions, along with investments in property projects, less the consideration received from property divestment. Intended as an indication of capital invested in properties.

Net lettings, SEK m

Contracted rent for new lettings during the period less contracted rent for leases where notice of termination for move-out was received during the period.

Profit before value changes and tax, SEK m

Net operating income less central administration, profit (loss) from participations in joint ventures and net interest. Intended as an indication of current earnings in the operations.

Net interest-bearing liabilities, SEK m

Interest-bearing liabilities less cash and cash equivalents. Intended as an indication of the company's financial risk.

Net interest, SEK m

Interest income less interest expenses.

Interest coverage ratio, multiple

Net operating income plus central administration and profit (loss) from participations in joint ventures divided by net interest. Intended as an indication of the company's sensitivity to fluctuations in interest rates.

Debt/equity ratio, multiple

Interest-bearing liabilities divided by equity. Intended as an indication of the company's financial risk.

Equity/assets ratio, %

Equity divided by total assets on the closing date. Intended as an indication of the company's financial stability.

Capital employed, SEK m

Total assets less non-interest-bearing liabilities.

Temperate area, sq. m.

Indoor area for all floors of a building that are heated to more than 10°C.

Total yield, total holdings, %

Sum total of yield and change in value, including projects and transactions. Calculated according to the same method as the MSCI Swedish Property Index. Intended as an indication of the return on total assets.

Total contract value, SEK m

Contracted rent multiplied by the period of maturity of the leases.

Economic occupancy rate, %

Contracted rent divided by the rental value on the closing date.

Value change in the total portfolio, %

Value change in SEK, divided by market value for the entire property portfolio (i.e. including projects and transactions at the start of the period). In the five-year overview, the value change is reported according to the same method as the MSCI Swedish Property Index. Intended as an indication of the value change in the property portfolio.

Annual rent, SEK m

Base annual rent plus indexation and supplements.

Surplus ratio, %

Net operating income divided by rental revenue. Intended as an indication of the current earnings in property management activities.

Financial Calendar**REPORTS**

Interim report Jan–Mar 2019	7 May 2019
Mid-year report Jan–Jun 2019	12 July 2019
Interim report Jan–Sep 2019	30 October 2019
Year-end report 2019	30 January 2020
Annual Report 2019	March 2020

ANNUAL GENERAL MEETING

Annual General Meeting	7 May 2019
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Production

Vasakronan and Springtime-Intellecta.
Photography: Tina Axelsson, Anders Fredriksen, Gonzalo Irigoyen, Gustav Kaiser, Pelle T Nilsson, Martin Olson, Johan Persson, Dino Soldin, Peter Svensson and Karin Taawo Bektasevic.
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Cover

Hubben, a meeting place and innovation hub within Uppsala Science Park. People are able to meet and exchange knowledge here. Entrances in multiple locations make the building accessible and give the park's companies the opportunity to be seen and showcase their ideas. The building encompasses 12,500 sq. m. and was opened on 7 February 2018. In addition to the entrance area with its conference space and restaurant, there are an additional four floors adapted for offices and laboratories.



VASAKRONAN

Address: Box 30074, SE 104 25 Stockholm
Street address: Mäster Samuelsgatan 56
Tel: +46 8 566 20 500, Fax +46 8 566 20 501
www.vasakronan.se
Corp. Reg. No. 556061-4603