

SPECIALFASTIGHETER 2016 ANNUAL REPORT

WITH INTEGRATED SUSTAINABILITY REPORT



SPECIALFASTIGHETER

A business model that creates value

1
January
2016

Internal strengths and assets

A leader in secure facilities:

- Market leader in secure facilities
- High level of security expertise
- Active risk management and corporate governance
- Strong supplier collaboration and contract compliance of 87%
- Sustainability integrated into operations
- Committed corporate culture with strong values

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Customer portfolio:

- Stable customer mix with high credit ratings
- Low vacancy rate: 1.3%
- Long leases: average remaining term 14.1 years

10

Property portfolio and customer offering:

- 103 sustainable and customised secure facilities with floor space totalling 1,058,000 sq m
- Property value of SEK 20,919 million
- Operations in close to 70 municipalities across Sweden
- Internally governed customer-centric management
- 95% of leases have green appendices

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Financial position:

- Stable financial position with an equity/assets ratio of 30.2%, equity of SEK 6,652 million and loans totalling SEK 12,088 million
- Stable return: earnings of SEK 1,178 million and a yield of 6.8%
- Owned by the Swedish state
- High credit rating: AA+ from Standard & Poor's

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EXTERNAL CONDITIONS

Operating environment factors

Increased demand for security, increased technical developments, hunt for

Stakeholders' needs and expectations

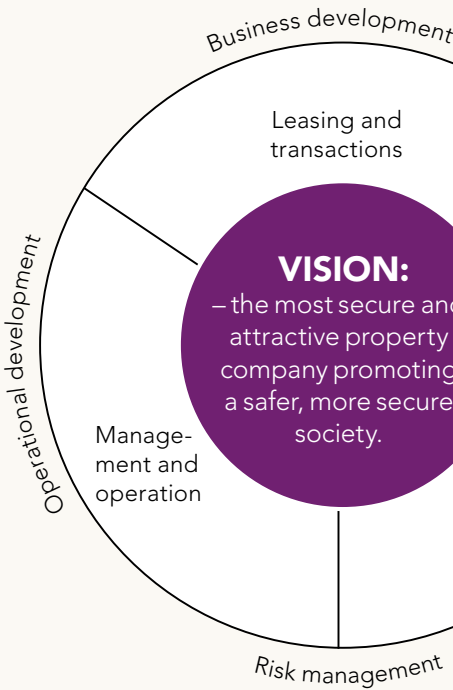
Security a priority
Sustainable management
Long-term profitability

Efficient energy use
Positive collaboration
Satisfied customers

OPERATIONS

STRATEGIES

Creating customer value • Best at security •
Responsibility for the environment and climate •



INTERNAL CONDITIONS AND GOVERNANCE

Corporate governance and risk policy

		Targets
Task	Business concept	C

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r talent

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20–21

26–27

tations:

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Good work environment
Exemplary sustainability
standards
Focus on skills development

Specialfastigheter helps create a safer Sweden by offering efficient and security-adapted properties to customers with security requirements. We hold a strong basic position that we continuously improve in partnership with our customers and suppliers. Using our five strategies, we apply a targeted approach to satisfy the expectations of our operating environment. We pursue the right direction step by step, creating value for customers, owners and other stakeholders while integrating sustainability into everything we do.

31
December
2016

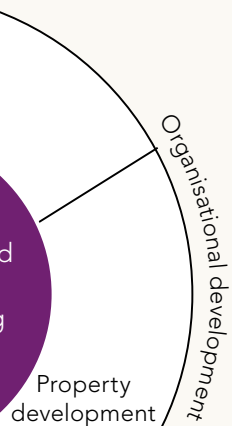
Results and effects

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= Read more on the
specified page

Long-term profitability
• Proactive skills sourcing

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VERNANCE

cy (framework)

57–63

52–55

13, 28

ore values

1, 8

A leader in secure facilities:

- Strengthened market position further by way of property development, acquisitions and new construction
- Reinforced security through investments of SEK 120 million at correctional facilities
- Skills surrounding information security have been enhanced further by all employees undergoing an internally developed, digital training course
- Increased continuity preparation in terms of IT following the implementation of an exercise
- Improved risk management tools
- Improved skills sourcing through newly established control unit and new support functions
- Increased the percentage of employees with a foreign background to 9%
- Insider policy produced
- Self-assessments and audits of suppliers
- Contract compliance of 89%
- Stricter demands placed on the use of materials

Customer portfolio:

- Six renegotiated leases (2016) with an overall annual rental income of SEK 25.9 million
- Sustained low vacancy rate: 1.4%
- Construction of the new District Court in Lund is progressing according to plan and is estimated to be complete in early 2018
- Long leases: the average remaining term is 13.2 years
- Acquisitions: the Svartsjö-Färingsö correctional facility outside Stockholm, an office property outside Kista that is let entirely to the Swedish Defence Research Agency (FOI) and the legal centre in Luleå with tenants such as the Swedish National Courts Administration, the Swedish Police and Swedish Enforcement Authority
- Divested six school properties in northern Sweden

Property portfolio and customer offering:

- 104 sustainable and customised secure facilities with floor space totalling 1,088,000 sq m
- Investment of SEK 701 million and maintenance of SEK 113 million towards sustainable, customised property development
- Property value of SEK 22,999 million
- 95% of leases have green appendices and of these, 94% have green action plans
- CO₂ emissions reduced by 9.4%
- Improved control and monitoring systems within property automation to ensure increased operational reliability and more efficient management
- Continued implementation of system support
- Collaboration with customers and suppliers on new products, services and procurement forms has resulted in further development of security products

Financial position:

- Sustained stable financial position with an equity/assets ratio of 32.2%, equity of SEK 7,844 million and loans of SEK 12,861 million
- Sustained stable return: earnings of SEK 1,638 million and a yield of 6.4%
- Retained high credit rating of AA+, confirmed by Standard & Poor's in December

Contents

This year’s report integrates financial, sustainability and corporate governance-related information to provide a comprehensive description of Specialfastigheter’s operations. The Administration Report can be found on pages 6–103, with the exception of GRI-related information on pages 43–51, while the Corporate Governance Report can be found on pages 57–66. The Sustainability Report follows the GRI G4 guidelines applying the Core option and is reviewed externally. The scope of the Sustainability Report is detailed in the GRI list of contents on page 45.

Focus on secure facilities General information about the company 2 CEO’s statement 4 Significant events in 2016 6 Our strengths and assets 8 A leader in secure facilities 8 Customer portfolio 10 Property portfolio and customer offering 11 Financial position 12 Targets and target achievement in 2016 13	Operating environment and market Increased interest in public sector properties 15 Trends that affect us 16 Stakeholders and materiality analysis 17
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While every care has been taken in the translation of this Annual Report, readers are reminded that the original Annual Report, signed by the Board of Directors, is in Swedish.

Reporting calendar
Interim report January–March 2017 24 April 2017
Interim Report January–June 2017 12 July 2017
Interim Report January–September 2017 16 October 2017

Annual General Meeting
24 April 2017, 2 p.m., Alströmergatan 14, Stockholm, Sweden



This is Specialfastigheter

Specialfastigheter owns and manages everything from correctional facilities and juvenile care homes to courts of law and police properties. These are special operations that demand high standards, not least in terms of security. We are a safe, secure and proactive property owner that focuses on long-term relationships, and we define both current and future requirements in close collaboration with our customers.

Specialfastigheter is owned by the Swedish state – an owner that sets clear requirements for our operations and the way we interact with our external environment. Our owner governs our assignments and financial goals, which serve as our shared foundation and guide. As an important player in society, we must be exemplary in our efforts to achieve sustainable development, and this approach applies to everything we do today and plan to do tomorrow.

Our mission



Specialfastigheter's mission is to own, develop and manage properties with strict security requirements in Sweden on commercial terms for

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

Our Vision



Specialfastigheter – the most secure and attractive property company promoting a safer, more secure society.

Our business idea



Based on sustainable business practices and long-term, commercial ownership, Special-

fastigheter develops and manages properties in Sweden for customers whose operations demand high security standards.

Sweden's leading property company in the field of security

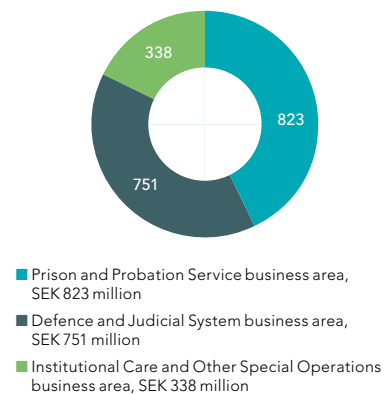
Specialfastigheter owns and manages exciting and unique properties with security requirements. Our property holdings comprise a total floor space of around 1.1 million square metres and a market value that amounts to around SEK 23 billion. In 2016, we had sales of SEK 1,912 million and earnings of SEK 1,638 million.

Our biggest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. Our customers are located across the country, as are our 130 or so employees. Our head office is divided between Linköping and Stockholm.

5 years in brief

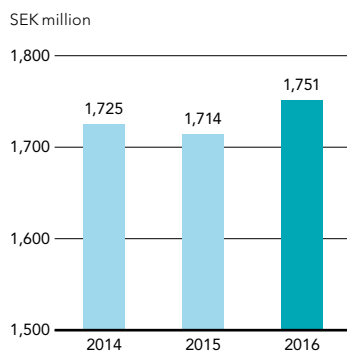
	2012	2013	2014	2015	2016
Income from property management, SEK million	1,767	1,858	1,872	1,867	1,912
Net operating income, SEK million	1,354	1,449	1,452	1,400	1,409
EBT, SEK million	1,381	1,673	1,782	1,474	2,100
Net profit for the year, SEK million	1,328	1,301	1,390	1,178	1,638
Return on equity, %	21.7	18.3	17.3	15.6	22.6
Adjusted return on equity, %	17.1	13.6	10.8	11.8	13.7
Yield, %	7.5	7.6	7.3	6.8	6.4
Rental income, SEK/sq m	1,472	1,574	1,600	1,618	1,644
Occupancy rate, %	98.7	98.8	98.3	98.7	98.6
Surplus ratio, %	76.7	78.0	77.6	75.0	73.7
Floor space, sq m, thousand	1,110	1,109	1,066	1,058	1,088
Investments including property acquisitions, SEK million	1,117	497	371	419	1,288
Market value, investment properties, SEK million	18,712	19,455	20,271	20,919	22,999
Loan-to-value ratio, %	52.9	48.4	44.4	57.8	55.9
Equity/assets ratio, %	34.2	38.1	41.2	30.2	32.2

Company income¹ per business area SEK million

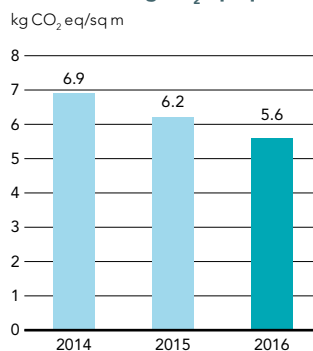


1) Income refers to rental income and other income (invoiced services and energy expenses).

Total rental income

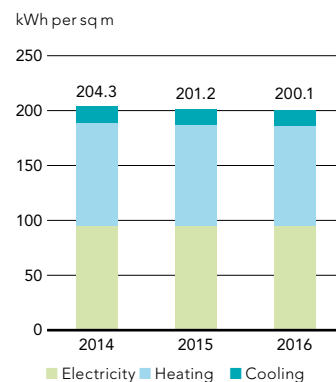


Emission intensity, kg/sq m, reduction of kg CO₂eq/sq m



The intensity of building emissions during the reporting period are corrected for 2016's property holdings.

Total energy use in buildings



Key figures for electricity, heating and cooling during the reporting period are corrected for 2016's property holdings.

Customer-centric business areas

Our three business areas – the Prison and Probation Service, Defence and Judicial System, Institutional Care and Other Special Operations – enable us to provide both efficient comprehensive solutions and valuable detailed expertise. Each business area works closely with its customers and acts according to its own specific circumstances. Our focus is always on identifying optimal solutions together with customers for everything from the development of premises and environmental protection to security issues.

Prison and Probation Service business area	Defence and Judicial System business area	Institutional Care and Other Special Operations business area
We have just one customer, the Swedish Prison and Probation Service, in our largest business area which accounts for 43% of the company's income. This includes Sweden's three high-security prisons Kumla, Hall and Saltvik along with other well-known prisons, such as Hinseberg, Tidaholm and Österåker.	In this business area we work with the Swedish Armed Forces, the Swedish Police and the Swedish National Courts Administration. All of these customers are responsible for national security and our operations are therefore critical to central societal functions.	With several facilities around the country, the Swedish National Board of Institutional Care (SiS) is the largest customer in this business area. The business area deals with the care and treatment of young people with psychosocial issues and adults with addiction problems.
Customers	Customers	Customers
The Swedish Prison and Probation Service	The Swedish Police The Swedish Security Service The Swedish Armed Forces Swedish Defence Materiel Administration (FMV) Swedish National Courts Administration The Swedish Defence Research Agency (FOI) The Swedish Enforcement Authority The Swedish Prosecution Authority	The Swedish National Board of Institutional Care (SiS) The National Board of Forensic Medicine The National Swedish Museums of Military History (SFHM) The Swedish Civil Contingencies Agency (MSB) The Folke Bernadotte Academy The Swedish Migration Agency The Sami Education Board (the properties were vacated on 31 January 2017)
Key data	Key data	Key data
Market value: SEK 8,070 million Rental income: SEK 713 million Floor space, 428,000 sq m Five largest properties: Kumla • Hall • Saltvik Norrtälje • Skänninge	Market value: SEK 12,509 million Rental income: SEK 741 million Floor space, 382,000 sq m Five largest properties: Kronoberg • Tre Vapen Swedish Armed Forces' headquarters • Formgivaren • Stockholm's Rådhus	Market value: SEK 2,420 million Rental income: SEK 297 million Floor space, 278,000 sq m Five largest properties: Sandö • Revinge Swedish Air Force Museum Gudhem • Sundbo

Focus on secure facilities

2016 was a stable year for Specialfastigheter, and one in which we made clearer than ever before how we create value and for whom. We are now exclusively targeting customers with some form of security requirement, which is why we have chosen to call the niche in which we work – secure facilities. These are exciting times for us, given the current transformative societal developments characterised by new business models, digitalisation and rapid technical development. These are times packed with opportunities but also challenges, not least in terms of security.

We create value for customers with security requirements

We have summarised our value creation process for various stakeholders in a business model, see the tab on the cover flap. We are now exclusively targeting customers with some form of security requirement. Many of our customers have reviewed their organisations and requirements for premises during the year, which has also created opportunities for us to develop our properties. Our mission includes minimising the overall costs for the state, which we ensure in collaboration with our customers. We operate in a competitive market, however, and must therefore obviously meet the competition in line with market terms.

Our niche – secure facilities

We consider our properties to belong to the public sector properties segment but feel that this does not adequately describe our niche, which is why we have chosen to use the term *secure facilities*. By this, we mean properties that are adapted for operations that require security in the form of operative, personal, information or physical security. To live up to our customers' expectations, we want to increase focus on security and are therefore clearly state that our



To feel the full effect of our improvements, it is crucial that we develop each part of the company simultaneously.

work now only involves this type of property. Societal developments are characterised by new business models, rapid digitalisation and other forms of technical progress. This means that there are opportunities to leverage, and a constant challenge in terms of tackling the accompanying risks and threats, which is why we constantly review our continuity planning for our operations and properties.

Earnings 2016,
SEK

1,638
million

A stable, long-term participant

Globally, 2016 was a disruptive year with many major political fluctuations, which primarily impacted us financially. That said, it was a very stable year for us as a company. We largely met or exceeded our targets for 2016 and our financial performance was very positive. The historically low interest-rate levels have been beneficial to us as we have loans totalling some SEK 13 billion, so this, combined with stable ownership, long leases and strong demand for our products and services, makes us an extremely stable, long-term participant. This is clearly evident from our high credit rating from Standard & Poor's of AA+.

Growing property portfolio

We increased our project volume somewhat in 2016, and expect this volume to increase considerably over the next five years. A number of smaller properties with tenants that do not require security were divested, and were replaced during the year by our acquisitions of four considerably larger properties with tenants that do require security. These acquisitions resulted in our property portfolio growing by SEK 585 million. Moreover, we also noted a SEK 1,567 million increase in the market value of the properties we already owned. Considerable demand exists for public sector properties with long leases and reliable payers. Our internal valuation remains around 3% below the external value assessment, which is within the uncertainty range.

Sustainability integrated into all operations

We have signed up to the UN's Global Compact and the government's Fossil Free Sweden initiative, and we adhere to the UN's Universal Declaration on Human Rights as well

"We are now exclusively targeting customers with some form of security requirement."



as the ILO's core conventions. We will continue to develop and improve upon our efforts based on these key initiatives and principles. We report in line with GRI G4 and have selected a number of the UN's Sustainable Development Goals to focus on in particular. Sustainability is integrated into everything we do – regardless of whether it is a financial, social or environmental aspect of our work. We have made substantial progress financially and environmentally, and sustainability is now a natural part of our daily work in these areas, with energy efficiency, long leases, green appendices, collaboration with suppliers and proactive financial management representing just a few examples. We succeeded in reducing CO₂ emissions – our most important environmental target – by 9.4% year-on-year. By 2030, we aim to have reduced emissions by 40% compared with 2012. We had also set an ambitious target for energy use – a target that we did not fully achieve despite major commitment to this issue, and given that external factors affected this result, we are therefore satisfied and intend to maintain our ambitious environmental targets.

We need to continue developing societal sustainability together with other stakeholders. We design and develop our properties to support healthcare, employment, treatment and education as part of our customers' operations. We achieve this by installing sports halls, bathing areas and stables for animals, and we use art to promote a more pleasant environment. Employee diversity should reflect society in general. We have therefore chosen to set targets for the number of employees with a foreign background. We increased the share of employees with a foreign background by slightly more than one percentage point, which was unfortunately only halfway to the target, so we will continue to work proactively on this issue. A temporary measure should be introduced to monitor this, but we consider it a wake-up call that could contribute to increased awareness and incentivise us to broaden our recruitment base moving forward.

Business, operational and organisational development

Continuous improvement is the norm at Specialfastigheter, and in order for this to pay off in full, it is crucial that we develop each part of the company simultaneously – the business, the operations and the organisation. All of these parts are interconnected and must be focused on. Our business plan has a five-year horizon, with detailed focus on the first two years. In 2016, we developed our business model, reviewed several support systems and designed a number of new functions and roles to ensure appropriate work distribution and staffing levels. We now have more employees with increased focus on management, IT, control and project development – all important functions for our success.

An experienced 20 year old

Specialfastigheter celebrates 20 years as an independent company in 2017. Our history goes back to the National Board of Public Building (Kungliga Byggnadsstyrelsen) that was split into different companies in the 1990s. So we have experience and expertise in abundance but nevertheless, we want to continue reinventing ourselves by keeping pace with our customers' development and meeting tomorrow's challenges. It is extremely exciting to work with the knowledgeable and dedicated employees that we have here at Specialfastigheter. Our ambition of implementing continuous improvements together with the sense of service demonstrated to customers are both enormously valuable and will benefit both us and our customers. I look forward to continuing this journey together, with our focus firmly fixed on security.

Linköping, 23 March 2017

Åsa Hedenberg
CEO

A solid and stable year

Around the world, 2016 was both an intense and turbulent year. However, for us at Specialfastigheter and even the Swedish property sector in general, it was a solid and successful year that yielded stable earnings and higher property values. In this section, we have collated some of our most significant events.

Acquisition of the Svartsjö and Färingsö correctional facilities

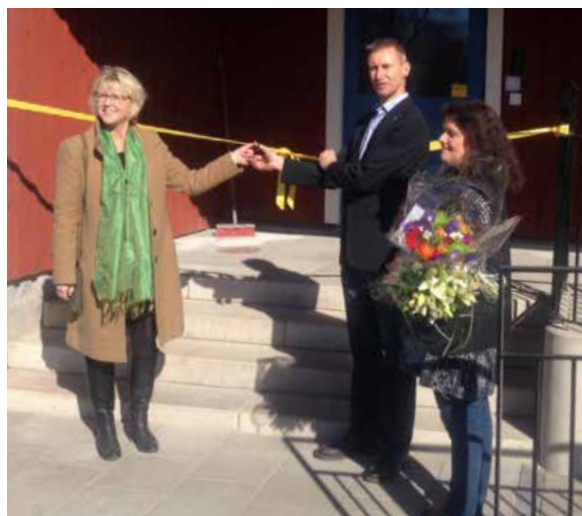
In March, Specialfastigheter acquired the Svartsjö and Färingsö correctional facilities from the National Property Board of Sweden. The properties are located on Ekerö, west of Stockholm, and are fully let to the Swedish Prison and Probation Service. The lettable area amounts to some 10,500 sq m while the plot's area totals around 102,000 sq m. The purchase consideration was SEK 94.5 million.

Energy savings in Nyköping

During the year, we replaced district heating substations along with control and monitoring equipment, and optimised the operation of the property for Nyköping correctional facility. The property is now connected to our platform to ensure secure and efficient property automation, and these measures have cumulatively led to a 15% reduction in heat consumption.

First earth turned for Lund's new district court

Special fastigheter is currently building a new district court in central Lund for the Swedish National Courts Administration, and the first earth was symbolically turned on 18 February. Some fifty spectators were on site to see Specialfastigheter's CEO Åsa Hedenberg, Chief Judge of the district court Göran Lundahl and Executive Vice President of NCC Building Sweden turn the first earth together at the construction site. The building is scheduled for completion in early 2018 and will be Gold certified in line with the Sweden Green Building Council's criteria. Specialfastigheter and the Swedish National Courts Administration have signed a 20-year lease for the new district court.



SiS Älvgården reopened following renovation

The SiS Älvgården institution reopened in April following extensive renovation. A renovation and extension of the residential sections and public spaces was carried out at Älvgården, located just a few kilometres outside Hede-mora, and a new sports venue was also built. At the opening, General Director of SiS, Kent Ehliasson spoke about Älvgården's long history as a residential care institution. CEO of Specialfastigheter, Åsa Hedenberg, spoke about how important it is to equip our properties with valuable facilities.

Major investment in information security

A major investment was made in information security in the second quarter of the year, taking the form of training to increase awareness of our regulatory framework and potential information security risks across all operations. The aim was to provide all employees with a deeper understanding of the need to protect our information assets as well as those of our customers. We also launched an obligatory, internally developed, interactive training course on information security and by October, all permanent employees had completed it.



Respectable second place in the Svenska Ljuspriset competition

Special fastigheter's lighting project at Stockholm's Rådhus on Kungsholmen was nominated for the Swedish Lighting Design Award (Svenska Ljuspriset), and at the award ceremony in September we took a respectable second place. The new lighting, produced in collaboration with lighting designer Marianne Lind, transformed a previously unsafe place into an attractive pedestrian thoroughfare and park where people now enjoy spending time in the evening. The Rådhus and the Rådhus park's lighting is also connected to the Swedish Police Headquarters' lighting, meaning the entire area now feels coherent and safe.

Acquisition in Kista

In April, Specialfastigheter acquired a company that owns a part of the Kista Färöarna 1 property from a subsidiary of Starwood Capital Group. The property, located in an excellent position next to Kista Galleria, is a leasehold property containing two buildings. The acquired building has some 24,600 sq m of floor space and is fully let to the Swedish Defence Research Agency (FOI). The plan is for the acquired section to be split off from the current leasehold, while the remaining section will be retained by the current property owner. Occupancy of the property will take place in 2017.

Sale of school properties in the north

In late December, it was confirmed that Special fastigheter would sell six school properties in northern Sweden for SEK 76 million. The buyer is the property company Offentliga Hus, and the properties were vacated on 31 January 2017. The sale is one step in the refinement of our operations and the creation of a clearer niche in terms of secure facilities.

Nordic prison construction meeting

In September, we took part in the annual Nordic seminar surrounding prison construction in Helsinki. The meeting discussed the Swedish Prison and Probation Service's new strategies, which will involve them reclassifying and expanding the lowest security class, improving electronic surveillance, focusing on special placements, developing and adapting prisons for women and improving prison conditions. Other topics highlighted included new prisons in Nordic countries, new information technology for inmates and mobile and moveable cells.

Bond issues

During the year, we issued and reissued bonds to a nominal value of around SEK 2.9 billion, all with long maturities at historically low interest rates. Forecasts indicate sustained low interest-rate levels over the coming years.

Acquisition in Luleå

In December, we purchased a secure facility in central Luleå through a company acquisition. The property has a floor space of around 21,800 sq m and is a legal centre, which fits well in our portfolio. The largest tenants include the Swedish National Courts Administration, the Swedish Police and the Swedish Enforcement Authority.

Planning for increased reception centre spaces for refugees

In the spring, the government tasked the Swedish Migration Agency with increasing the number of reception centre spaces from 250 to 350 in 2016. We then began working together with the Swedish Migration Agency to investigate and potentially create reception centre spaces in an empty prison, Kirseberg in Malmö, before being notified at the end of the year that this would no longer be needed. In the long term, we believe the property can be converted into housing, so we have requested a planning notification.



Market leader with strong values

Specialfastigheter is a market leader in secure facilities. Our main strength and competitive advantage is our long experience and extensive expertise in the area of security. We work proactively with risk management, including the areas of security, the work environment and anti-corruption. Our Code of Conduct offers guidance to employees and suppliers in their daily work, which always integrates sustainability.

A market leader in secure facilities

In the field of public sector properties, that is, customised premises or properties containing operations with rent paid using public funds, Special fastigheter has its own specific niche – secure facilities. We own, develop and manage properties in Sweden with high security requirements. Our unique property holdings can be described in several cases as properties that have a national security

interest, and we have a large market share in institutions including the Swedish National Board of Institutional Care, the Swedish Prison and Probation Service and the Swedish Security Service. The main target group is state agencies, although we also have other customers with security requirements.

Committed corporate culture with strong values

Specialfastigheter is characterised by a commercial, forward-thinking corporate culture. Our core values – security, long-term planning, proximity and collaboration – are deeply rooted and almost all of them have been a part of the company since it was founded nearly 20 years ago. Our Code of Conduct guides us in our daily work and helps us conduct business in a way that reflects our values. We always put security first and act within the frameworks set

for our targets, management system and field of operation. Our dedicated, knowledgeable employees are given substantial personal responsibility and considerable opportunities for skills development, particularly within the area of security. We actively integrate diversity and equality into our work to ensure they permeate our operations and working methods.

Security



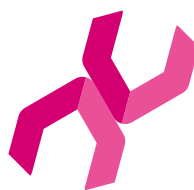
Security issues are our highest priority. Our mission requires great responsibility and skill.

Long-term planning



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

Proximity



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

Collaboration



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

Strong collaboration with suppliers

We create cost-efficient and sustainable supply chains by imposing requirements on our suppliers. An obligatory Code of Conduct, self-assessment forms and evaluations all form the basis of strong, long-term partnerships. We measure contract compliance as it shows how effective our requirements are in terms of efficiency, security and quality when purchasing. As many employees place orders, continuous training is carried out in areas such as business ethics and anti-corruption.





Extensive expertise in the area of security

Our customers place strict requirements on both properties and the handling of sensitive information. Our strength and the things that make us the leading operator in terms of secure facilities are our long experience and extensive expertise – we specialise in satisfying our customers' requirements in this area. Other important success factors in our security related work include awareness, interest and commitment.

We focus on four principal security areas – personal security, operative reliability, information security and physical security – and we have defined a number of tools to optimise efforts, including everything from risk analyses and continuity planning to crisis management and incident reporting.

We have also ISO-certified all of our operations involving information security. Our work contributes to national security and ensuring a safer society.

Active risk management and governance

We work to prevent damage by actively analysing risks, which involves systematically identifying, evaluating and handling risks. This risk management is conducted throughout our operations, but particular focus is placed on the greatest risks that we collate in a risk register. A reporting tool helps us manage reported incidents as well as identifying and implementing both preventive and remedial measures. We also have a whistle-blowing system that enables people to anonymously report irregularities or unsatisfactory circumstances at a workplace or in an organisation. Our comprehensive crisis plan is firmly established and crisis exercises are carried out regularly. Continuity plans have been produced for our prioritised operations, while our internal control is highly developed across all of our operations and follows the COSO model.



Sustainability integrated into all operations

Sustainability, whether it be economic, societal or environmental, pervades all of our operations. All of our targets are sustainable. We have signed up to the UN's Global Compact and the government's Fossil Free Sweden initiative, and we adhere to the UN's Universal Declaration on Human Rights as well as the ILO's core conventions. We collaborate and maintain a close dialogue with our stakeholders. Since 2015, we have been reporting our sustainability work in accordance with the Global Reporting Initiative (GRI) G4 guidelines – Core option.

Stable customers lead to stable earnings

A stable customer base with high credit ratings

One of Specialfastigheter's strengths is our stable customer base that principally contains government agencies, which puts us in an almost unique market position in the secure facilities niche. Close, long-term customer relationships with leases that often run for up to 25 years, combined with customers with very high credit ratings, result in a stable situation for us irrespective of economic conditions.

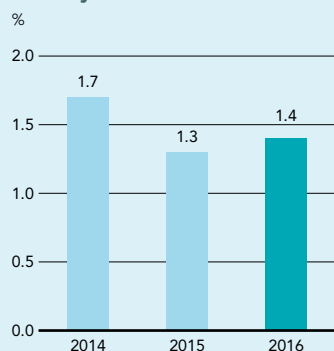
We discuss our customers' needs and wishes with them through a close dialogue based on prevailing conditions, and as both we and our customers are impacted by external developments and political decisions, we closely monitor any event that could be significant. These customer dialogues ensure mutual awareness and understanding, which is a precondition for strong, long-term partnerships. Our customers can always feel secure with us.



Low vacancy rate

Special fastigheter has a very low vacancy rate. Our property holdings remained largely unchanged during the year and our tenants show continued strong demand for premises which has contributed to this low vacancy rate. As of 31 December 2016, the vacancy rate was 1.4% (1.3).

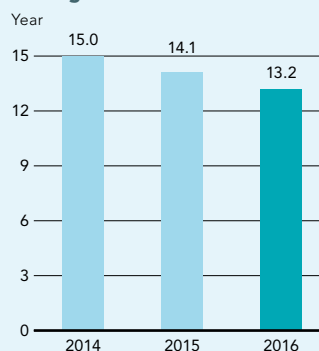
Vacancy rate



Long leases

The majority of Specialfastigheter's leases are signed with public-sector operations and have long leases. The average remaining term in our contract portfolio is 13.2 years, which results in sustained long-term security for the company. Rental income is secured for a long period and derives from creditworthy tenants who have non-existent credit risks.

Average term



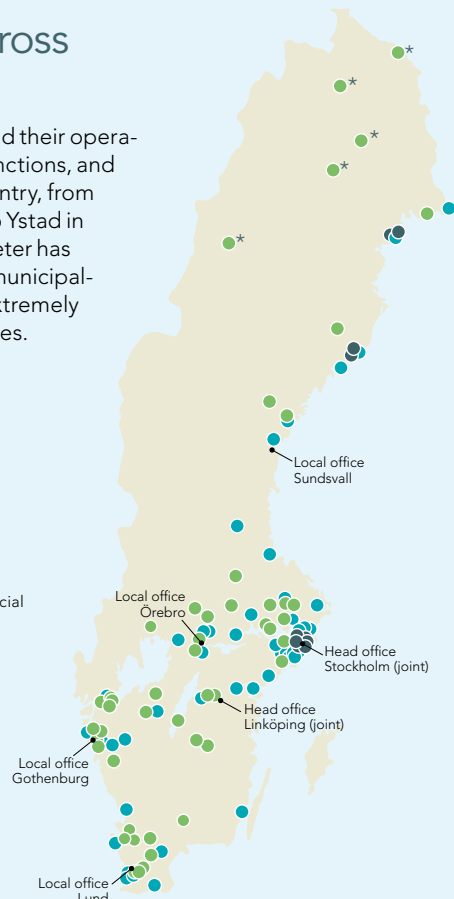
Efficient secure facilities

Operations across Sweden

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

Business areas

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



* These properties have been divested and were vacated on 31 January 2017.

Internally governed customer-centric management

Collaboration, proximity and dialogue with our customers are at the core of both our ongoing management, and our long-term property planning and development. Our goal is to have our own staff based on a customer and security perspective. Having our own staff enables us to provide local services in smaller communities.

We have also chosen to create our own project and development unit to guarantee our customers' needs are met in relation to the production and adaptation of the properties. Our purchasing unit ensures cost-efficiency and credibility throughout the supply chain.

Increased property value

Our property value at the end of 2016 amounted to SEK 23 billion, up around SEK 2 billion. The main reasons behind this increase were investments, acquisitions and amended yield requirements.

Increase of around
SEK
2
billion

Sustainable and customised secure facilities

Specialfastigheter supplies secure, adapted premises that actively contribute to our customers' ability to pursue their socially vital tasks. The common denominator among our customers is their security requirements. For us, this is a matter of understanding and creating a close dialogue in order to jointly create effective comprehensive solutions – the right property or premises for the right operations.

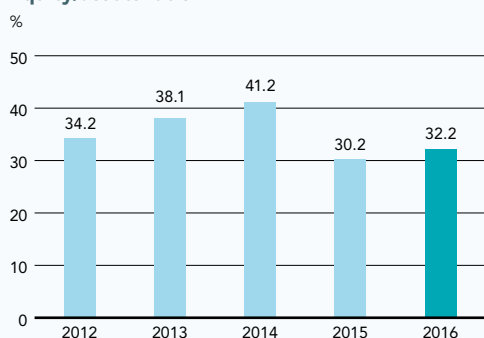
Our properties must also be sustainable, as they affect the environment throughout their lifecycle from project planning and construction to management, reconstruction and demolition. For this reason, we work to reduce energy use and CO₂ emissions, pave the way for environmental certification of the buildings and proactively choose materials that have a low impact on the environment.

Strong finances, long-term owner and a high credit rating

Strong financial position

To set a clear target while also enabling the necessary flexibility in terms of our financing, Specialfastigheter has expressed a target equity/assets ratio as a range, 25–35%. We have healthy profitability as well as surplus value in our properties, which has led to the equity/assets ratio being in the upper end of the range for several years, and even exceeding the target in the last few years. For this reason, we paid an extra large dividend to our owner in 2015. As of 31 December 2016, the equity/assets ratio was 32.2%.

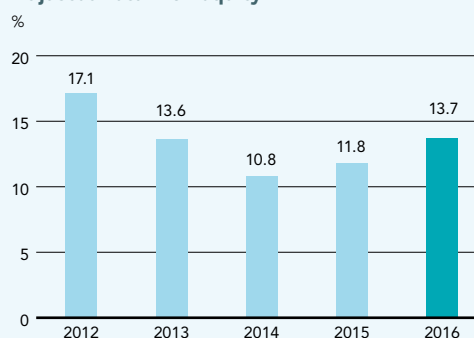
Equity/assets ratio



Stable return

Specialfastigheter's profitability target as set by the owner is an adjusted return on equity with a target of 8.0%. We have exceeded our target over the past three years, and on 31 December 2016 the result was 13.7%.

Adjusted return on equity



Our owner – the Swedish state

Specialfastigheter is one of 49 state-owned companies and is owned entirely by the Swedish state. We are administrated by the Government Offices of Sweden, which pursues active corporate governance. Having a long-term, stable owner in this way provides a secure future. The state considers the integration of sustainability issues into operations to be a natural part of the company's long-term strategy and business development.

We are
100%
owned by the
Swedish state

High credit rating

We have held a very high credit rating from Standard & Poor's on our long-term borrowing for a long time now, having been awarded an AA+/Stable outlook. This is the result of our unique position as a landlord in the secure facilities niche, our strong business risk profile with a highly stable and predictable cash flow based on long-term leases with government authorities, as well as our strong liquidity position. This score was confirmed once again in December 2016 and shows that we are a company with a positive future outlook.

Our credit rating is

AA+

Stable outlook

(Source: Standard & Poor's)

Targets and target achievement in 2016

The owner's financial sustainability targets

Profitability targets	Capital structure	Dividend policy
Special fastigheter's profitability target is for profit after tax, after including changes in value and associated deferred tax, of 8.0% of average equity. Profitability is a variable target the level of which is adjusted depending on the composition of the property portfolio.	Specialfastigheter's capital structure target is for the equity/assets ratio to be in the 25–35% range.	Specialfastigheter's dividend policy is to distribute 50% of net profit for the year after adding changes in value and associated deferred tax. The annual resolution on the dividend must also take into account the Group's future investment needs and financial circumstances.

Adjusted return on equity,%	Equity/assets ratio,%	Dividend, SEK million
2012 2013 2014 2015 2016	2012 2013 2014 2015 2016	2012 2013 2014 2015 2016
17.1 13.6 10.8 11.8 13.7	34.2 38.1 41.2 30.2 32.2	365 ¹ 481 3,000 ² 446 497 ³
Over the most recent five-year period, Specialfastigheter's adjusted return on average equity has exceeded the target of 8.0%.	In 2015, the Board decided to reduce the share of equity based on the owner's aim of adapting the capital structure to our target equity/assets ratio.	<p>1) Which comprised an ordinary dividend of SEK 260 million and a repayment of share capital of SEK 105 million.</p> <p>2) Which comprised an ordinary dividend of SEK 435 million and an extraordinary dividend of SEK 494 million in May 2015, and a repayment of share capital of SEK 2,071 million in August 2015.</p> <p>3) Proposed dividend. To be resolved at the AGM in April 2017.</p> <p>Total paid out/repaid over 5 years: SEK 4,789 million. We once again achieved our dividend target this year.</p>

Other sustainability targets

Sustainability target	Result, 2014	Result, 2015	Target, 2016	Result, 2016	Remarks
Increase the number of leases with green appendices, excluding our most recent property acquisitions	The targets were first established in 2015	The targets were first established in 2015	95%	95%	We will continue this work with a focus on signing green appendices to the new leases and producing action plans for them.
Increase the number of employees with foreign backgrounds	The targets were first established in 2015	8%	10%	9%	We are working proactively to increase diversity at the company, including via the recruitment process and by expanding skills among employees.
No forms of corruption or the giving or acceptance of bribes, measured by quantity	0	0	0	0	No forms of corruption or the giving or acceptance of bribes were encountered.
Contract compliance, measured as a proportion of the total number of transactions, based on call-offs from central agreements, is to total 90% on average over the year	82%	87%*	90%	89%	We are proud to report a stable rate of contract compliance around the 90% target. This corresponds to our current view of what is reasonable based on efficient management of our purchasing needs.
Streamline energy use in terms of electricity for properties, operations, heating, cooling and hot water	204.3 kWh/sq m	201.2 kWh/sq m	197.0 kWh/sq m	200.1 kWh/sq m	We choose to track energy use as it has such a large environmental impact. Our measurements include customers' energy use, which has a major impact on the result.

* In 2015, contract compliance was measured by Q4 transactions and was at that point 88%.

Operating environment and market

Digitalisation and globalisation are megatrends that affect the conditions in which all companies operate. These trends are raising demand for high-security properties and solutions, which entails both opportunities and risk for Specialfastigheter. Growing competition and consistent needs among customers to enhance efficiency are placing major demands on Specialfastigheter and other players in the public sector property segment. A thorough insight into the issues that drive different stakeholders is vital to understanding how value can be created for customers, owners and other stakeholders.



Increased interest in public sector properties

Public sector properties have increased in attractiveness as an investment category over the past few years, resulting in a growing number of participants, higher prices and falling yield requirements. Stable cash flows, long leases and low tenant turnover are generating a generally lower risk compared to other types of property.

The Swedish economy and developments in the property market

The Swedish economy remained positive in 2016, with resource utilisation rising, unemployment falling and confidence strengthening among companies and households with regard to future economic developments. During the final part of the year, inflation also began to rise gradually. GDP growth is estimated to amount to around 3.4% in 2016, before gradually declining over the next few years. The Riksbank is continuing to pursue a highly expansive monetary policy, with the repo rate only expected to hit positive levels in 2019 at the earliest according to the current forecast trajectory.

This low interest-rate environment combined with the lack of attractive investment alternatives in the capital market has resulted in greater allocation of capital to the property sector. The Swedish property market has noted a positive trend in recent years, with falling yield requirements and rising prices in most segments and geographical submarkets. In 2016, the total transaction volume amounted to SEK 218 billion, with housing accounting for the largest share at around one third.

The market for public sector properties

Public sector properties are generally characterised as a segment with a relatively low rental risk, as the tenants are often government, municipal or county council-owned, the lease terms are often long and the premises are specially adapted to a greater degree, which also generates major variations in rent levels.

Among the major property companies in the segment are Stenvalvet, Akademiska Hus and the partly state-owned Hemsö, all of which focus exclusively on public

sector properties. Even in the case of the institutionally owned Rikshem and listed company Hemfosa, the segment represents a significant part of each company's holding and strategy.

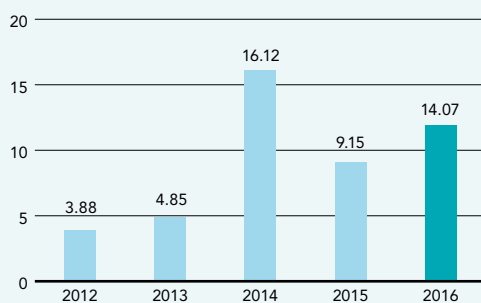
The transaction volume for public sector properties amounted to just over SEK 14 billion in 2016 (transactions over SEK 100 million). A large share of the transaction volume in the segment is attributable to transactions where the recently formed company Samhällsbyggnadsbolaget (SBB) was the buyer. The company, which was founded as recently as April 2016, built up property capital over the year worth around SEK 10.8 billion, through acquisitions including Högkullen Omsorgsfastigheter and the Forensic Psychiatric clinic in Säter.

A small number of secure facilities were transferred in 2016, but this category represents a relatively minor share of the total transaction volume. Aside from Specialfastigheter's own acquisitions, the divestments of Umeå and Östersund's district courts were the most significant activities. The majority of public sector properties acquired during the year were acquired with the aim of developing them; Sernerke's acquisition of Säve airport is the most notable example of this.

The limited supply, combined with a growing interest in public sector properties, has led to falling yield requirements over the past few years. Levels as low as 4.25% are assessed as applying to the transactions that involved the most attractive properties over the past year. A high birth rate, high level of immigration and an ageing population are generating a greater need for schools, refugee centres and care homes, which is testament to the strong conditions in the segment.

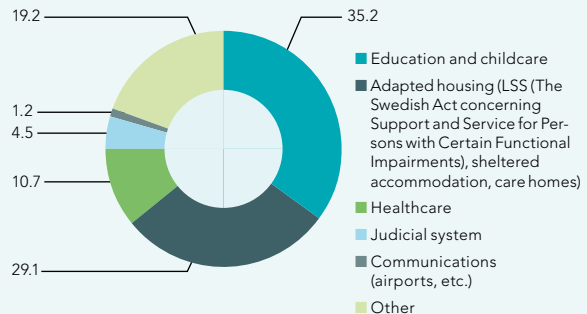
Public sector properties transaction volume

SEK billion



Transaction volume per category 2016

%



Text and diagrams: NAI Svefa

Trends that affect us



Digitalisation and technological developments

Technological developments are progressing at a dizzying pace, while the communication flow is accelerating and moving in new directions. Innovation and digitalisation entail major opportunities but also impact on security.

Smart buildings in which both procurement of information and operational measures can be dealt with remotely are important to a geographically diverse organisation like ours. New technology also helps to reduce our energy use.

Increased demand for security

The security situation in Sweden and across the globe has recently tightened, which has led to greater awareness of security issues in line with globalisation, new technology and new business models. Specialfastigheter has also noted increased demand for secure properties and new security solutions.



Growing competition and efficiency requirements

More and more participants are now active in the market for public sector properties, and competition is fierce for the properties up for sale. At the same time, the state is continuously reviewing its subsidies to authorities and our customers are constantly enhancing their operational efficiency. Specialfastigheter's aim is thus to continue developing all the time and to find new working methods that lead to savings and other advantages, both for us and our customers.

The hunt for talent

Competition for the best talent is becoming increasingly fierce. It is crucial to be – and to appear to be – an attractive employer. To retain and attract new employees, Specialfastigheter offers the opportunity to enhance skills, develop through work assignments and enjoy freedom with responsibility. We also run a societally important business and take financial, social and environmental responsibility, which is a particularly valued by young people when assessing an employer.



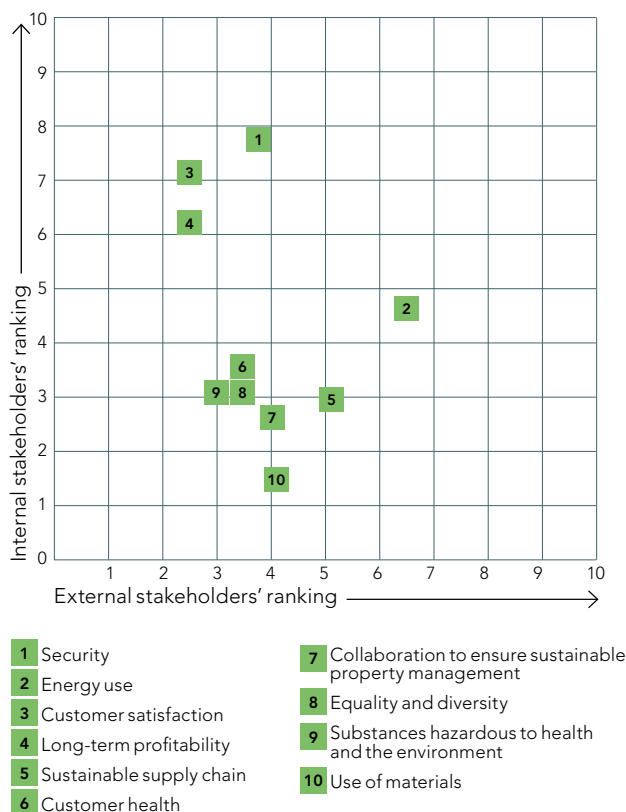
Dialogue and collaboration to improve sustainability efforts

We constantly develop and improve our sustainability efforts, in close collaboration with our stakeholders, based on the state's ownership policy, the company's strategies and targets. Our fundamental approach is to ensure that all our operations are run in a societally, financially and environmentally sustainable manner.

As a state-owned company, we comply with the requirements for sustainable business set by our owner. These include responsibility for, and analysis of, business opportunities and risks relating to the environment, human rights, working conditions, anti-corruption, business ethics, equal opportunities and diversity. During the year, we also signed up to the UN's Global Compact and joined the government's Fossil Free Sweden initiative, in which we intend to show how we are contributing to environmental efforts. Our energy and environmental efforts are based on the UN's seventeen Sustainable Development Goals, among which we have chosen to particularly focus on three: sustainable energy, sustainable consumption and production and biodiversity. We have been reporting in line with the GRI G4 – Core option since 2015, and thus focus our description on the sustainability issues that are most significant to our operations.

Stakeholders' ranking of the ten most important sustainability aspects

Scale of 1–10 with 10 = most important



The stakeholders rank our sustainability issues

Our stakeholders have a significant influence on which sustainability aspects we focus on, and we therefore pursue a close dialogue with groups affected by our company and groups whose activities affect our operations. The main stakeholders we have identified include customers, suppliers, employees, financial investors and our owner. It is naturally not possible for us to pursue a direct dialogue with our customers' customers, but our tenants make sure that they represent them and their interests during our discussions. Exploring our stakeholders' viewpoints is part of our day-to-day work, and last year we also brought together representatives from every group except our owner to a workshop on sustainability. In autumn 2016, we carried out a survey follow-up of these more in-depth stakeholder dialogues to see if anything had changed. The results showed that the stakeholders still rank the same five sustainability issues highest. The dialogue with our owner – the state – is integrated into other owner-related issues in meetings between representatives of the owner and the company.

Sustainable property management is important to our customers, which includes the consumption of energy and materials, among other things. During the year we carried out several workshops with customers during which we produced green action plans detailing how we can improve sustainability together. Our suppliers expect us to work towards the achievement of a sustainable supply chain, and one way for us to ensure that is by sending out self-assessment surveys to suppliers that focus on ethical and social requirements. Our employees value security highest of all, which confirms our assertion that our continuous efforts to place the focus on security have been successful.

Materiality analysis

More detailed information about all our stakeholders' expectations can be found on page 43. The results of the various stakeholder dialogues have formed the basis for the management's materiality analysis and its verification. In total, 12 sustainability issues have been chosen as priorities. They are the same as last year's and all are well integrated into the ongoing work of Specialfastigheter's five strategic areas. We are also working systematically with a number of other sustainability issues, even though they are not reported in line with the GRI. Specialfastigheter's governance of and work involving our sustainability efforts are reported in detail in various chapters of the Annual Report. A complete list of material aspects, topics and indicators can be found in the GRI list of contents on page 45.

Strategies and targets moving forward »

Making continuous improvements to every part of our operations is the key to consistently being able to meet our customers' high expectations. Specialfastigheter has a long-term strategy into which sustainability issues have been well integrated. An open dialogue and strong collaboration with different stakeholders is crucial to constantly developing and improving our operations in line with our operating environment. Financial and non-financial targets for both the long and short term help ensure our ability to adjust to changing needs and steer our operations in the right direction.



STRATEGY

» Creating customer value

Everything we do takes place in close consultation with our customers. Together we create functional, cost-effective premises that meet their needs and requirements. In the end, it is a matter of being able to offer the right property or premises for the right operation.

Our task is to supply premises in a commercial and cost-effective way to operations with security requirements. In recent years, we have refined our operations to fit more clearly into the niche created by our task. Being the leader in security places stringent requirements on our properties, our collaboration with customers, our monitoring of the operating environment and how we perform. Our experience and expertise are our strengths and they have made us the leading operator in terms of secure facilities. We work sustainably and commercially for the long-term benefit of our customers and owner.

Close dialogue and strong collaboration

Dialogue and collaboration represent the key to developing functional, cost-effective premises that meet customers' needs and requirements. Each business area has a responsibility for its customers, and thus in every location in which a customer operates. Close dialogue and strong collaboration at different levels – locally, regionally and centrally – are crucial in terms of pinpointing the most significant areas and thus being able to prioritise development work. Regular, structured meetings that are followed up provide valuable information for our short and long-term planning. Our service technicians and property managers also have daily contact with customers. The stakeholder dialogue represents another important forum (see page 17).

In order to ensure efficient planning, our work is based on long-term management plans produced for each property and updated at least twice a year. These management plans guarantee long-term maintenance, performance quality, volume control and clear follow-up procedures. Read more about these matters on pages 34–35.

Sustainable property management and new technology

By embracing and using proven new technology in our properties, we are able to enhance the efficiency of our deliveries to customers, follow up more effectively and justify our decision-making process. One example is the digitalisation of information, which enables us to improve information security while increasing searchability and accessibility. We also continued to develop our control and monitoring system in the area of property automation during the year, with a focus on operative and information security.

We collaborate with customers to ensure sustainable property management and sustainable properties. For example, we develop measures together to enhance the efficiency of our energy use. Read more about this on page 24.

Focus on the most significant issues

To ensure that customers are satisfied with our premises and our service, we conduct customer surveys that provide us with concrete proposals for improvement. This year's survey, which was developed to give us a stronger basis, was divided up into two stages, with the first stage being carried out in December. It is comparable to previously conducted surveys, but one important difference in the methodology is that the results from the first stage now form the basis of the second stage, where the focus areas that customers consider to be important are prioritised. In this way we can pinpoint and work on the most significant issues.

Strategies

Together with our customers, continuously produce updated plans for premises' requirements, both now and for the future.

Develop sustainable internal and external environments and acquire, redevelop and build to the value of at least SEK 1 billion per year.

Ensure delivery that is so efficient, secure and sustainable that customers can focus entirely on their core operations.

All leases are to have a green appendix and an action plan drawn up with the customer that contributes to the joint achievement of our environmental targets.

Examples of activities undertaken in 2016

The Swedish National Board of Institutional Care needs more places for the treatment of young people and addiction. In 2016, a large amount of preparatory work was undertaken ahead of several future construction launches in 2017.

During the year, we carried out several acquisitions: for example, of the Svartsjö-Färingsö correctional facility, the Swedish Defence Research Agency's office property in Kista and the legal centre in Luleå.

We have reinforced security by way of various measures totalling SEK 120 million at correctional facilities. We also carried out new construction, renovation and extension projects for the Swedish Police and the Swedish National Courts Administration, among others.

We now have green appendices for 95% of our leases. Our target was also to produce joint action plans for all leases, and in this regard we achieved a rate of 94% and are working to further increase that proportion.

STRATEGY

» Best at security

Our principal and our customers should feel secure with us at every stage – from planning and construction to management and development. We are owned by the Swedish state, which means security for us and our customers. Our task places great demands in terms of responsibility and proficiency, which is why security is one of Specialfastigheter's core values and security issues are always our highest priority.

Being the best at security means we aim to be perceived as the property owner that is best able to meet both its own and its customers' high expectations relating to security, expertise and support in an innovative and responsible manner.

Both our operations and those of our customers require us to maintain high standards of proficiency, confidentiality and commercial prowess. In many cases, national security may even be involved. The way we work with security is clearly described in our business plan and in our joint

business management system. We work closely with our customers and are highly sensitive to their needs, but we always respect their integrity during any collaboration.

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

Our four security areas

1

Personal security

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

and other risks in the work environment, we must adopt a common view and have a well thought-out approach to these issues. We therefore continued to train our staff in 2016 in how to handle threats and violence in the work environment.



2

Operational reliability

Many of our properties fulfil important societal functions and require a high level of operational reliability around the clock, which is why improvements are constantly being made to our property management organisation – in order to lead to greater efficiency and security. Technological developments in the area of property automation are progressing rapidly, and with these follow extra requirements and expectations from our customers in terms of energy efficiency and

user-friendliness, to take two examples. In turn, this demands robust operating systems, good planning and conscientious employees, which we provide through our own staff who are not only well acquainted with the properties and the technical installations, but also our customers' needs.

During the year, we implemented a review of the property automation management and technical networks of the properties. As a consequence of this, a new management model will be introduced as of 2017 with a clearer focus on the property automation management and technical networks of the properties over their entire life cycle.



3

Physical security

Physical security forms an important part of our efforts to establish a high level of security to protect both our own operations and those of our customers. It mainly comprises technical and mechanical security solutions, such as physical access protection, electronic access systems, automatic fire alarm installations, reinforced doors, windows, roofs and wall structures.

We conducted a training course on physical safety during the year for our property managers, service technicians and project managers to enhance their knowledge of the components and various standards prevailing in that area.



4

Information security

Protecting both our own and our customers' information assets is a high-priority issue for us. We must be able to trust that all information – both our own and that which we manage on behalf of our customers – is always accessible, correct and protected against unauthorised access.

Our information security management system is certified to ISO/IEC 27001:2013 standards, compliance with which safeguards a high level of information asset protection. In May, a periodic management system review was carried out by DNV GL, yielding positive results, while all employees participated in a company-wide training course in information security during the course of 2016, led by our Heads of Security and IT. We also launched an internally developed interactive training course that is obligatory for all employees. The goal of both of these training initiatives is to further enhance skills, awareness, interest and commitment concerning information security throughout the organisation.



Important tools in our security work

Knowledgeable, security-vetted staff

The most important success factors in our security work are proficiency, awareness, interest and commitment – without these, we cannot be seen as credible in our efforts. Continuous skills development in the area of security is a natural part of all employees' work. Security also forms a central part of our recruitment process. We have a tried-and-tested concept using a special security assessment that covers all employees and reduces the risk of incorrect recruitment.

Risk analyses

By systematically identifying, evaluating and managing operational risks, we gain an understanding of how we can effectively keep them under control. The most significant risks to operations are followed up at least twice a year during management reviews and once a year by the Board. Read more about our risk management on pages 52–56.

Incident reporting

By continually following up on reported incidents, we create the right conditions for early follow-up of near-misses, injuries and circumstances that may have a negative impact on individuals, tangible and intangible resources, the environment, our credibility or our finances. Adjustments were made on an ongoing basis during the year with the aim of creating better conditions for us to report and manage incidents.

Registered work environment incidents include high-risk conditions, near-misses and injuries suffered by employees, consultants and contractors. During the year, 16 work environment inci-

dents were reported in our incident reporting system, down from 22 in 2015 but up from 12 in 2014. No work-related casualties occurred during the corresponding period.

Ethics and anti-corruption

Specialfastigheter's work concerning ethics is founded on our core values. For us, an upright, ethical approach to all business relationships is a given – we must be a strong, reliable business partner. We have an internal sustainability policy and a Code of Conduct that describe the company's requirements regarding our employees' business approach and which form the basis of how each of us should behave in relation to ethical matters. We also carry out annual workshops involving all employees concerning ethical matters.

Specialfastigheter never accepts bribes or any other form of corruption, which is why we have had a whistle-blower system in place since autumn 2013 that enables people to draw attention anonymously to irregularities or unsatisfactory conditions within our organisation. No suspected cases of bribery or corruption were reported during 2014 or 2016, while two cases of suspected irregularities were reported in 2015. The reported cases were investigated, but no irregularities were proven.

Continuity planning

Continuity planning is based on prioritised operations, that is, the most important core processes and support processes as determined by company management. These are the processes that must be prioritised when returning to normal operations in the event of a breakdown or catastrophe.

Drones – both a threat and an opportunity

Drones, more formally and correctly termed UAS (Unmanned Aerial Systems), have become increasingly commonplace. Rapid technical developments combined with falling prices have made these unmanned aircraft more accessible to the average person. They can also be equipped with advanced camera and control systems, grips, thermographic cameras and navigation systems, making them very difficult to jam.

Heightened threat to customers

Drones have many positive aspects. For example, the Swedish Police and the Mountain Rescue Service have been able to considerably improve their monitoring and rescue efforts, while in the civilian market, estate agents and property owners have gained new and useful aids for their work.

Sadly, however, this trend has not been universally positive. Aside from the threat to civilian air traffic, for example, there is also a new kind of threat that affects some of our customers, properties and employees.

“It could involve preparations for breakouts or people using sophisticated camera surveillance and different types of mounting systems on the drones,” explains Specialfastigheter’s Head of Security, Mats Lindmark. Other scenarios include dropping objects from the air: for example drugs, mobile phones, explosives or weapons. It is therefore very important that we keep up-to-date with the available technology, partly to discover and jam incoming drones, partly to bring them down to the ground without putting anyone in the surrounding area in danger.



Head of Security Mats Lindmark holds a lecture about drones at an employee day.

Specialfastigheter is highly engaged in this issue and is monitoring developments. By collaborating with our customers in various activities, we are able to build up a broad knowledge base that creates the right conditions and opportunities to become a strong partner for our customers whenever the issue arises.



STRATEGY

» Long-term profitability

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

The owner's intention is for us to focus on minimising the state's overall costs together with our customers, which we can achieve by providing secure, adapted premises in a commercial and cost-effective manner, thus contributing to our customers' operations.

Our capital structure target, the equity/assets ratio, determines how we finance our assets and is thus an important control instrument for us in terms of our level of risk. To achieve clarity in our benchmarking while also enabling the necessary flexibility in terms of our financing, our owner's target is expressed as a range, which is 25–35%.

A cost-effective, secure and sustainable supply chain

An important part of achieving long-term profitability is to have a solid purchasing process. It should be characterised by professional behaviour and promote a cost-effective, secure and sustainable supply chain, which can be achieved by central administration by our purchasing unit of all procurements and agreements, while call-offs are handled locally in the organisation for properties or projects. Together with our suppliers, we develop requirements and drive forward projects concerning sustainability issues in line with our Code of Conduct for suppliers. Read more about this on pages 38–39.

IT development that creates opportunities

We work strategically to ensure we have reliable IT support in place that is well adapted to operations and offers a high level of availability. IT helps us achieve internal efficiency at our properties and improve and develop our operations so we can meet our customers' needs. This area is becoming increasingly important as digital developments gather pace, and so we always work proactively and with a view to the future to identify the opportunities it presents us with as a company.

Continuous improvements

It is important to steer our operations toward our established targets, so we carry out continuous follow-ups to check at an early stage that we are on the right track, taking action if necessary. We make continuous improvements to become more efficient and smarter and to achieve our targets with greater precision.



STRATEGY

» Responsibility for the environment and climate

Our operations and properties affect the environment throughout their lifecycle, from planning and construction to management, redevelopment and demolition. We adopt a long-term approach and endeavour to be a climate-smart property company in every area of our operations.

Strategic energy and environmental goals

Our energy and environmental protection work is based on the UN's Sustainable Development Goals, Global Compact, Fossil Free Sweden and national targets concerning the quality of the environment. Specialfastigheter refers to the documents produced by the Government Offices of Sweden that link the UN's Sustainable Development Goals with national targets concerning the quality of the environment. Of the UN's 17 goals, we have selected three that are of particular importance to us, given our operations:

- Sustainable consumption and production
- Sustainable energy
- Biodiversity

To this end, we have drawn up strategic energy and environmental goals together with an action plan for both the short and long term.

Reduction in CO₂ emissions

As part of the comprehensive "Climate-smart property company of the future" environmental target, the long-term target is to reduce our CO₂ emissions by 40% by 2030 compared with the base year 2012. In the 2012–2016 period, we reduced our CO₂ emissions by 35.4%, and by 9.4% for this year alone.

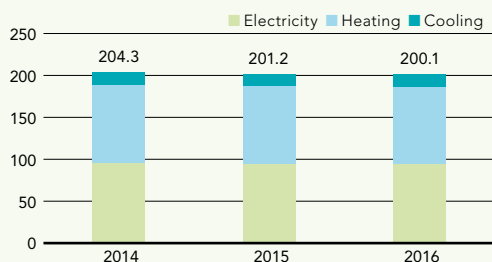
This is a result of such measures as reducing our consumption of gas, district heating and pellets through optimisation at the properties and through a reduction in emissions factors. Since 2013, we have been using electricity for our properties from source-certified hydro power.

Energy-saving measures

Energy use at our properties is one of the areas in which we have the greatest environmental impact. Our knowledgeable employees work constantly to optimise the technical systems of our properties. We implemented a new energy monitoring system, reviewed the structure of the meters in the system and adjusted certain inaccuracies in 2016, as well as replaced a substation for heating and hot water, insulated attic spaces, replaced windows and garage doors, installed heat pumps and new ventilation units and replaced spent lighting with LED lights. We also installed a waste recycling unit for hot water at Kronoberg's swimming pool. In Lund, where we are building a new district court building, we are planning to install 400 sq m of solar panels on the roof.

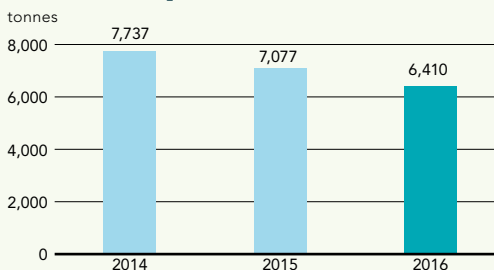
One result of our collaborative project with the Swedish Prison and Probation Service in terms of water-saving measures appears to indicate a reduction in use, but overall use of water has nevertheless increased by 2.9% at our properties, due to expanded operations at SiS and a major water leak at one of our properties.

Total energy use in buildings, kWh per sq m



Key figures for electricity, heating and cooling during the reporting period are corrected for 2016's property holdings.

Reduction of CO₂



We reduced CO₂ emissions by 9.4% compared to 2015.

The actual energy use in terms of electricity for properties, operations, heating, cooling and hot water amounted to 200.1 kWh per sq m in 2016. The target for 2016 was 197.0 kWh per sq m. The main reasons why this target was not achieved included our inability to implement energy-saving measures to the required extent for various reasons, and our correction of certain inaccuracies in previous measurements in connection with the implementation of a new energy monitoring system.

Refrigerants

We continued our efforts to convert to environmentally friendly refrigerants during the year. However, the fact that we have divested and acquired properties has meant that, when measured in kg, we have only reduced the amount of potent greenhouse gases in the form of HFCs (HydroFluoroCarbons) by a few kilogrammes overall. The amount of

HFCs (HydroChlorFluoroCarbons) remains at 0 kilogrammes. Read more about this matter on page 50.

Contaminated land

Specialfastigheter took part in the Swedish National Audit Office's investigation into "The State's contaminated areas" in 2016. The final report was submitted in October 2016 and refers to the three contaminated properties we have in our holdings. They contain contaminated land following previous operators' activities: for example following exercises using fire fighting foam. Most of the contamination was discovered in connection with construction and demolition during excavation. We take any contamination seriously and are carrying out more work on this issue together with municipalities and relevant authorities to take appropriate sanitation measures.



Target for 2030, environment and energy

Sustainable consumption and production

Our buildings must be certifiable in an environmental classification system.

There is to be a digital list of contents with information about the materials and substances found on the land and in the buildings for every property.

All materials and substances in our buildings and used in property management are to have a low environmental impact and be free from substances hazardous to health and the environment.

Construction products are to consist as far as possible of recycled raw materials/materials so that waste to landfill is minimised.

Ideally, waste arising from our operations is to be reused or recycled.

Green leases must be incorporated into our existing leases to enable us to reduce our environmental impact together with our customers.

Sustainable energy consumption

We must ensure efficient energy use by exploiting new technology and optimising existing systems in our properties.

Energy consumed is to be produced from renewable energy sources. Specialfastigheter's vehicle fleet is to be fossil-free.

Biodiversity

Biodiversity and ecological compensation (within Sweden) must be managed for the land occupied by our properties.

STRATEGY

» Proactive skills sourcing

Our employees are our most important asset. In order to achieve our vision, we need the right skills – something for which there is often fierce competition. Proactive skills sourcing is therefore a central strategy for Specialfastigheter. Our commercial and organisational ability is based on strategic choices and activities. We are a geographically diverse organisation, which means we need independent and committed employees who can provide every customer with the service they demand. This geography also places great demands on our communicative ability.

The importance of proactive skills sourcing

Customers' requirements and wishes change constantly, so it is extremely important for Specialfastigheter to be a flexible organisation that is open to change, as the right skills today may not necessarily be the right skills in the future. For this reason, we undertake proactive skills sourcing and have implemented succession planning and skills inventories for different roles.

It is extremely important for us to develop skills as part of our property management, but we also need specialist expertise in strategic areas such as project management, safe construction, electricity, the environment and energy. To enhance efficiency both internally and in relation to our customers, we have consistently adapted our organisation where necessary. This flexibility leads to new skills requirements and major demands in terms of leadership, which is an area we are continuously developing. We arranged management days during 2016 to enhance our managers' skills. Management underwent team development and we also ran a special programme for newly recruited managers. Read more about our skills development efforts on page 48.

Intensified efforts to become a more attractive employer

We work strategically to strengthen our brand to become an increasingly attractive employer, as becoming better known increases our ability to recruit employees with the right skills. We always use our Employer Value Proposition (EVP) as a basis – see page 27 – which describes our offer-

ing to new and existing employees. One prerequisite of being an attractive employer is ensuring our employees are happy and spread a positive image of us. An employee who acts as a company ambassador has a major impact on potential new employees and can help spread our good reputation.

Our thorough sustainability efforts are key to attracting new employees and, as a state-owned company, we should set an example, not least in terms of societal issues. During the year, we have taken part in five different job fairs at universities and colleges as well as taken on four (seven) interns. We measured our attractiveness using the Nyckeltalsinstitutet's (Institute of Human Resource Indicators) Attractive Employer Index, receiving favourable results with an index of 131, which exceeded the average of 116 among all participating companies.

Equality and diversity

Diversity and equal opportunities are central issues for us, and everyone in the company must share responsibility for them each and every day. It benefits us as a company to work proactively with these issues as it leads to greater competitiveness, profitability and attractiveness. When recruiting, we always concentrate on making good

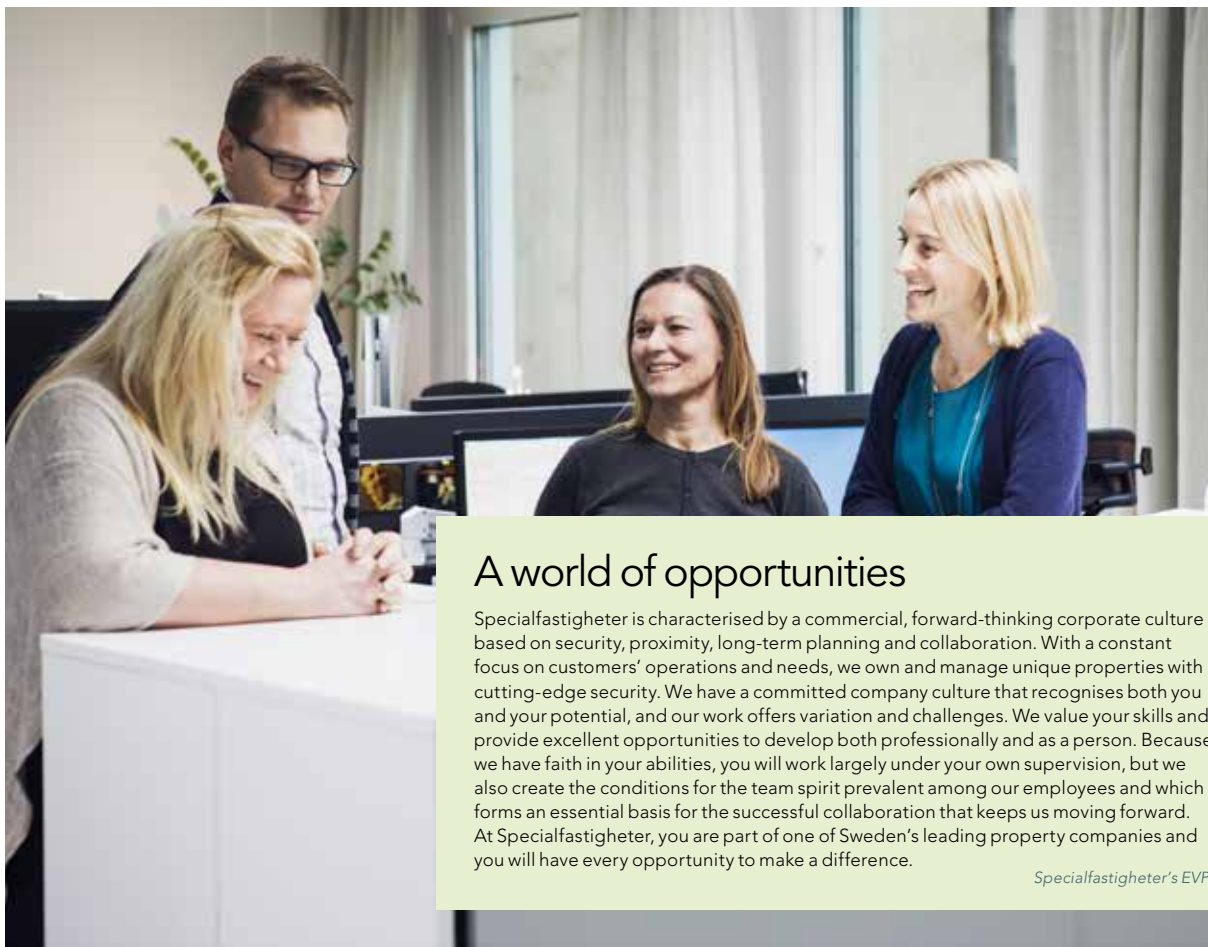
Percentage of women
in management

63%

Presence in close to 70 municipalities

We currently have 131 (128) employees distributed across six local offices (Linköping, Stockholm, Sundsvall, Örebro, Gothenburg and Lund). Our geographical distribution is, however, greater than just these areas. We are present in close to 70 municipalities as our service technicians work at our properties on a daily basis.

The number of female managers has increased over the past few years and 38% (38) of our managers are now women. On the Board, 45% (55) were women, while in management that figure was 63% (63). The total percentage of women at the company was 30% (30) at year-end. Staff turnover amounted to 9.3% (14.5) and has thus fallen notably compared to previous years, which we consider to be a positive change in the trend.



A world of opportunities

Specialfastigheter is characterised by a commercial, forward-thinking corporate culture based on security, proximity, long-term planning and collaboration. With a constant focus on customers' operations and needs, we own and manage unique properties with cutting-edge security. We have a committed company culture that recognises both you and your potential, and our work offers variation and challenges. We value your skills and provide excellent opportunities to develop both professionally and as a person. Because we have faith in your abilities, you will work largely under your own supervision, but we also create the conditions for the team spirit prevalent among our employees and which forms an essential basis for the successful collaboration that keeps us moving forward. At Specialfastigheter, you are part of one of Sweden's leading property companies and you will have every opportunity to make a difference.

Specialfastigheter's EVP

use of the skills and experience found in every corner of society. By promoting diversity and equality at the company, we can more easily find the skills we look for as the talent pool is considerably broadened. Our proactive, conscious efforts have advanced our work to promote equal opportunities and the proportion of women in the company is gradually rising, both overall and in managerial positions. This is also reinforced by our equality monitoring using the Nyckeltalsinstitutet's Gender Equality Index, Jämix. Our index was at 128, thus exceeding the average score of all participating companies, which was 117.

During the year, we also worked to increase the awareness and skills of all managers and employees on the issue of diversity. The majority of employees have participated in workshops and assessed Specialfastigheter with regard to discrimination.

The managers were also provided with a tool for reflection and discussion in the form of a valuation game. We have conducted a salary survey and revised our diversity and equal opportunities plan. Since 2015, we have been measuring the proportion of employees with a foreign background, that is, those born abroad or those whose parents were both born abroad, and at year-end this figure stood at 9.2% (8.0). We have seen an improvement in this area, but despite this have still failed to achieve our

target of 10%, which is why we now pursue this issue actively with each new recruitment.

A workplace that promotes health

A prerequisite for fulfilling our task and achieving our targets is that our employees are in good health. For us, promoting health at work means that we take a holistic approach, which includes wellness, leadership, employee camaraderie and skills development. We work preventively to promote good health, and sick leave at the company has

remained low for a long time. Read more about this aspect on page 48. During the year, we implemented a health, work environment and lifestyle survey (Swedish: HALU) that showed positive results, and we have conducted more work in a number of prioritised areas. For example, we have trained employees in

dealing with threats and violence as well as giving CPR, and have produced a new action plan tackling the occurrence of unequal treatment.

During the year, we focused on ergonomics and carried out a "health bingo" competition to increase employees' physical and social activities. All employees are covered by health insurance, and we offer a wellness contribution and discounted prices at various gyms.

"Diversity and equal opportunities are central issues for us, and everyone in the company must share responsibility for them each and every day."

Long-term benchmarking

Specialfastigheter's vision – the most secure and attractive property company promoting a safer, more secure society – forms the basis for our long-term benchmarking. By setting long-term financial and non-financial targets, we can guarantee continuous development that leads us closer to our vision.

Specialfastigheter's financial targets are decided by the owner, the Swedish state, and aim to ensure efficient use of resources to help maintain the company's strong position in a competitive market. The owner considers sustainable business to be a commercially strategic issue and the fol-

low-up of Specialfastigheter's sustainability work is conducted through a dialogue with the owner, partially by following up on targets and partially by way of specific sustainability analyses. Long-term sustainability targets are resolved upon by the Board.

Long-term targets	Target, 2017	Remarks	Target, 2021
Equity/assets ratio	25–35%	The owner's long-term targets are taken into account as part of our business planning with clear benchmarking and follow-ups	25–35%
Profit/loss after tax, after including changes in value and associated deferred tax, as a percentage of average equity	8%	The owner's long-term targets are taken into account as part of our business planning with clear benchmarking and follow-ups	8%
Dividend of 50% of profit after tax, after including changes in value and associated deferred tax	50%	The owner's long-term targets are taken into account as part of our business planning with clear benchmarking and follow-ups	50%
Increase the percentage of employees with foreign backgrounds (from 9% in 2016)	Increase the percentage to 10%	Increase focus on recruitment and implement workshops for employees to highlight skills surrounding diversity	Increase the percentage to 15%
Reduce CO ₂ emissions by 40% between 2012 and 2030 (2012: 9 kg CO ₂ /sq m Atemp)	Reduction of 35% (from 2012)	Follow-up on planned and implemented energy-saving measures, convert heating units from gas to biogas	Reduction of 38% (from 2012)
Continued zero-tolerance towards corruption	No corruption	Train, inform and carry out workshops	No corruption

Ideal position for 2021

Our operating environment is changing constantly, and Specialfastigheter's competitiveness and value creation are both dependent upon how well the organisation can adapt to customers' and other stakeholders' shifting needs. To help all of our employees visualise the direction in which the company is heading, Specialfastigheter has produced a future scenario that highlights a number of ideal future situations. Delivering security is currently Specialfastigheter's greatest competitive advantage. Continuous enhancement of our security offering to customers and other partners is a decisive part of the company's ongoing value creation.

The following are all examples of ideal future scenarios for 2021:

"Management is functioning so efficiently, securely and sustainably that customers can focus entirely on their core operations."

"Specialfastigheter is a financially stable partner who, together with its customers, continuously produces updated plans for premises' requirements both now and for the future."

"Specialfastigheter keeps up-to-date with and exploits efficient and innovative technology, wherever it can contribute to safe and secure operations."

"Specialfastigheter is a professional purchaser, both internally and externally, and is known for its sustainable strategic collaboration with suppliers."

"The entire organisation and its work is permeated by diversity, with employees being engaged in everything that happens, learning from each other, developing, performing strongly and having fun at work."

The right information in the right place and at the right time with BIM

BIM (Building Information Modeling or Building Information Management) is, put simply, a way of maintaining the information about each component of a property. BIM has long been an obvious tool in the construction sector, but is possibly even more useful for us as a property management company.

It is a matter of having the right information in the right place and at the right time throughout the lifecycle of a property. BIM is strategically important for us at Specialfastigheter because it provides support for many operationally critical processes, and in the long term also generates value in monetary terms.

Enhanced information management

Ensuring enhanced management of information submitted from the project stage to the management stage has proven to be one of our key processes. A project that focuses on making product data accessible during operation and maintenance has therefore been launched under the management of Specialfastigheter's IT Coordinator Victor Gerdevåg and Building Information Manager Kay Stahnke.

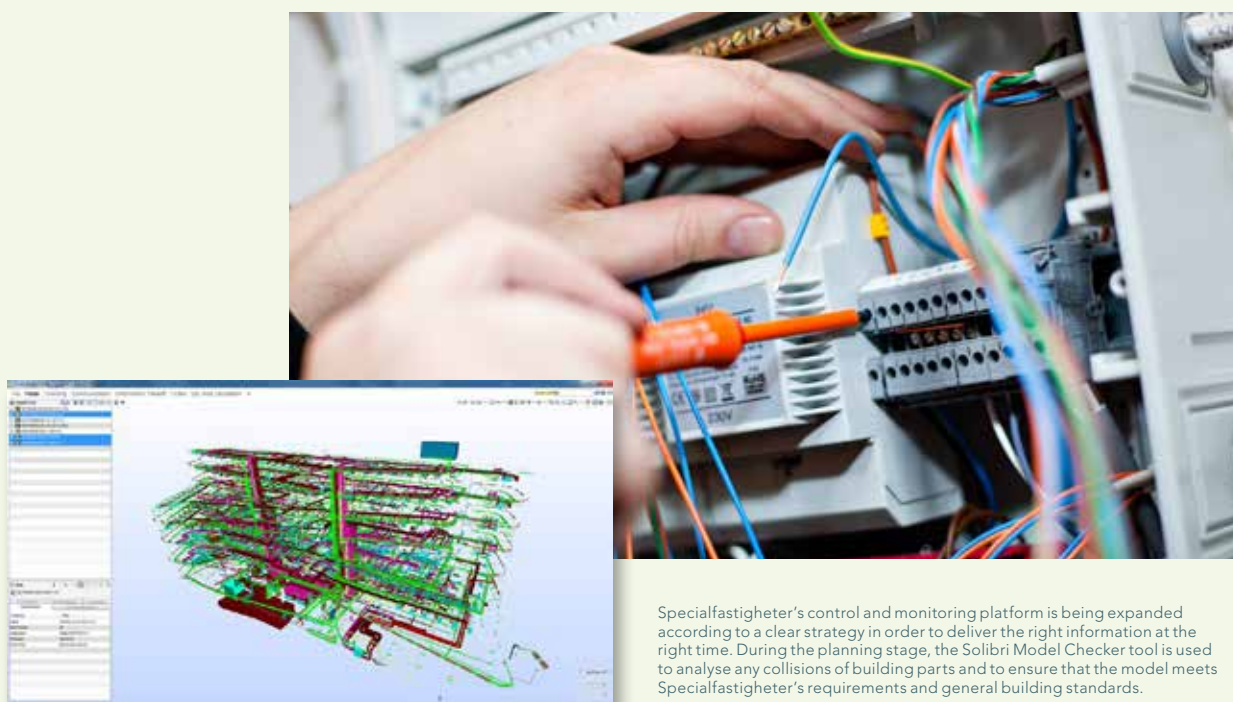
"It is of utmost importance for us to be able to store, search for and quality assure information submitted from the project stage to the management stage. Within the framework of our project, we have identified a number of import-



Victor Gerdevåg, IT Coordinator.

ant components and accompanying features that could be processed in a database instead of on paper or as a PDF," explains Victor Gerdevåg.

"BIM can also be used to give our service technicians correct technical descriptions or our property managers important information about how the premises are used. Based on that information, we can work more proactively by proposing improvements for our customers."



Specialfastigheter's control and monitoring platform is being expanded according to a clear strategy in order to deliver the right information at the right time. During the planning stage, the Solibri Model Checker tool is used to analyse any collisions of building parts and to ensure that the model meets Specialfastigheter's requirements and general building standards.

Description of operations

A long-term approach for a safer Sweden – this is the goal of our work together with our customers and suppliers. We ensure that the right premises are in place for the right operations by continuously monitoring, developing and matching customer needs with our property portfolio. We strive to ensure that every single customer feels confident in our management services so that they can focus on their core operations. We conduct our own project and development activities to develop and customise our properties so as to ensure our access to specialist expertise, primarily in the field of security.



A customised property portfolio

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

Specialfastigheter has 20 years of experience in property, specialising in security. We have a clear ambition of being Sweden's leading property company in secure facilities, which is reflected in the extensive investments and initiatives we have implemented in four different security areas (see pages 20–21). For example, we are one of very few Swedish property companies that have chosen to obtain information security certification.

Ability to develop unique customer solutions

The key to successful development of the property holdings is an in-depth understanding of customers' operations. Building up the know-how needed for developing the type of security solutions demanded by customers takes time. Our long-term customer relationships facilitate unique dialogue and collaboration. Our specialist expertise and extensive experience provides a solid foundation, but it is our ability to translate this know-how into tangible solutions specially adapted to each customer that truly makes a difference. Our starting point is always "the right premises for the right operations." The fact box on page 33 provides examples of our modifications for customers in our property holdings over the past year.

Focus on properties with security requirements

The hallmarks of our property operations are high quality, long contract periods and creditworthy customers. We

command a strong position in the market and our aim is to further increase our property holdings in close collaboration with existing and new customers. The focus of the development of our property holdings is to create a niche for the entire portfolio focused on customers with security requirements – secure facilities. Specialfastigheter has the following five development strategies for its property portfolio:

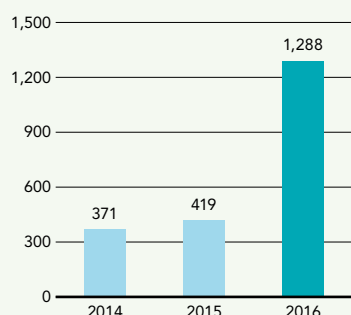
- Property upgrades – create sustainable, modern and secure buildings that provide a favourable environment for employees and for customers' operations.
- Phase-out – older, low standard buildings and buildings that are poorly suited for operations.
- Acquisitions with existing customers – expand our holdings with existing customers or with customers that have operations with security requirements and who lease premises from other property owners.
- Acquisitions with new customers – increase our holdings with new customers who need premises with built-in security.

Investments in projects
at year-end, SEK

702
million

Investments including property acquisitions

SEK million



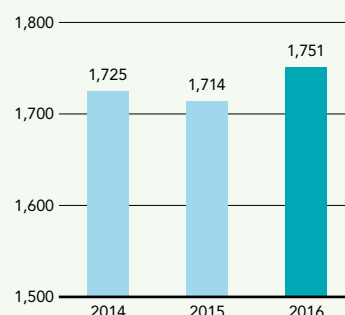
Market value of investment properties by business area

SEK million



Total rental income

SEK per sq m



- Refinement – disposal of properties that are not in line with our owner assignment.

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

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

Investments

Customer adaptations entail complex property conversion and development projects in the form of new builds, extensions and redevelopments. Specialfastigheter's investments in projects totalled SEK 702 million (356) at year-end. Read more about important ongoing and planned investments on pages 36–37.

Acquisitions

Specialfastigheter actively monitors the market and evaluates relevant acquisition opportunities to meet higher demand for properties that meet security requirements. In the first quarter, we expanded our property portfolio with the Svartsjö and Färingsö correctional facilities on the island of Ekerö, outside Stockholm. These facilities are fully leased to the Swedish Prison and Probation Service and encompass floor space of 10,500 sq m on an estimated land area of approximately 102,000 sq m.

A company was acquired in Kista, north of Stockholm, that owns part of the Kista Färöarna 1 property. This acquisition is entirely in line with our strategy since the property is leased by operations with high security requirements. The acquired building has floor space of approximately 24,600 sq m and is full leased to the Swedish Defence Research

Agency (FOI), an existing customer in Umeå. Possession will be taken in 2017.

At the end of the year, we purchased a secure facility in central Luleå through a company acquisition. As a legal centre, the property with a floor space of 21,800 sq m is an excellent fit with our portfolio. The largest tenants are the Swedish Police, the Swedish National Courts Administration and the Swedish Enforcement Authority.

We also purchased several land areas adjacent to our properties for potential future expansion.

Disposals

It was announced at the end of December that we were to sell six school properties in northern Sweden. These properties, with floor space of approximately 8,200 sq m, are leased by the Sami Education Board. The sale is part of our efforts to streamline operations and niche operations in line with our mission of owning, developing and managing properties with security requirements.

Market value of properties

The market value of Specialfastigheter's investment properties has increased significantly in recent years and amounted to SEK 22,999 million (20,919) at year-end. The estimated values were determined by means of an internal valuation based on actual lease income and operating expenses data. Information concerning cost of capital, required yield and current market rents is cross-checked with external appraisers. The unrealised changes in value recognised for the period amounted to SEK 865 million (322). To assure the quality of the internal evaluation, it was cross-checked against an external evaluation of 49 objects, equivalent to 82% of the total value at 31 December 2016.



The difference between the external and internal evaluations amounts to less than 3%. Specialfastigheter applies a value below that obtained from the external valuations.

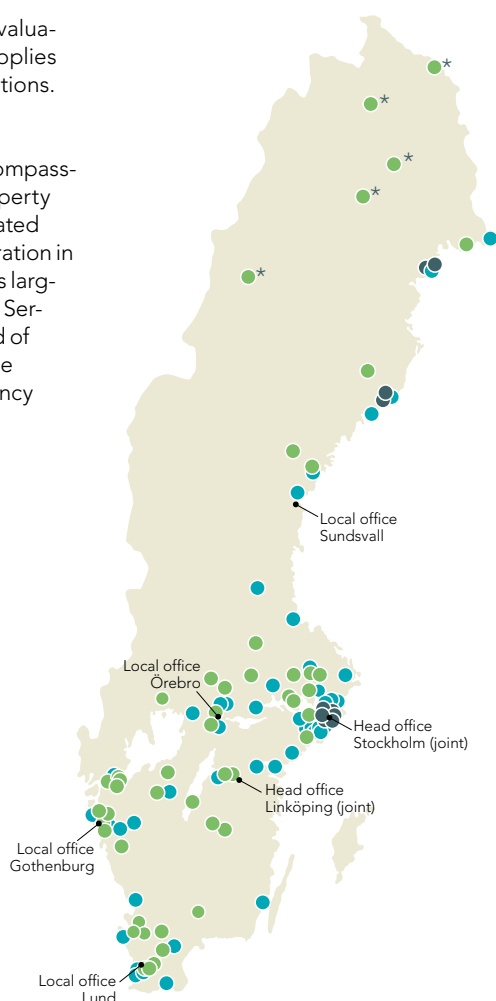
Properties and offices nationwide

Specialfastigheter manages property holdings encompassing slightly more than 100 secure facilities with a property value of about SEK 23 billion. Our customers are located across Sweden. The average remaining contract duration in the rental portfolio is 13.2 years (14.1). The company's largest customers are the Swedish Prison and Probation Service, the Swedish Police, the Swedish National Board of Institutional Care, the Swedish Armed Forces and the Swedish Defence Materiel Administration. The vacancy rate was very low at 1.4% (1.3) on 31 December 2016.

Business areas

- Prison and Probation Service business area, total income SEK 823 million
- Defence and Judicial System business area, total income SEK 751 million
- Institutional Care and Other Special Operations business area, total income SEK 338 million

* The properties have been divested, and were vacated on 31 January 2017.



Examples of modifications for customers, 2016

Property and customer	Customer modifications
District Court in Lund	Start of construction of district court building in central Lund
Kronoberg police block in Stockholm	Ongoing renovation and reconstruction of remand centre
Nine penal institutions for the Swedish Prison and Probation Service	Security-enhancing measures
Kirseberg (former correctional facility)	Lease offer submitted to the Swedish Migration Agency for redevelopment as a detention centre (negative response from the Migration Agency at year-end) Application for a change in detailed development plan to future housing
Hällby correctional facility	Reconstruction of two accommodation blocks and a study centre
Sörbyn correctional facility	Construction of a new barn and machine room
SiS Långanäs juvenile care home	Redevelopment and extension: seven accommodation units and a private room for medical treatment, recreation areas and staff rooms
SiS Älvgården LVM home (for substance abusers)	Redevelopment and extension of residential sections and communal areas plus a new sports hall
SiS Bärby juvenile care home	Preparation of a fire-fighting water reservoir and swimming facilities
SiS juvenile care home and substance abuse treatment facilities	Preparation for construction work commencing in 2017 to expand the patient capacity

Collaboration for secure and efficient property management

Our aim is to help our customers focus on their core business. Our customers all share a need for security. Our customers feel safe and secure in their operations because of the management services we provide using our own personnel, our focus on a high level of operational reliability and our efficient technical solutions.

Flexible to change

2016 was characterised by implementation work carried out at several of our largest customers as a result of the operational reviews performed in 2014/2015. Customer focus this year was on establishing procedures, processes and areas of responsibility. The changeable nature of customers' operations imposes robust demands on our flexibility and receptiveness. For example, we need to alter our maintenance activities according to when tenants can grant us access to various areas. High utilisation rates in Swedish correctional facilities, including those run by the Swedish National Board of Institutional Care, meant that we were unable to carry out maintenance involving the closure of accommodation to any great extent.

Highly qualified in-house personnel

We have extensive experience and are highly skilled in property management with specific security requirements. We adopt a customer and security perspective and aim to use our own personnel in our management services as far as possible. In addition to specialist know-how in the field of security, Specialfastigheter's service technicians and managers must also have a high level of technical expertise to efficiently manage complex and highly digitised properties. Our operational employees are also Specialfastigheter's daily contacts with customers. We trained all managers during the year to further enhance expertise in customer-specific areas, primarily security.

Our geographical range is a challenge to management services, as is the small scale of many of our properties. Skills sourcing is extremely important for maintaining a high level of service close to properties in all locations. Read more about Specialfastigheter's work on skills sourcing on pages 26–27.

Planning based on dialogue

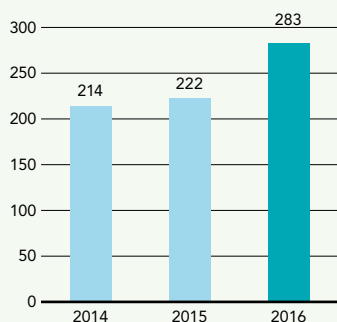
The daily dialogue of our ongoing management provides valuable planning information. Many of our customers, such as the Swedish Prison and Probation Service and the Swedish National Board of Institutional Care conduct operations at many locations across Sweden. As a result, dialogues and collaboration take place at various levels in order to encompass the entire operations. Local tenant meetings, and regional and central meetings at which the overall development of the organisations are discussed, are examples of important dialogues.

Long-term planning

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

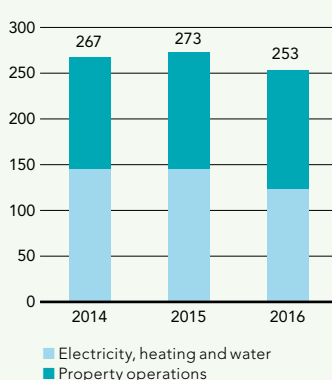
Maintenance expenses

SEK per sq m



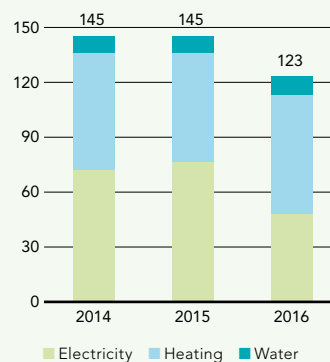
Operating expenses

SEK per sq m



Media costs

SEK per sq m



During the year, we also performed risk analyses and prepared action plans at property level for our ten most critical public properties. These activities will continue in 2017 with the remainder of our portfolio.

High operational reliability around the clock

Many of our properties fulfil important public functions. High operational reliability, in many cases around the clock, is a prerequisite for customers' operations to run safely and securely. It is essential to have robust operating systems, excellent planning and meticulous employees with an in-depth understanding of customers' needs, their properties and their technical equipment. The geographic range of the properties entails requirements for continuously developing technological aids, management systems and governance and surveillance systems. Digitalisation means that efficiency can be enhanced but is an area in which the risk of hacking must always be taken into consideration. Information security is one of Specialfastigheter's property security areas (read more on page 21).

Continued implementation of system support

We worked intensively during the year with the continued implementation of our new property system that was procured to ensure efficient and secure support for planning, implementing and monitoring operations. This system includes new support for media monitoring, case management and scheduled maintenance. Following the implementation of media monitoring support, we are now focusing on the case management and maintenance modules.

Sustainable property management

Sustainable property management covers a wide variety of matters, from energy and materials use to handling hazardous substances and biodiversity. During the year, Specialfastigheter completed the fire-fighting water reservoir at the Bärby juvenile care home outside Uppsala, together with the Swedish National Board of Institutional Care (SIS). We concentrated on water purification and an attractive design, as well as increasing educational opportunities and outdoor recreational activities.

Properties affect the environment throughout their life cycle. Specialfastigheter uses an environmental database to ensure

that the materials and substances used in property management are not hazardous to the environment or health.

Energy use has a significant impact on both operating expenses and the environment. Our service technicians and property management engineers analyse operation optimisation and the various energy investments in consultation with each property manager. Energy enhancements are a priority area in which Specialfastigheter works internally and alongside its customers. Green appendices for leases are used to collaborate with tenants as regards environmental impact. They contain specific undertakings from both Specialfastigheter and the tenant in their joint efforts to reduce environmental impact. Carbon dioxide emissions were reduced 9.4% during the year. Read more on page 24.

During the year, we worked actively on including an action plan for jointly reducing environmental impact in all leases for which we currently have green appendices. At year-end 94% of the green appendices had green action plans (not including property acquisitions in late 2016). The few action plans that were not completed were largely the result of personnel turnover and other matters taking priority. A schedule has been established for completing the remaining action plans in 2017.

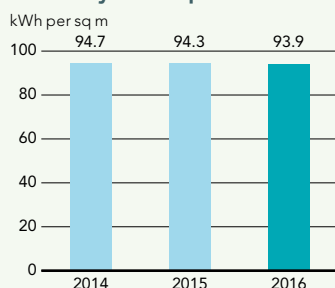
Operating and maintenance expenses

Most operating expenses comprise electricity, heating and water. This means that working together with our customers to enhance efficiency and optimise operation are key elements of retaining a low cost base. Our maintenance expenses differ from many other property companies in that they often include internal maintenance and other security-enhancing measures. Operating expenses for 2016 amounted to SEK 253 per square metre (273) due to favourable weather conditions and new agreements. Maintenance expenses for the year amounted to SEK 283 per square metre (222), since we were able to carry out more maintenance activities than in preceding years.

Radon

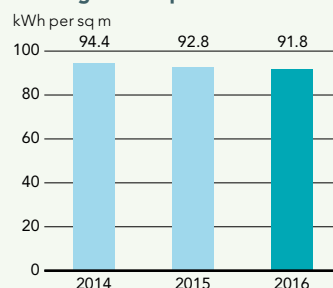
Radon measurements continued in 2016 and our entire property holdings have now been assessed. Measurements will be concluded during the present heating season and remedial action is expected to be completed no later than 2018.

Electricity consumption



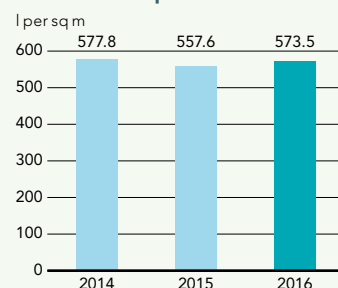
Electricity use in our properties declined 0.4% year-on-year. In 2016, we optimised operation and replaced old lighting with LEDs to reduce electricity consumption, all while our customers continued to conduct significant operations on the premises.

Heating consumption



Heating consumption in our properties fell 1.1% year-on-year. The reduction was not as large as we had anticipated as a result of higher use and production of hot water resulting from higher occupancy rates at our largest customers.

Water consumption



Water consumption increased by 2.9% during the year. Water consumption by our largest customer the Swedish Prison and Probation Service fell, while it increased for the Swedish National Board of Institutional Care, and resulted in an overall increase.

Secure and sustainable properties

Specialfastigheter manages complex development projects for our properties in the form of new builds, extensions, redevelopments and technology upgrades.

Specialfastigheter has chosen to establish an in-house project and development unit to meet its need for proprietary expertise in the field of secure facilities. Our project managers provide valuable expertise across the entire chain from concept to completion, and we also have specialists in construction, water and sewerage, electricity, the environment, energy, property automation and CAD/BIM. In 2016, we strengthened our skills and recruited more employees in preparation for forthcoming project volumes. The unit is tasked with meeting our customers' needs for appropriate and secure premises in a professional manner and contributing to the long-term development of sustainable properties.

Sustainable use of materials

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

Certification-ready buildings

Part of creating a sustainable property portfolio is to obtain environmental certification of our buildings based on energy, indoor environment and materials. The high security standards our buildings are subject to makes it difficult for us to complete the final certification stage since this requires an external review, and for security reasons we cannot grant access to all information about our properties. For this reason, we have chosen to work by making our properties ready for certification and deciding on certification on a case-by-case basis. We work with the Sweden Green Building Council's certification system for new builds and redevelopments as though the property was to be certified, but we do not complete the final stage of having an independent party conduct a review. However, we do intend to complete the certification process for our new district court project in Lund.

Projects in 2016

There were 86 (65) investment projects in progress at year-end. The total investment volume for projects in progress

is estimated at SEK 1,364 million (1,219), of which SEK 858 million was accrued as of 31 December 2016. Of the 86 projects in progress, ten had estimated investments in excess of SEK 20 million, corresponding to around 79% of the total investment volume.

Prison and Probation Service business area

- A major remand centre renovation and operational adaptation project was begun at the Kronoberg property in Stockholm in 2012 and will continue until 2018.
- Redevelopment and renovation, remodelling and extension at several buildings of the Hällby Prison commenced in 2016. Work will continue to be conducted in phases throughout 2017.
- Security-enhancing measures were implemented at nine prisons across Sweden during the year and will be completed not later than 2017.
- An important part of the operations at the Sörbyn prison, south of Umeå, is keeping animals. New animal rooms and a machine room were constructed in 2016 and were opened in September.
- Several investigation projects are being conducted in the business area, many of which are included in the Swedish Prison and Probation Service's infrastructure plan.

Defence and Judicial System business area

- The new district court project in Lund for the Swedish National Courts Administration is proceeding according to plan. The project encompasses about 10,560 sq m and the building is scheduled for completion at the start of 2018.

Institutional Care and Other Special Operations business area

- The business area is carrying out several investigations into redevelopment, extension and new builds to create long-term, sustainable buildings for our tenant, the Swedish National Board of Institutional Care's operations.
- Major alterations and additions projects were completed at the Hornö, Råby, Älvgården, Brättegården and Bärby properties in 2016.
- Redevelopments, extensions and new build projects are under way at the Ljungaskog, Gudhem and Håga properties and are expected to be completed in 2017.

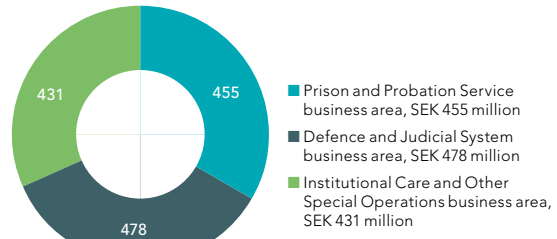
Future project volumes

Many of our customers have reviewed their organisations and enhanced the efficiency of operations in recent years. Several have indicated their needs for premises have changed and expanded. Higher security demands from both existing and new customers also mean that our project volumes are expected to increase significantly over the next five years.

Investment projects in progress on 31 December 2016

Investment volume, SEK million	Estimated
Investment projects > SEK 20 million	1,084
Investment projects < SEK 20 million	280
Total investment volume, projects in progress, SEK million	1,364
Additional floor space, sq m	
Investment projects > SEK 20 million	14,447
Investment projects < SEK 20 million	1,943
Total additional floor space, sq m, projects in progress	16,390

Investment projects by business area



Total SEK 1,364 million

Largest projects



Kronoberg remand centre
Property: Kronoberg 18, Stockholm
Customer: Swedish Prison and Probation Service
Project description: Renovation and operational adaptation of the Kronoberg remand centre
Additional floor space, sq m: 563



New district court in Lund
Property: Kristallen 1
Customer: Swedish National Courts Administration
Project description: Construction of new district court
Additional floor space, sq m: 10,560



Bärby juvenile care home
Property: Funbo-Broby 1:3
Customer: SiS
Project description: Redevelopment and new construction of residential sections, administration and communal areas
Additional floor space, sq m: 1,885



Ljungaskog juvenile care home
Property: Ljungaskog 15:28
Customer: SiS
Project description: Redevelopment and extension of residential sections, educational premises and new construction of a sports hall
Additional floor space, sq m: 260



Tysslinge juvenile care home
Property: Hall 4:4
Customer: SiS
Project description: Modification of premises (from prison to institution)
Additional floor space, sq m: 0



Gudhemsgården LVM home
Property: Gudhem 12:3
Customer: SiS
Project description: Redevelopment and extension of residential sections and communal areas
Additional floor space, sq m: 292



Brättegården juvenile care home
Property: Brätte 1:2
Customer: SiS
Project description: Redevelopment of residential sections and communal areas
Additional floor space, sq m: 0



Älvgården LVM home
Property: Ytternora 2:7
Customer: SiS
Project description: Redevelopment and extension of communal areas and Redevelopment and extension of residential sections, and new construction of a sports hall
Additional floor space, sq m: 887

Supplier collaboration for efficient and secure deliveries

Specialfastigheter's suppliers are an important part of our own operations. Our shared strength and success are based on trust and collaboration. Together, we create cost effective and sustainable supply chains – a key factor in our future development.

Annual purchasing, mainly construction contracts, specialist expertise and energy, amounts to SEK 1–1.5 billion. We currently engage about 1,200 suppliers, most domiciled in Sweden. The number of sub-suppliers and supply chains varies for different contracts and changes over time. Specialfastigheter complies with the Swedish Public Procurement Act (LOU 2007:1091) which entails that our purchases are exposed to competition.

Structured purchasing process provides good control

To capitalise on value in the supply chain and apply a well-planned and structured work approach, we have a purchasing organisation in place that has clearly defined roles and responsibilities for working proactively together with purchasers in the organisation. The central purchasing unit is responsible for defining strategy, procurement and signing contracts. By categorising our purchases based on various market conditions, we can specify our needs and requirements for products and suppliers and develop individual strategies for each contract area. Central framework agreements account for 95% of our total purchasing.

Call-off orders are made from central framework agreements by the organisation's purchasers, mainly for properties or construction contracts. Our geographical range means that many employees act as purchasers with business relationships at different levels. To increase awareness and understanding of supply-chain issues, we conduct regular internal training on the purchaser's responsibilities and duties as well as on issues concerning professional conduct and business ethics. In this respect, our internal Code of Conduct provides guidance and helps employees make the right choices and act in a way that reflects Specialfastigheter's values.

Support systems for all parts of the process from procurement and quotation requests to call-offs and invoicing

ensures efficient handling and excellent governance and follow-up.

A sustainable supply chain

Our aim is to develop an optimal supplier base that meets our needs over time. Supply reliability, efficiency and innovation are important parameters for attaining the organisation's targets, generating competitive advantages and meeting customer requirements and expectations.

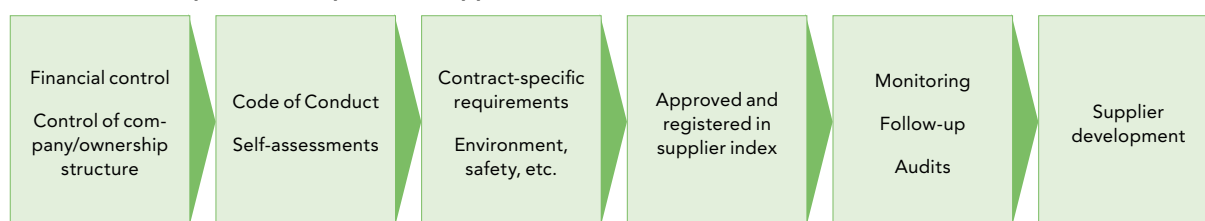
It is important that our suppliers share our values, and it is a precondition for long-term collaboration. Signing our Supplier Code of Conduct is mandatory when new central contracts are entered into, in addition to general and product-specific requirements primarily relating to finances, the environment and security, except for contracts involving both low values and low risk.

The Supplier Code of Conduct stipulates guidelines that govern and regulate the relationship between us and our suppliers, and onward down the supply chain. By creating a sustainable supply chain, with each supplier placing demands on their sub-suppliers, we can together minimise serious risks, such as unacceptable employment conditions, industrial injuries and environmental damage, discrimination and corruption. In signing the Code of Conduct, the supplier accepts the Code's guidelines and requirements. Some 78% of suppliers under central framework agreements in 2016 signed the Code of Conduct, meaning that 62% of our total purchases is now encompassed by the terms of the Code.

Follow-up and development

We have a documented process for setting requirements, control and monitoring our suppliers and contracts. Following initial qualification and registration, regular delivery assessments are performed on call-offs from framework

Control, follow-up and development of suppliers





agreements based on the criteria of quality, delivery performance and communication. We introduced a more comprehensive assessment template for large and medium-sized contractors and consultant assignments in 2016. It is to be used at the end of an assignment or at specific stages and includes security, organisation, sustainability, customer value and information security.

Audits are an important part of minimising risk and improving contracts and delivery performance. We have now established a self-assessment questionnaire based on the Code of Conduct, with responses analysed by means of off-site audits. Responses are compiled in a structured manner and form an important element of sustainability efforts in the supply chain. We performed 32 off-site audits in 2016 based on the self-assessment questionnaire and four on-site audits concerning environmental requirements.

We comply with our agreements

Contract compliance is one of Specialfastigheter's overall targets and is a measure of how well our requirements on, for example, efficiency, security and quality are reflected in our purchases. It is also a matter of credibility regarding our contractual suppliers.

Contract compliance is measured both as a percentage of the total number of transactions and as a percentage of the total call-offs from central framework agreements. Measurements are taken every quarter and the results are reported as an annual average.

The target for 2016 was an annual average of at least 90%. Contract compliance in 2016 was 89% calculated in transactions (30,000 annually) and 94% calculated by value.

The results of these off-site audits revealed differences in levels of awareness and systematic methods in different industries, and variations depending on the size of the supplier. It can be noted that most suppliers do not have systems for setting requirements and monitoring their suppliers, and this is a vital area for us to work on since many of the risks associated with our Code of Conduct are found further down the supply chain. The results also form the basis of various activities that need to be implemented. Feedback is received through dialogue and meetings, where we have the opportunity to discuss suppliers' results, sustainability work and improvement potential. On-site audits will be carried out at suppliers wherever warranted by the results of the self-assessments.

Significant activities in 2016

- Risk analysis performed based on our Code of Conduct
- Process established for supplier audits
- Off-site audits established based on Code of Conduct and self-assessments
- 2017 audit plan prepared

Quick facts on control and follow-ups

	2014	2015	2016
Number of audits – environmental standards	0	4	4
Percentage of new agreements where suppliers have accepted our Code of Conduct ¹	43%	63%	78%
Percentage of new suppliers that carried out self-assessments ^{1,2}	43%	57%	78%

1) We report the percentage of new contracts for 2016 rather than the percentage of new suppliers since it provides a more complete picture of our auditing of the supply chain.

2) All self-assessment questionnaires were sent from 2015. About 80% of suppliers with new contracts are subject to full controls. Other agreements are of such negligible value and risk that checks are unwarranted.

Proactive financial management

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

The past year

Long-term interest rates increased internationally after the US presidential elections on the back of stimulus package expectations and rising inflation. The international upturn also led to a slight increase in Swedish interest rates at the end of 2016. At the beginning of the year, the Swedish Riksbank lowered the repo rate to minus 0.50% and kept it at this level for the remainder of the year. The Riksbank also pressed down the market interest rate by buying government and inflation-indexed bonds. The European Central Bank also pursued an expansionary monetary policy, while the American Federal Reserve raised its key interest rate by 0.25 percentage points in December. During the year, Specialfastigheter issued commercial paper at negative interest, meaning that we received interest rather than paying interest.

The credit spread, expressed as the difference between five-year government bonds and housing bonds, fell from 0.8% at the beginning of the year to 0.3% at year-end. As a result, we increased long-term funding in the bond market. In the third quarter, we issued a bond with a nine-year term at a fixed interest rate of 1.24%, and a bond with a ten-year term at a fixed interest rate of 1.30%.

The Board decided in 2015 to reduce the share of equity based on the shareholders' aim of adapting the capital structure to our target equity/assets ratio. Accordingly, funding in 2015 increased compared with 2014. Funding also increased slightly in 2016. Corporate bond issues rose

from just under SEK 8.3 billion to SEK 9.2 billion in 2016. The issue volume on the commercial paper market increased from slightly more than SEK 2.8 billion to slightly more than SEK 3 billion.

During the year, we invested SEK 850 million in seven Swedish covered housing bonds and used these as collateral for bank loans on the repo market. This has provided us with opportunities for faster funding for shorter terms and at negative interest rates since the repo rate is at minus 0.50%.

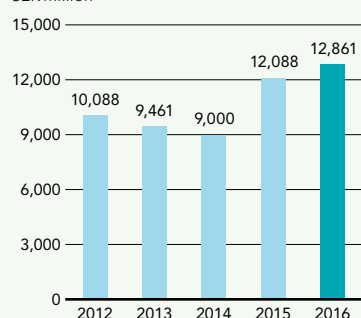
Maturities have become longer since we increased funding in the long-term capital market. The fixed-interest term was extended to capitalise on the low market interest rate during the year.

Net financial expenses amounted to SEK 79 million compared with SEK 226 million in 2015. The positive change was largely due to the low market interest rate, but also the positive non-recurring effect at the start of the year from the repayment of a foreign currency loan of SEK 64 million and higher income of SEK 14 million from housing bonds.

Changes in derivative values were a negative SEK 38 million (positive: 45). In conjunction with the repayment of foreign currency loans, an unrealised gain of SEK 68 million on matching currency derivatives from 31 December 2015 was unwound. The falling interest rate compared with the preceding year entails a lower, unrealised market value.

Interest-bearing liabilities

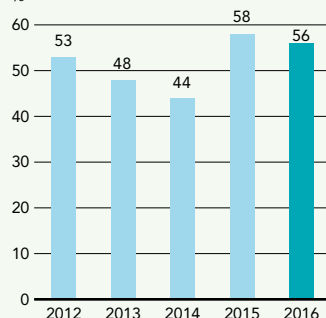
SEK million



Interest-bearing liabilities increased in 2016 as a result of acquisitions and increased investments.

Loan-to-value ratio

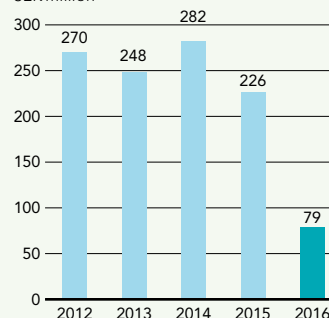
%



The loan-to-value ratio fell in 2016 since the property value rose more than the increase in liability.

Net financial items trend

SEK million



Net financial items were much lower in 2016 than previously due to the positive non-recurring effect of a final payment of currency loans and lower average interest rate when refinancing interest-bearing liabilities.

Outlook for 2017

The Riksbank has decided to maintain an expansionary monetary policy throughout the year until inflation has stabilised. The repo rate is not anticipated to be raised until the beginning of 2018. At its December meeting, the Riksbank's Executive Board was divided on the matter of extending securities purchases, which the market interpreted as a reduction in stimulus measures. As a result, the long-term interest rate rose after the December meeting. The capital market is expected to remain strong in 2017. Credit spreads narrowed in 2016 following central banks' bond-buying stimulus packages, but they could rise again if the banks end their expansionary monetary policy in 2017.

Specialfastigheter's financial operations

Trends in the financial market impact the company's cost trend. Financial management must reflect and support the operations' business objectives.

Specialfastigheter's financial risks are to be limited at the same time as active financial management is to ensure low net financial items linked to the operations' targets and conditions. This is achieved by identifying risks and managing them within set frameworks.

The aims of the financing activities are to:

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

Commercial paper programme

The company has had a commercial paper programme in the Swedish market since 1999 with a limit of SEK 4 billion. A total of SEK 3 billion of the programme had been utilised at 31 December 2016.

Bond programme

The company issues bonds denominated in SEK or EUR in the Swedish capital market under an MTN programme with a maturity of one year or longer. The programme has a total limit of SEK 13 billion or equivalent value in EUR. A total SEK 9.2 billion (8.3) had been utilised at year-end. In addition to the Swedish market, Specialfastigheter has two outstanding bonds amounting to USD 50 million, equivalent to just under SEK 456 million, in the European market. Fixed-income and currency derivatives were also entered into meaning that currency risk has been neutralised.

We reduce financing risk by spreading maturities over different years and via loan commitments that cover the maturity of commercial paper and bonds for the years immediately ahead. The volume of loan commitments was increased by SEK 500 million compared with the preceding year and totalled SEK 4,750 million.

Covenants and ownership clause

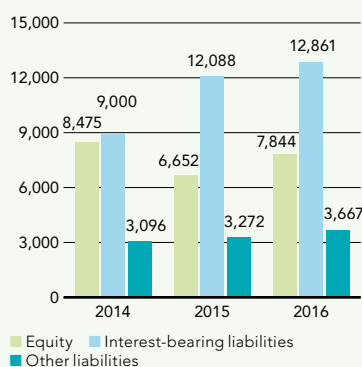
Specialfastigheter's obligations regarding the covenants in its market programmes and loan commitments stipulate an ownership clause that the Swedish state must own 100% of the shares in the company.

Mortgage deeds

No mortgage deeds are pledged as collateral for any debt instruments.

Capital structure

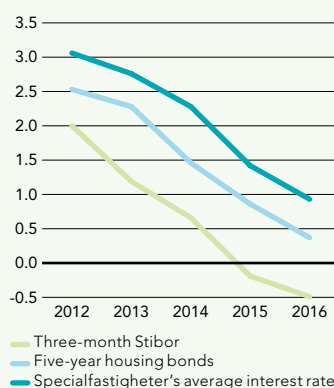
SEK million



Equity declined in 2015 as a result of an additional dividend of SEK 3,000 million.

Interest-rate trend

%



Bond issues in 2016

Maturity	Amount, SEK million
3 years	500
5 years	1,500
6.5 years	228
7 years	228
9 years	300
10 years	175



Governance of our operations

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

GRI Sustainability Report

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

Reporting principles

Specialfastigheter applies Global Reporting Initiatives (GRI) sustainability reporting guidelines, version G4 Core option and the Construction and Real Estate sector supplement. Based on the company's strategies, targets, actual impact, expectations and interests of our stakeholders, Specialfastigheter has decided to report 12 aspects and subject areas that are material and relevant to us and our stakeholders. The selected GRI material aspects and indicators are shown in the GRI list of contents on page 45. The Sustainability Report is an integral part of the Annual Report and sustainability information can be found in various sections, mainly in the front section of the report.

The Sustainability Report covers the entire company including subsidiaries, and is applicable to the full-year 2016. It follows the financial year and is published annually. The most recent Sustainability Report was published in the 2015 Annual Report on 18 March 2016. The report is cross-checked internally and reviewed and certified by an external authorised public accountant.

No significant changes have been made regarding the information provided in the 2015 Annual Report. Specialfastigheter reports the same indicators as in the preceding year and changes to demarcations in the data reported are indicated in the relevant text or table.

Indicators that have an environmental impact are reported with the property holdings for 2016. Descriptions of calculation and measurement methods, any limitations and assumptions are provided alongside each indicator.

The preparation of area data was changed due to the implementation of the new energy monitoring system compared with the preceding year. The system takes into account the date on which the area changed (for example, due to remeasurement or divestment) and an average area for the year as a whole is then calculated.

The contact for the Sustainability Report is Hanna Janson, Communication Director, telephone +46 10 788 62 10.

G4-27 Table of key topics and concerns raised through stakeholder engagement and how they were responded to

Summary of stakeholder dialogues and other dialogues with our most important stakeholders, 2016

Stakeholders	Principal fields of interest and expectations	Examples of dialogues and activities
Customers	Collaboration for sustainable property management Energy use Use of materials New technology/innovation Substances hazardous to health and the environment	Day-to-day administration Customer meetings Stakeholder dialogues (questionnaire) Workshop External website Annual Report
Suppliers	Energy use Sustainable supply chain Security Social commitment Customer health	Dialogues and consultation about specific issues Procurement Project meetings Seminars Stakeholder dialogues (questionnaire)
Investors	Energy use Sustainable supply chain Collaboration for sustainable property management Waste Use of materials	Regular contacts with banks/investors Interim reports Annual Report Stakeholder dialogues (questionnaire) Rating
Employees	Security Customer satisfaction Long-term profitability Energy use Customer health Equality and diversity Attractive employer	Leadership Performance reviews Skills development Employee conferences Collaboration with trades unions Intranet Stakeholder dialogues (questionnaire) Employer Branding Diversity and Equal Opportunities Committee Workshop
Owner (the state)	Exemplary sustainability standards	Annual General Meeting State ownership policy Owner dialogue Network meetings

Governance of sustainability initiatives

Specialfastigheter's Board is ultimately responsible for sustainability governance. In the management group, the CEO bears overall responsibility, but each head of department is responsible for integrating sustainability in the day-to-day operations. All of the organisation's managers and employees are responsible for compliance

with applicable policies and guidelines. The table shows Specialfastigheter's sustainability governance. The government's ownership policy, sustainability policy and business plan provide overall governance and therefore are not addressed above.

Material aspects/topics	Strategy areas	Guidelines and instructions	Follow-up	Responsibility	Targets and outcomes 2016
Economic performance	Best at security Long-term profitability Creating customer value	Financial targets Financial policy Insider policy Market plan	Interim reports/year-end report Annual Report	CEO CFO	Target: Adjusted return on equity, 8% Outcome: 13.7%
Security	Best at security Responsibility for environment and climate Proactive skills sourcing	Overall security policy Information security policy Guideline on physical protection	Management review Ongoing security follow-ups Ongoing risk analyses Incident reporting	CEO Head of Security Projects and Development Director	Target: No form of corruption or the giving or acceptance of bribes Outcome: 0 cases
Work environment	Best at security Proactive skills sourcing	Guidelines on physical, organisational and social work environment Guidelines on managing substance abuse problems Instructions, action plan for bullying Swedish Work Environment Act Swedish Working Hours Act Swedish Annual Leave Act	Health, work environment and lifestyle survey (HALU) Employee satisfaction survey Follow-up of benefit of occupational health services Measuring absence due to illness Incident reporting system	CEO Managers HR Director Work environment committee Employees	Target: At least 75% of employees are to consider their health to be good according to the HALU survey Outcome: 79%
Sustainable property management	Creating customer value Responsibility for the environment and climate	Purchase agreements Purchasing policy Delegation arrangements Code of Conduct Strategic energy and environmental targets Green appendices in leases	Ongoing customer dialogues Management plan per property	Property Management Director Operations Support Director	Target: Energy consumption max 197.0 kWh per sq m; 95% of leases have green appendices Outcome: 200.1 kWh per sq m; 95% of leases have green appendices
Supplier assessments regarding the environment, working conditions and human rights¹	Creating customer value Long-term profitability Responsibility for the environment and climate Proactive skills sourcing	Purchasing policy Code of Conduct for suppliers Sustainability policy Purchase agreements	Audits, self-assessments, whistle-blower system, implementation/follow-up meetings, development issues	Operations Support Director Managers	Target: Contract compliance 90% Outcome: 89%
Anti-corruption	Creating customer value Best at security Long-term profitability	Code of Conduct Purchasing policy Code of Conduct for suppliers Security policy Delegation arrangements	Whistle-blower system Audits performed by internal controls	CEO Managers Employees	Target: No form of corruption or the giving or acceptance of bribes Outcome: 0 cases
Emissions	Responsibility for the environment and climate	Strategic energy and environmental targets	Interim reports/year-end report Annual Report	Projects and Development Director	Target: Reduce carbon dioxide emissions by 40% by 2030 compared to 2012 Outcome: 35% reduction by 2016
Energy	Responsibility for the environment and climate Creating customer value Long-term profitability	Strategic energy and environmental targets Financial targets Financial policy	Interim reports/year-end report Annual Report	Projects and Development Director	Target: Energy consumption max 197.0 kWh per sq m Outcome: 200.1 kWh per sq m
Skills sourcing	Creating customer value Best at security Long-term profitability Responsibility for the environment and climate Proactive skills sourcing	Code of Conduct Diversity and equal opportunities plan Swedish Discrimination Act Swedish Educational Leave Act	Performance reviews Measuring number of skills development hours Employee satisfaction survey Organisational analysis Skills inventory Succession planning	Managers HR Director Employees	Target: Everyone should have the same opportunity for training, advancement and development Outcome: No cases of discrimination have occurred. Skills enhancement was offered on equal terms
Equality and diversity	Creating customer value Best at security Long-term profitability Responsibility for the environment and climate Proactive skills sourcing	Code of Conduct Diversity and equal opportunities plan Swedish Discrimination Act	Measurement of key performance indicators for diversity and equal opportunities Salary survey Employee survey (HALU) Measurement of equal opportunities (JAMIX) Survey of the company's participation in workshops using the "Växthuset" tool	Managers HR Director Diversity and Equal Opportunities Committee Employees	Target: Increase the number of employees with foreign backgrounds to 10% Outcome: 9%

1) Counted as three aspects.

Content Index as per GRI

Summary of the Specialfastigheter 2016 Sustainability Report in accordance with GRI G4. Page numbers in the table refer to where information on various indicators can be found. Specialfastigheter reports at the Core level.

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DMA = Disclosure on Management Approach

Specific standard disclosures

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DMA		26–27, 44, 47	
G4-LA12	Composition of the Board and executive management and a breakdown of employees by gender, age group, minority group membership and other indicators of diversity	26–27, 48–49, 59, 64–66	1, 6
Supplier assessments regarding working conditions			
DMA		38–39, 44, 47	
G4-LA14	Percentage of new suppliers screened according to labour practice criteria	38–39, 50	3–6
HUMAN RIGHTS			
Supplier assessments regarding human rights			
DMA		38–39, 44, 47	
G4-HR10	Percentage of new suppliers screened according to human rights criteria	50	1–2
COMMUNITY			
Anti-corruption			
DMA		44, 47	
G4-SO5	Confirmed incidents of corruption and actions taken	13, 21, 28, 44	10
Non-GRI G4 aspects			
Company-specific areas			
Sustainable property management			
DMA		17, 31–33, 44, 47	
Sustainable property management			
Security			
DMA		47	
Security			
Security			

GRI – profile and performance indicators

G4-10 Total labour force

Gender distribution temporary employees and permanent employees

Total number of employees	2014	2015	2016
Women	34 (28%)	38 (30%)	39 (30%)
Men	87 (72%)	90 (70%)	92 (70%)
Total	121	128	131

Total number of temporary employees	2014	2015	2016
Women	2	2	0
Men	1	1	0
Total	3	3	0

All figures pertain to 31 December in the year concerned.

The organisation is not split into regions. All employees are full-time employees. A certain proportion of the organisation's work is carried out by external consultants, contractors or their subcontractors. These individuals are not covered by the summary as we are currently unable to retrieve this information. We are not able to report this separately as most of the external human resources work intermittently and only a few have consultancy assignments with fixed working hours. No significant seasonal variations in the number of employees occur.

G4-11 Employees with collective bargaining agreements

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

G4-14 Application of the precautionary principle

We place specific requirements on procurements in respect of material usage and document the materials we select. We work proactively to select materials that do not contain substances that are hazardous to health or the environment. We have also begun systematically following up requirements set during procurements. Moreover, we have property management checks to minimise the use of substances hazardous to health and the environment. We also make sure waste management follows the requirements we have been set. For more information about our environment-related risks, see pages 34–36, 52 and 54.

G4-15 Participation in sustainability initiatives

Initiative	
BELOK	Member
GreenChain	Member
NMC (The Swedish Association for Sustainable Business)	Member

G4-16 Active participation in organisations/networks

Organisation	Type of participation
BIM Alliance	Member
Swedish Construction Clients Forum	Member, the CEO is the electoral committee convener
Swedish Centre for Innovation and Quality in the Built Environment	Member
Collaborative forum	Member of steering and management groups and various project groups (BIM, HUT, Rules and agreements)
Development of public sector property activities (UFOS)	Member
Stockholm Chamber of Commerce	Member, the CEO is a city councillor
Purchasing network (Specialfastigheter, Akademiska Hus, Jernhusen)	Member
PurNet (purchasing network)	Member
TUC	The Operations Support Director is a member of the management group for strategic purchasing

G4-20-21 Effects inside and outside the organisation

GRI material aspects	Aspect boundaries	
	Inside the organisation (IO)	Outside the organisation (UO)
Economic performance	Affects Specialfastigheter's business and development opportunities in the short and long term.	Affects our stakeholders through the value we create for them, for example in the form of a dividend to the owner and tax to the state.
Energy	Has an effect through energy use in Specialfastigheter's property holdings during new construction, redevelopment and extensions and in property management.	Has an effect through the choice of energy and fuel suppliers and collaboration with our customers to reduce energy use.
Emissions	Have an effect through the use of energy and choice of fuel in properties and administration.	Have an effect through the use of energy by our customers and suppliers.
Supplier environmental assessments	Have an effect through the development and setting of supplier standards in respect of the environment.	Have an effect as suppliers must comply with the standards we set in respect of the environment.
Work environment	We affect the physical, organisational and social work environment through systematic work environment management (SAM).	We affect our customers' work environments and construction as we allocate work environment tasks to the contractors we engage.
Skills development	Has an effect as we gain skills appropriate for today and the future which makes us more attractive as an employer, which helps us achieve established targets, improve profitability and become more competitive.	Affects how attractive we are as an employer, the quality of what we deliver and thus customer satisfaction.
Equality and diversity	Have an effect through everyone's enjoyment of equal rights and opportunities in their working life. Also affect our skills sourcing, financial performance and employer brand.	Have an effect by attracting a diverse range of new employees.
Supplier assessments regarding working conditions	Have an effect through the development and setting of supplier standards in respect of working conditions.	Have an effect as suppliers must comply with the standards we set in respect of working conditions.
Supplier assessments regarding human rights	Have an effect through the development and setting of supplier standards in respect of human rights.	Have an effect as suppliers must comply with the standards we set in respect of human rights.
Anti-corruption	Affects employee contacts with customers and purchases from suppliers.	Has an effect as suppliers must comply with the requirements we set regarding business ethics.
Non-GRI aspects		
Company-specific areas		
Sustainable property management	Has an effect through our active, customer-centric property management.	Has an effect through our collaboration with our customers when developing efficient, sustainable property management.
Security	Has an effect through our running operations with a focus on security.	Has an effect through demands placed on us by our customers.

G4-EC1 Direct economic value generated and distributed

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

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

Reporting of this indicator follows financial accounting policies and shows Specialfastigheter's economic value generation during 2016.

EC1 Direct economic value generated and distributed

Direct value generated	Stakeholders	2014	2015	2016
Stakeholders	Tenants	1,872	1,867	1,912
Financial income	Finance market	0	4	19
Property sales	Customers, property market	3	-1	4
Distribution of economic value				
Operating expenses	Suppliers	352	399	416
Salaries and benefits to employees	Employees	96	101	109
Payments to financiers	Finance market	282	230	98
Payments to the public sector (dividend)	Owner	3,000	446	497
Investments in the community (taxes)	Community	423	329	501
Unrealised change in value	Property market	-643	-322	-865
Unrealised change in value	Finance market	-26	-45	38
Remaining in Group		-1,609	732	1,141

G4-LA6 Rates of injury, absence due to illness and work-related fatalities

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

During the year, 16 work environment incidents were reported in our incident reporting system. In 2015, 22 work environment incidents were reported and 12 during 2014. Registered work environment incidents cover high-risk conditions, near-accidents and injuries suffered by employees, consultants and contractors, and this reporting makes us better able to take preventive measures.

Work-related accidents, near accidents and injuries

	2014	2015	2016
Number of serious accidents reported	3	0	1
Number of serious accidents reported	0	0	0
Number of work-related accidents classified as work-related injuries that resulted in absence due to illness	0	1	0
Number of work-related accidents classified as work-related illness	0	0	1

The organisation is not split into regions and we do not have access to accident statistics broken down by gender. No work-related fatalities occurred during 2014–2016. We comply with Swedish legislation when recording and reporting accident statistics. Because the number of work-related accidents is so low, we do not find it meaningful to report accident ratios or ratios regarding work-related illnesses.

Absence due to illness,% of total working hours

	2014	2015	2016
Men	2.49%	1.84%	2.78%
Women	3.86%	4.95%	2.14%
All employees	2.84%	2.74%	2.60%

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

G4-LA10 Skills development and lifelong learning

Skills development refers to training initiatives that improve the skills of individual employees or the unit as a whole; read more on pages 26–27. Skills development is conducted in many different formats such as seminars, lectures, mentorship, conferences, field trips, inductions and internal and external training courses. All employees are to have an annual performance review with their line manager, which should lead to an individual development plan. In 2016, 90% of employees underwent a performance review. No measurement was possible in 2014 and 2015.

We ensure that we meet statutory requirements for qualifications and offer ongoing training in hot work and electrical work. New employees undergo obligatory security training, and when necessary everyone undergoes training in matters concerning purchasing, invoice management, the property management system, handling chemicals and the work environment, for example. We also trained all employees in the area of information security during 2016. Specialfastigheter is a member of Trygghetsradet (TRR).

G4-LA12 Composition of the Board, executive management and employees

The compositions of the Board and executive management are presented in more detail on pages 59 and 64–66. The proportion of employees with a foreign background is reported on page 27. The composition of the Board, executive management and employees is broken down by gender and age group. To enable comparisons with previous years, we report the distribution in the age groups 20–29, 30–39, 40–49, 50–59 and 60+.

Number of people on the Board including alternates and management

2014: Executive management: 2 women, 5 men.
Board: 6 women, 5 men.
2015: Executive management: 5 women, 3 men.
Board: 6 women, 5 men.
2016: Executive management: 5 women, 3 men.
Board: 5 women, 6 men.

LA12 Gender and age breakdown, Board, management and employees, %

Board, including alternates		20-29	30-39	40-49	50-59	60+	Total	Average age
2014	Women	0%	17%	33%	50%	0%	55%	49
	Men	0%	0%	20%	40%	40%	45%	56
	Total	0%	9%	27%	46%	18%		52
2015	Women	0%	17%	17%	67%	0%	55%	48
	Men	0%	0%	0%	60%	40%	45%	57
	Total	0%	9%	9%	64%	18%		52
2016	Women	0%	20%	20%	20%	40%	45%	51
	Men	0%	0%	0%	67%	33%	55%	58
	Total	0%	9%	9%	45%	36%		54

Management		20-29	30-39	40-49	50-59	60+	Total	Average age
2014	Women	0%	0%	0%	100%	0%	29%	53
	Men	0%	0%	20%	60%	20%	71%	53
	Total	0%	0%	14%	71%	14%		53
2015	Women	0%	0%	60%	40%	0%	63%	47
	Men	0%	0%	33%	67%	0%	38%	51
	Total	0%	0%	50%	50%	0%		49
2016	Women	0%	0%	60%	40%	0%	63%	49
	Men	0%	0%	0%	100%	0%	38%	53
	Total	0%	0%	38%	63%	0%		51

Employees		20-29	30-39	40-49	50-59	60+	Total	Average age
2014	Women	12%	18%	41%	27%	3%	28%	43
	Men	2%	15%	32%	39%	12%	72%	48
	Total	5%	16%	35%	36%	9%		47
2015	Women	5%	21%	40%	32%	3%	30%	45
	Men	4%	17%	27%	46%	7%	70%	48
	Total	5%	18%	31%	41%	6%		47
2016	Women	0%	23%	36%	38%	3%	30%	46
	Men	2%	14%	28%	43%	12%	70%	48
	Total	2%	17%	31%	42%	9%		48

LA12 Total workforce and gender distribution by unit

Unit	2014			2015			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
CEO	1	0	1	1	0	1	1	0	1
Accounting and Finance	9	2	11	10	3	13	9	3	12
Operational support	9	5	14	7	5	12	6	5	11
Management support	5	1	6	7	1	8	7	1	8
Business areas	1	6	7	1	6	7	1	5	6
Property management	6	61	67	7	61	68	8	61	69
Projects & Development	3	12	15	5	14	19	7	17	24
Total	34	87	121	38	90	128	39	92	131

G4-LA14 Percentage of new suppliers screened according to labour practice criteria

Refer to the description under G4 EN-32.

G4-EN3 Energy use within the organisation

Energy purchased for our properties such as electricity, district heating and how large a proportion is not renewable; biofuel, electric heating, bio oil, oil, gas and cooling. The total amount of energy purchased for our properties during the year was 803,735 GJ, compared with 803,812 GJ the previous year. The total amount of energy purchased in the previous year is adjusted to reflect the 2016 property holdings. We increased our consumption of oil during the year due to the fact that we experienced certain operational problems with heat pumps. As a result of operational optimisation, we have reduced our use of district heating and pellets. Regarding the use of district heating, we report how much was not renewable.

EN3 Energy use within the organisation, GJ

Energy use is followed up monthly at the property level and by energy type.

	2014	2015	2016
Electricity	389,402	388,358	387,668
District heating	293,126	291,644	290,355
District heating, renewable	275,246	273,853	270,321
District heating, non-renewable	17,881	17,790	20,035
Pellets	15,951	15,637	15,011
Electric heating	22,895	24,421	25,215
Oil	17,289	13,805	14,670
Bio oil	4,395	4,996	4,438
Gas	10,380	6,658	6,786
Cooling	63,008	58,293	59,592
Total	816,446	803,812	803,735

G4-CRE1 The use of energy in buildings, kWh per sq m

We report energy intensity for electricity, heating and cooling in our properties per sq m Atemp, which refers to surfaces heated to above 10 degrees.

	2014	2015	2016
Electricity	94.7	94.3	93.9
Heating	94.4	92.8	91.8
Cooling	15.2	14.1	14.4
Total	204.3	201.2	200.1

The table below shows how the percentage Atemp surface distribution appears between the climate zones.

Distribution of surface into climate zones, %

Climate zone 1	5.1%
Climate zone 2	7.9%
Climate zone 3	74.2%
Climate zone 4	12.8%

G4-EN15 Direct carbon dioxide emissions, tonnes CO₂ eq (Scope 1)

We use the Swedish Environmental Protection Agency model to calculate our total CO₂ emissions. Here we show emissions resulting from the use of oil and gas. CO₂ eq emissions from combustion have been retrieved from the Swedish Environmental Protection Agency, <http://www.naturvardsverket.se/Stod-i-miljoarbetet/Vagledning/Luft-och-klimat/Berakna-dina-klimatutslapp/>

The CO₂ eq used for oil is 267.3 g carbon dioxide/kWh, for gas 160.0 g carbon dioxide/kWh, for pellets 7.2 g carbon dioxide/kWh and for RME 3.5 g carbon dioxide/kWh.

	2014	2015	2016
Non-renewable energy	1,943.1	1,364.8	1,391.0
Renewable energy	49.0	43.6	34.4
Total	1,992.1	1,408.4	1,425.4

G4-EN16 Indirect greenhouse gas emissions, tonnes CO₂ eq (Scope 2)

Here we show emissions made up of indirect emissions from purchased electricity and heating. The calculation of carbon dioxide emissions resulting from our use of district heating was based on supplier information regarding the fuel mix used in delivering the major proportion of district heating to us during the year. The information is taken from <http://www.svenskfjarrvarme.se/Statistik--Pris/Miljovardering-av-fjarrvarme/Miljovarden-2009-20121/>

The average value was calculated to be 61.8 g carbon dioxide/kWh. The method for calculating carbon dioxide emissions resulting from our use of electricity was based on information from our supplier Bixia; the emission factor is 0 g carbon dioxide/kWh. In all, Specialfastigheter has reduced its carbon dioxide loading by 9.4% compared with the previous year.

	2014	2015	2016
District heating, renewable	5,430.5	5,322.6	4,640.5
District heating, non-renewable	352.8	345.8	343.9
Electricity	162.3	0.0	0.0
Total	5,945.6	5,668.4	4,984.4

Reportable quantities of refrigerants are reported to the supervisory authority. Discharges are reported when discharges occur, which was not the case during 2016.

Refrigerants, kg

	2014	2015	2016
HCFCs	0	0	0
HFCs	2,983.44	2,908.35	2,828.46

G4-CRE3 Greenhouse gas emissions from buildings

	2014	2015	2016
Emission intensity, kg CO ₂ eq per sq m	6.9	6.2	5.6

G4-EN32 Percentage of new suppliers screened using environmental criteria

The term central agreements refers to framework agreements and supplier agreements in support of the organisation's general purchasing requirements and which fully comply with our process for the inspection and follow-up of suppliers (refer to pages 38–39). Because the nature of a small number of the central framework agreements is such that their value and risk is low, they are not covered by the requirement regarding our Code of Conduct and self-assessment. This means that around 80% of the framework agreements are covered by full inspections and follow-up processes, including the Code of Conduct and self-assessment.

In addition to the above, a number of low-value, low-risk agreements of a one-time nature are concluded locally to meet unplanned, urgent requirements. These are not covered by our definition of central agreements and are therefore not subjected to the full supplier inspection and follow-up process.

G4-HR10 Percentage of new suppliers screened according to human rights criteria

Refer to the description under G4-EN32.

Assurance Report

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

To Specialfastigheter Sverige AB (publ)

Introduction

We have been engaged by the Board of Specialfastigheter Sverige AB (publ) to undertake a limited assurance engagement of Specialfastigheter's Sustainability Report for 2016. The company has defined the Sustainability Report's scope to the sections referenced in the GRI content index on page 45.

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

The Board and executive management are responsible for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria described on page 43 in the Sustainability Report comprising the applicable parts of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI), as well as the accounting and calculation principles that the company has developed and disclosed. This responsibility also includes the internal controls considered necessary for preparing a Sustainability Report that does not contain material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

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

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less extensive

than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The audit firm applies the International Standard on Quality Control (ISQC) 1 and, accordingly, has a comprehensive system for quality control comprising documented guidelines and routines for complying with ethical requirements, professional standards, and applicable laws and regulations. Consequently, the procedures performed in a limited assurance engagement do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, the conclusion based on a limited assurance engagement does not have the same degree of certainty as a reasonable assurance conclusion.

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

Conclusion

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

Stockholm, 23 March 2017

Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant

Balanced risk-taking

All business operations are linked to risks, but if handled properly, balanced risk-taking can lead to opportunities and value creation. Our ability to identify, analyse, manage and follow up on risks is therefore an area of priority.

Process for managing risks



In addition to the business opportunities that may be present in a risk, there are also threats that, if not managed correctly, can jeopardise our credibility and competitiveness and present us from achieving established business and operational goals.

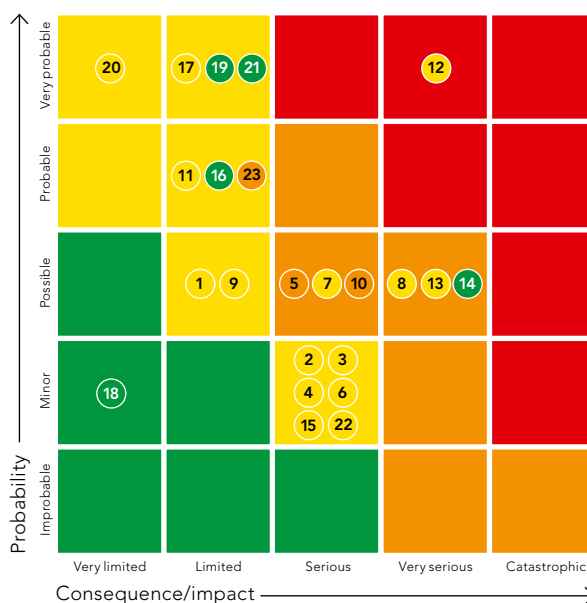
Our risk-related work is an integral part of all our operations and is based on a structured process that begins with our annual business planning, during which the operations' company-wide risks are identified. These are subsequently presented to the Board, who follow them up annually. Company-wide risks are also followed up at least twice a year during management reviews, while specific risk analyses are conducted for larger projects.

An assessment of probability and consequence is conducted for each identified risk to determine its risk level, after which point we produce an action plan containing proposals of measures, timetables and distribution of responsibility. Finally we conduct an analysis of the ability we consider ourselves to have in terms of managing the identified risk. We split our risks into five risk categories: business-related, legal, environmental, operative and financial. The only risk with an extremely high risk level is *property damage due to extreme changes in weather*. In respect of financial risk, the risk level is mostly medium and we have a good or very good risk management system.

Our ambition is to consistently improve our risk management system. We are actively engaged in this area and are able to note an increase in efficiency compared with previous years. Measures we took in 2016 included developing a model detailing how we will implement checks

into our processes. We distributed responsibility for risk management even more clearly and created a control unit to enhance the quality of our control and follow-up processes.

Comprehensive risk inventory and risk levels



The figures indicate specific risks that are described on pages 53–55. The colour of the square indicates the risk level and the colour in the circle indicates our estimated efficiency level.

Business-related risks

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

		Risk assessment	
Risk	Management and checks	Risk level	Efficiency level
Market related			
1	Loss of market position	We can see increasing competition in the market for public sector properties. Our customers are mostly state-owned operations with high security standards, so we must be best at providing them with secure, efficient and effective premises and good service. Work is continuously under way in collaboration with many of our customers to find good property solutions that provide the best overall efficiency. Our level of efficiency changed in 2016 from acceptable to good, as we refined our holding by acquiring properties with security requirements while divesting properties that do not fit into that category. We also reinforced our unique skills in the area of security.	MediumGood
2	Impaired operational conditions	Many of our customers are governed by political decisions that could affect our operations. We maintain constant dialogues with our customers, we follow our owner's actions in various inquiries and we participate in different contexts wherever our customers are located. We include a number of sensitivity analyses covering different scenarios in our business plan, which runs for five years.	MediumGood
3	Questionable credibility	Our values and Code of Conduct guide us during our day-to-day operations. We have a structured purchasing system and we comply with the Swedish Public Procurement Act. We have whistle-blower and incident reporting systems to detect irregularities and to use as a basis for adapting our operations. Policies and regulations remain under active review and in 2016 we paid particular attention to developing employee camaraderie. This work will continue during the course of 2017.	MediumGood
4	Lack of suitable premises	We work closely with our customers to meet both their current and future needs. We constantly monitor events in the market, legislation and regulations. Our property management plans detail how we can maintain and modernise our premises. We reviewed our maintenance process in 2016 and will implement a new maintenance system in 2017.	MediumGood
Project			
5	Project delivery failure	We work in a structured manner and assess projects for risks. Project reviews guarantee good control and follow-up and ensure projects are on budget, on time and meet the scope of supply and quality requirements. Production cost risks are limited to the greatest possible extent through contracts with both the contractor and tenant. Close dialogues are initiated at an early stage between the project unit and the purchasing unit prior to the procurement of consultants and contractors. Our project unit was strengthened through the addition of more project managers in 2016. Project control will be subject to greater quality assurance scrutiny during 2017.	HighAcceptable
Organisation			
6	Leadership not focused on targets	We are constantly working to develop leadership skills. In 2016, a group development programme was implemented for management. To continue developing all of our managers, we also undertook a number of "manager days" and continued to place the focus on developing our business and operational plans with ever-clearer target formulations.	MediumGood
7	Lack of appropriate skills today and moving forward	In order to avoid losing vital skills and experience, we plan for replacement recruiting. We carried out a number of skills assessments during 2016 with the aim of prioritising the right skills development areas for our employees, and we also undertook succession planning for key employees. We are also continuing efforts to strengthen our brand through Employer Branding. We are developing as purchasers and currently procure professional non-critical expertise for our core operations from external consultants and contractors.	HighGood
Credibility			
8	Risk of corruption	We have a Code of Conduct for suppliers as well as an internal Code of Conduct. Training for purchasers is conducted on an ongoing basis with the objective of providing know-how and understanding of ethics to prevent the occurrence of corruption. We have improved our review and monitoring processes for suppliers and contracts and we also have a whistle-blower function.	HighGood
Value			
9	Falling market value of properties	We have a high rating and a very strong balance sheet that can cope with a market downturn. We draw up long-term management and development plans for each property and follow them up on an ongoing basis to retain our customers and maintain the value of our properties. Maintenance planning and associated investments take place in close consultation with customers. There is a risk that maintenance works will be delayed if customers do not give us access to their premises for maintenance measures, resulting in a deterioration in the quality of the properties. We began conducting risk analyses in 2016 as a basis for continuity plans.	MediumGood

Legal risks

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

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
10 Deficiencies in property owner responsibilities	We are constantly reviewing our requirement for skills and skills enhancement and offer training to ensure our employees understand what property owner responsibility entails. We subscribe to law lists in order to stay up-to-date. We are reviewing the process monitoring our compliance with legislative requirements within the framework of the implementation of a new property system in 2017.	■ High	● Acceptable

Environmental risks

Environmental risks include all risks in our operations that may affect the environment, such as discharges into land, the atmosphere and water or our use of the wrong materials in our construction.

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
11 Contentious use of materials	To ensure we do not incorporate hazardous material into our buildings or use such materials in our operations by mistake or through ignorance, we have an environmental strategist in charge of monitoring whether we have the appropriate know-how in-house and that we assess every construction project regarding substances hazardous to health and the environment in component parts of the construction products selected. We record all material included in the building in a digital system for future reference.	■ Medium	● Good
12 Property damage due to extreme changes in weather	Global climate change entails an increase in outdoor temperatures, rising sea levels and more extreme weather events in the form of heavy precipitation and powerful winds. We will reduce our environmental impact by establishing ambitious targets for reducing carbon dioxide emissions, chiefly through more efficient energy use. Properties that are in danger zones in terms of potential consequences of climate change are protected by means of preventive measures. Examples of such measures are redundancy in terms of the supply of electricity, heating and cooling as well as weather and damp protection in buildings.	■ Very high	● Good

Operative risks

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

		Risk assessment	
Risk	Management and checks	Risk level	Efficiency level
Work environment			
13 Physical and/or psychosocial injury to employees	<p>Specialfastigheter maintains a constant focus on security for our customers and employees. During 2016, we trained service technicians, project managers and property managers in how to deal with threats and violence in the workplace, and systematic fire prevention to ensure they are able to cope in different situations.</p> <p>To make sure all employees who work alone get home safely after work, we will continue to further develop the alarm function that issues an alert when anyone is missing. We also provide employees with security guard support if necessary.</p>	■ High	● Good
Information security			
14 Loss of confidential information	<p>Our management system for information security is certified in line with ISO/IEC 27001:2013 and aims to guarantee the best possible conditions to protect both our information assets and those of our customers. Our certification was renewed in May 2015, and in 2016 we undertook extensive training efforts in the field of information security. We also launched an interactive information security training course that is mandatory for all staff. We monitor the rapid developments linked to threats to the IT environment by analysing and assessing threats and vulnerabilities and using such analyses to come up with appropriate protective measures.</p>	■ High	● Very good
Organisational			
15 Failure to attract suitable suppliers	<p>We constantly strive to set clear standards and develop a sustainable, efficient supplier chain. Our purchasing process is well-established and monitors contract compliance and loyalty. During 2016, we carried out a number of audits that addressed environmental standards and we distributed a self-assessment questionnaire that focused on the ethical and social requirements to every supplier that has accepted our Code of Conduct. We will process the results of the self-assessments in 2017 by way of feedback, dialogues and implementing on-site audits wherever the results of the self-assessment require it.</p>	■ Medium	● Good

Financial risks

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

Risk	Management and checks	Risk assessment	
		Risk level	Efficiency level
16 Lack of financing	<p>Financing risk is one of the more significant risks we have to manage. Our goal is to ensure access to the loan capital necessary for running our operations while also considering the total cost of financing and the loan commitments necessary for the fulfilment of our financial policy. In order to limit financing risk, we must strive to raise credit with long maturities and an even maturity profile for existing loans. The majority of our financing takes place in the Swedish capital market, but issues are also made in international capital markets wherever appropriate from an overall cost and diversification perspective. To further reduce financing risk, there were unutilised backup facilities and overdrafts totalling SEK 4,736 million (3,911) as of 31 December 2016. This amount almost covers the maturity of commercial paper and bonds for one year.</p> <p>As of 31 December 2016, maturity was 3.3 (2.6) years, and taking unutilised guaranteed loan commitments into consideration, maturity was 4.0 (3.4) years.</p>	Medium	Very good
17 Loss in terms of price of purchased covered bonds	<p>Changes in market interest rates, the credit spread and time factors affect the purchase price of covered bonds. In order to counter this risk, we have taken up interest-rate swaps for equivalent amounts. These have an equivalent impact on earnings in the opposite direction, which eliminates price gains/losses. If the price change is due to a changed credit spread on covered bonds, it will have no impact on the interest-rate swap. In this case, the impact on earnings is only on the covered bond. The covered bonds we buy have the highest credit ratings and are negotiable.</p>	Medium	Good
18 Credit and counterparty risk	<p>To reduce credit risk, investments are only permitted in securities with high credit ratings. On 31 December 2016, investments were made in seven secured Swedish housing bonds with a total nominal amount of SEK 850 million.</p> <p>Counterparty risk for derivatives is reduced through our agreement to net assets against liabilities with counterparties with whom we make derivative transactions. To reduce counterparty risk further, Specialfastigheter may enter into agreements that govern the management of collateral pledged at net market value.</p> <p>The company's counterparty risk in derivative contracts totalled SEK 90 million (120) as of 31 December 2016; this corresponds to the company's total receivables from unrealised derivatives with positive values. As of 31 December 2016, we have received SEK 0 million (47) as deposits from our counterparties that can be used if a counterparty cannot meet its obligations.</p>	Low	Very good
19 Change in value of financial derivatives	<p>Changes in value may occur in connection with interest-rate derivatives depending on changes in the market interest rate and the time factor. In determining fair value, we use market quotations on the closing date and generally accepted calculation methods. The change in value is reported in profit or loss. Currency translation to Swedish krona is at the rates of exchange quoted on the closing date. Interest-rate swaps are measured by discounting future cash flows to present value. On the closing date, the change in value of interest-rate derivatives amounted to a negative SEK 38 million (45). However, losses or gains remain unrealised as long as the derivatives are not terminated prematurely.</p>	Medium	Very good
20 Currency risks	<p>According to our financial policy, exposures must be hedged if they exceed a value equivalent to SEK 5 million. Exposures below SEK 5 million may be hedged following an assessment of the risk situation and hedging costs. Hedging takes place through financial derivatives that are measured and reported at fair value. The effects of changes in value are recognised in profit or loss under Change in value of financial instruments, unrealised. Liabilities in foreign currencies are translated at year-end at the balance-sheet date's exchange rate and the effect of these changes is reported in net financial items.</p>	Medium	Good
21 Interest-rate risk	<p>In addition to a lack of financing, interest-rate risk is the most important of the financial risks. Our interest rate management objective is to achieve low interest expenses over time while adapting the interest rate profile to the underlying business conditions. To manage interest expense and interest-rate risks, we continually assess the existing debt portfolio including derivatives in relation to the current market yield curve. We seek an interest-rate profile that is suitable in terms of total expenses, commercial conditions and applicable business plans. The practice of taking and exiting positions with the aim of making money – referred to as trading – is not permitted. Specialfastigheter's interest-rate profile is regulated in the financial policy by limiting the number of interest maturities within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest term should be within the 1–5 year range. As of 31 December 2016, the average fixed-interest term was 2.6 (1.9) years.</p>	Medium	Very good
22 Reporting risk	<p>It is extremely important for us to present a correct picture of our operations and financial position. Specialfastigheter has well-functioning internal controls. Our management system illustrates our working method in clear processes and links our policy documents to each process. We carry out annual internal audits of various processes to ensure good internal control. We constantly monitor various international rules and regulations and, to ensure accurate financial reporting, we follow the changes and revisions made to IFRS regulations. Different principles created for corporate governance also have a great impact on Specialfastigheter, since we are required as a state-owned company to be transparent and exemplary within many fields.</p>	Medium	Good
23 Taxes and fees	<p>Changes made to the regulations for taxes and fees have a direct impact on our financial results. We follow developments in legislation and trends in standard practices to make sure we process tax and value added tax correctly. This mainly applies to changes in property tax, corporation tax, VAT and income tax. We always seek expert assistance for difficult issues in this area and we ensure the quality of our income tax calculations by recruiting external expertise.</p>	Medium	Acceptable

Sensitivity analysis

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

Variable	Change	Impact on earnings on an annual basis, SEK million
Rental income	+/- 1%	15.2
Property operations and utilities excl. electricity	+/- 1%	3.4
Maintenance expenses ¹	+/- 1%	3.0
Interest	1 percentage point	43.6
Market rates, derivative instruments ²	1 percentage point	21.6
Price change, purchased housing bond ³	1 percentage point	26.5
Cost of capital ⁴	+ 0.25 percentage points	-295
Cost of capital ⁴	- 0.25 percentage points	305
Yield ⁴	+ 0.25 percentage points	-430
Yield ⁴	- 0.25 percentage points	470
Assumed inflation in property value ⁴	+ 1 percentage point	933
Assumed inflation in property value ⁴	- 1 percentage point	-810

1) Includes capitalised maintenance expenses according to IFRS.

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

3) The impact on earnings relates to momentary changes in deposited housing bonds as of 31 December 2016 with a nominal value of SEK 850 million.

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



Corporate Governance Report

Message from the Chairman

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

In 2016, the company's management, more than half of whom were recruited in 2015, developed collaboration within the Group. Leadership development has continued and is particularly important in an organisation with Specialfastigheter's geographical spread. Moreover, a new Code of Conduct has been prepared and implemented as a step toward clarifying employeeship.

The ever increasing competition for employees has made it necessary to have a strategy in place for proactive skills sourcing. For Specialfastigheter this has included succession planning and continuous skills development. The company has also increased its focus on diversity in its recruitment programme. Active gender equality initiatives have led to an increasing percentage of women at the company

over the last two years, both in total and at management level, thus making the company a more attractive employer.

Good control and follow up of the company's operations are prerequisites for reaching the targets that have been set. A major project is ongoing aimed at further clarifying internal governance and control, and to thereby improve these processes at the company. In 2016, development work was carried out on the maintenance planning, investment and project control processes.

The Board has discussed the formats for internal control and internal audit. The Board decides on whether to adopt the internal control plan prepared by the CEO.

The 2016 Board evaluation has shown that the Board, as in previous years, performed its duties well and that collaboration between the Board and the CEO is excellent. According to the evaluation, additional time for analysing business intelligence is desirable.

Bo Lundgren, Chairman of the Board



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

State ownership

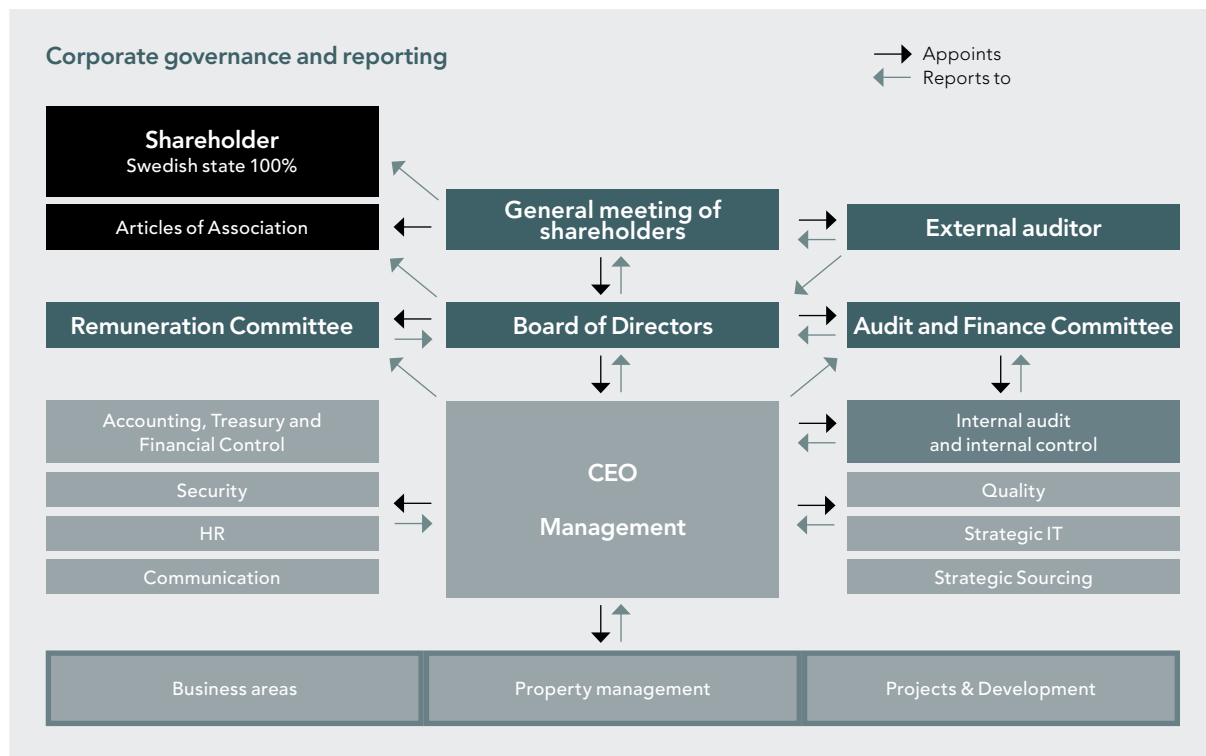
Specialfastigheter Sverige AB is a Swedish limited liability company wholly owned by the Swedish state. The owner governs Specialfastigheter through the General Meeting of shareholders and the Board of Directors in accordance with the Swedish Companies Act, the Articles of Association and the instructions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

Corporate governance

Specialfastigheter's corporate governance is based on Swedish legislation and regulations, and the state's ownership policy stipulates that state-owned companies must act in an exemplary manner in the field of sustainable enterprise and otherwise act in a manner that inspires public confidence. Integrating a sustainability approach into operations is a natural part of the long-term business strat-

egy and business development. Sustainability activities are reported in accordance with the Global Reporting Initiative (GRI) guidelines G4 at Core option. During the year, efforts focused on increasing awareness and skills among managers and employees in relation to diversity. Our risk management enables us to identify threats and opportunities and, based on this, the company's overarching strategy areas and goals are established. We apply the Swedish Corporate Governance Code (the Code) (www.corporate-governanceboard.se). In accordance with the Comply or Explain principle of the Code, the government has justified deviations in certain matters. Based on this, Specialfastigheter deviates from the Code as follows:

- The owner's guidelines mean that the Code rules concerning the preparation of decisions on the nomination of Board members and auditors are replaced by a special process for state-owned companies.
- The independence of the members of the Board in relation to the state as a major shareholder is only reported in relevant listed companies.
- According to the Code, the CEO may be a member of the Board but not its Chairman. The government considers it important to separate the Board's and the CEO's roles. Accordingly, the CEO may not be a member of the Board.



- Specialfastigheter has no internal audit function independent from management as described under rule 7.3 of the Code. When audit requirements are identified by the Board, these are procured externally from independent auditors.

The principal reason for these deviations from the Code is that Specialfastigheter has only one owner, while the Code is mainly aimed at listed companies with dispersed ownership.

Articles of Association

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

General meeting of shareholders

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

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

The 2016 AGM was held on 21 April. The AGM was open and the general public was invited to attend together with other specially invited persons such as members of the Swedish parliament, customers and other stakeholders who were given the opportunity to pose questions and receive answers. The owner was represented by Department Secretary Ellinor Schrewelius from the Government Offices of Sweden. The 2017 AGM will be held on 24 April. Documents prior to, and minutes from our AGMs are available on Specialfastigheter's website.

Board composition and working method

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

Board nomination process

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

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

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

Board composition

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

Newly elected Board members are introduced to the company's business focus, market, policies and systems for internal control and risk management. During 2016,

Specialfastigheter's Board consisted of seven members elected by the general meeting and two full members and two alternates appointed by the employee organisations.

Independence requirement

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

The work of the Board

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

- Articles of association
- Minutes from general meetings
- The state's ownership policy and other guidelines
- Rules of procedure for the Board, instructions for the allocation of work between the Board and the CEO, instructions for financial reporting and policies adopted by the Board

During 2016, the Board held one statutory meeting, nine scheduled Board meetings and two extraordinary Board meetings.

Board member attendance at Board meetings in 2016 is presented in the table below.

Board composition and attendance in 2016

	Elected, year	Board and committee fee, SEK thousand	Board meetings	Remuneration Committee	Audit and Finance Committee
Bo Lundgren, Chairman	2013	258	11/11	4/4	2/2
Jan Berg	2009	150	10/11		5/5
Carin Götblad	2013	128	11/11	3/4	
Eva Landén ¹	2014	158	11/11		5/5
Nina Linander ²	2006	40	3/3		2/2
Mikael Lundström	2013	130	10/11	4/4	
Ulrika Nordström	2015		11/11	4/4	5/5
Maj-Charlotte Wallin ³	2016	113	8/8		3/3
Masoomeh Antonsson ⁴	2013		11/11		
Roger Törngren ⁵	2011		10/11		
Tomas Edström ⁶	2013		10/10		
Lena Nibell ⁷	2007		3/3		
Erik Ydreborg ⁸	2016		7/7		

1) Chairman of the Audit and Finance Committee

2) Stepped down from the Board at the 2016 General Meeting

3) Elected to the Board at the 2016 General Meeting

4) Employee representative

5) Employee representative

6) Alternate employee representative

7) Alternate employee representative, stepped down at the 2016 General Meeting

8) Alternate employee representative, elected at the 2016 General Meeting

Agenda items during the year

During 2016, the issues addressed by the Board included the following:

February

- Review of external auditors regarding operations in 2016
- Decision on annual accounts for 2016 including proposed dividend
- Decision to refrain from a Group contribution and a shareholder contribution
- Decision on IT investments
- Recommendation regarding the election of auditors
- Decision to strengthen the liquidity reserve and set a ceiling for borrowings

December

- Review of risks and risk management, financing report and financing strategy as well as the capital structure and dividend forecast
- Report on internal work to prevent irregularities
- Overview of company insurance policies
- Evaluation of the Board and the CEO
- Situation report and internal controls, 2016
- Follow-up of the auditors' recommendations
- Adoption of the 2017–2021 business plan and the 2017–2018 budget
- Evaluation of the internal audit procedure

October

- Adoption of the insider policy regarding the EU's Market Abuse Regulation
- Follow-up of the business plan
- Discussion regarding forthcoming business plans
- Decision on plan for internal control
- Adoption of the interim accounts and interim report
- Decision to change the interest-rate risk mandate
- Investment decisions

March

- Decision on the 2016 Annual Report and Sustainability Report
- Decision on the Board's reporting structure and RFU for internal control
- Update of policies
- Decision on the notice regarding the 2016 AGM
- Decision on investments

April

- Adoption of the interim accounts and interim report
- Statutory Board meeting and adoption of the Board's rules of procedure including the CEO's instruction, rules of procedure for the Remuneration Committee, rules of procedure for the Audit and Finance Committee and approval of delegation arrangements. Adoption of company-wide policies and the Code of Conduct
- Decision on investments and land acquisitions

June

- Discussion with the management addressing the business model and business strategies
- Decision to have a joint head office in Linköping and Stockholm

July

- Adoption of the interim accounts and interim report
- Investment decisions
- Extraordinary Board Meeting Decision to absorb a subsidiary into the Parent Company

September

- Follow-up of the business plan
- Report on personnel issues
- Decision regarding the management of internal control including compliance
- Decision regarding the partial sale of property
- Adoption of the annual plans for committee and Board meetings in 2016
- Extraordinary Board Meeting Decision on the indicative bid

The work of the Board takes place in accordance with the rules of procedure adopted annually at the statutory meeting of the new Board following the AGM. The rules of procedure govern the delegation arrangements within the company as well as the procedure for Board meetings, reporting instructions and the allocation of work between the Board, its Chairman, the CEO and Board committees. The work of the Board focuses on strategic issues, such as the focus of operations, material policies, market, finance and economics, major investments, risks, personnel and leadership, internal control and efficiency, and sustainable development in regard to financial, environmental and societal responsibility. During the year, the Board adopted policies in respect of finance, sustainability, information security, purchasing, communications, quality, security and insiders. Other important policy documents adopted by the Board are the business plan including the budget, and the highest loan amount. The Board appoints the CEO

and approves any significant positions the CEO may occupy outside the company. When the company is faced with especially important decisions, the Board, acting through its Chairman, must coordinate its view with representatives for the owner and present it in writing prior to a Board decision.

Audit and Finance Committee

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

supervising the company's work with capital structure and other financing issues including the management of financial risks and, together with company management, the preparation of financing matters, finance strategy and policies for adoption by the Board. The Committee is obliged to prepare minutes of its meetings and make the minutes available to the Board.

During 2016, the Committee held five scheduled meetings. Committee member attendance is shown in the table "Board composition and attendance during 2016."

Remuneration Committee

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

The Committee held three scheduled meetings during 2016. Committee member attendance is shown in the table "Board composition and attendance during 2016."

Remuneration of senior executives

Salaries and other benefits to personnel in company management positions must be reasonable and competitive. Remuneration must follow, not lead, current market trends. This is achieved through comparisons with other relevant companies. Remuneration must be characterised by moderation, prudence, be well balanced and contribute to good ethics and corporate culture, and reflect the responsibility the work entails. The company has no variable salaries or any forms of incentive programmes. The CEO has a defined-contribution pension plan. Pension terms for other senior executives follow an ITP (supplementary pension) plan; employees engaged after 2013 have a defined-contribution pension plan.

For information regarding salaries and remuneration, refer to Note 8, Consolidated Financial Statements.

During 2016, the company adhered to the employment condition guidelines for senior executives adopted by the general meeting of shareholders. The Board proposes that the company continue to follow these guidelines during 2017.

Remuneration of the Board

Information regarding remuneration of Board members approved by the 2016 AGM is available in the annual report, Note 8, Consolidated Financial Statements.

The Board's evaluation of its own work

The work of the Board is subject to annual evaluation. Work undertaken in 2016 was evaluated by means of an online questionnaire. The evaluation also includes a measurement of how effectively internal controls are perceived to function in the company. The results of the evaluation will be compiled, discussed and reported to Committees, the Board and the owner.

CEO

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

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

Auditors

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

Ernst & Young AB were elected as auditors at the 2016 AGM with Mikael Ikonen as auditor in charge. The election took place for the period up until the close of the 2017 AGM.

For the presentation of the auditor, refer to page 65.

The auditors elected by the AGM perform an annual review of the internal control. The auditors report to the Board at least twice a year. Reports are also made to the Audit and Finance Committee on at least two occasions per year. In addition to the regular audit, Ernst & Young AB conducts annual examinations at our offices.

The review of Specialfastigheter's 2016 Sustainability Report was conducted by Ernst & Young AB. The report was assured by Authorised Public Accountant Mikael Ikonen.

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

Description of internal control and risk management regarding financial reporting

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

Control environment

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

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

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

Our management system forms an important part of our control environment. The system illustrates our working method in clear processes and links our policy documents to each respective process. Leading operations with the

aid of a management system entails a sharp focus on customers (external and internal), process orientation and the concept of "constant improvements." The management system clarifies responsibilities and roles, and includes procedures for internal audits, reporting of proposals for improvement, non-conformance reporting, and assessment of the financial status of suppliers, among others. Specialfastigheter's management system is certified for information security according to ISO/IEC 27001:2013 standards. A periodic audit of the certification was carried out in May and no deviations were reported. The management system seeks to run, supervise, review, maintain and improve information security throughout the company.

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

Risk assessment

Assessments regarding the risk of errors in the financial reporting are made by the Board, management, the units and the external auditors. A risk analysis seeks to identify processes where the risk of substantial errors in financial reporting is greatest. Specialfastigheter's risks are described on pages 52–55. Our risk analysis tool helps us systematically identify, analyse, evaluate and follow-up risks at every level on an ongoing basis. The risk analyses are reviewed and analysed in turn, and management assesses risks from a company perspective.

Control activities

Activities that are drawn up based on the risk analysis aim to manage significant risks identified to eliminate or limit the occurrence or effects of said risks. The Board and management are informed about compliance with policy

documents and processes and the effectiveness of the control structures. The management system contains the processes that show how Specialfastigheter should proceed and the controls that must be performed. Specialfastigheter's documented allocation of responsibilities, decision-making and delegation arrangements permeate all of our processes. IT controls that support processes and influence internal controls are created in our computer systems. There are also well-functioning internal reporting procedures.

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

Information and communication

The company's policy documents in the form of internal guidelines and instructions regarding financial reporting, are updated on an ongoing basis by process owners and management and made available and known to employees via our internal information and communications channels. Specialfastigheter's management system and intranet contain information that enables rapid communication with all employees to inform them of new rules and guidelines regarding financial reporting. All of our staff bear responsibility for keeping up-to-date with rules and regulations and for complying with our guidelines. The Board regularly receives reports and financial information from the CEO and external auditors. Specialfastigheter complies with the guidelines for external reporting described in the state's ownership policy. Reporting according to GRI G4 helps us clearly communicate our sustainability.

Monitoring and development

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

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

Internal audit

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

Board of Directors



Bo Lundgren

Chairman of the Board
Own business
Elected 2013

Other board assignments

Chairman of SVEDAB, Öresundsbro Konsortiet, Sparbankernas Riksförbund, Sparbanksstiftelsen Finn, Lundgren & Hagren AB, Vice Chairman of Sparbanken Skåne

Previous experience

Director, Swedish National Debt Office, 2004–2013, Cabinet Minister, 1991–1994, Member of the Swedish Riksdag 1976–2004

Education

Graduate in Economics, Lund University, Honorary Dr. in Economics

Born
1947



Jan Berg

Own consultancy
Elected 2009

Other board assignments

Board member of Agenta Investment Management AB and the Swedish Agency for Economic and Regional Growth

Previous experience

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

Education

Graduate in Engineering, CTH

Born
1953



Carin Götblad

Regional Police Commissioner
Elected 2013

Other board assignments

Board member of Interpeace and the Beridna Högvakten

Previous experience

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

Education

National Police Board Chief of Police programme, bachelor of laws, FBI, Preschool teacher programme

Born
1956



Eva Landén

CEO of Corem Property Group AB (publ)
Elected 2014

Other board assignments

Board member of Klöver AB (publ)

Previous experience

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

Education

MSc Business and Economics, Uppsala University.

Born
1965



Mikael Lundström

CEO, NAI Svefa AB
Elected 2013

Other board assignments

Board member of Elof Hansson Holding AB, AB Göta kanalbolag

Previous experience

CEO, Akademiska Hus AB, Deputy CEO, Jones Lang LaSalle AB, Head of Market Area, Skandia Fastigheter AB, Head of Administration, NCC Fastigheter AB

Education

Graduate in engineering, KTH Royal Institute of Technology

Born
1961



Ulrika Nordström

Department Secretary, Ministry of Enterprise and Innovation,
Elected 2015

Other board assignments

Board member of Infranord AB, Lernia AB

Previous experience

Consultant, Boston Consulting Group; Investment Manager, Government Offices of Sweden

Education

BSc Economics, SSE

Born
1982



Maj-Charlotte Wallin

Own business
Elected 2016

Other board assignments

Board member of the Board of Asset Management at Kammarkollegiet, the Swedish Heart-Lung Foundation and the Fourth Swedish National Pension Fund

Previous experience

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

Education

BSc Business and Economics, SSE

Born
1953



Masoomah Antonsson

Employee Representative
Appointed 2013

Other board assignments
None

Previous experience
Consultant, Ibitec; Consultant,
Invid; Consultant, Qurius

Education
Systems analyst, Örebro
University

Born
1975



Roger Törngren

Employee Representative
Appointed 2011

Other board assignments
None

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

Education
Control systems/operations
technology, Qualified property
management

Born
1965



Tomas Edström

Alternate member for Employee
Representative
Appointed 2013

Other board assignments
Chairman, Central Sweden
Volleyball Association,
Manomet Rock AB

Previous experience
Head of Operations, AB Tierps-
byggen, Asset Manager,
Sundsvall's municipality

Education
Mechanical engineer

Born
1964



Erik Ydreborg

Alternate member for Employee
Representative
Appointed 2016

Other board assignments
None

Previous experience
Industrial floor installer,
Building maintenance technician,
Service Technician

Education
High School Engineer, four-year
electrical power studies

Born
1967

Auditor



Mikael Ikonen

Auditor in Charge,
Ernst & Young AB

**Other significant audit
assignments**
NCC AB, Bonava AB, D. Carnegie
& Co AB, Corem Property Group
AB, Hemsö AB

Born
1963

Management



Åsa Hedenberg
CEO

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

Board assignments
Board member of Bonava AB

Education
Graduate in engineering, Surveyor, Royal Institute of Technology

Born
1961

Employed since
2014



Torbjörn Blücher
Business Director Sweden

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

Education
Technical structural engineer

Born
1966

Employed since
2005



Christina Burlin
Human Resources Director

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

Education
Bachelor of Arts Study programme in personnel management

Born
1962

Employed since
2012



Göran Cumlin
Projects and Development Director

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

Board assignments
Vice Chairman, SSSB

Education
Graduate in engineering, Royal Institute of Technology

Born
1963

Employed since
2015



Kristina Ferenius
CFO

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

Education
Masters degree in economics, Stockholm University

Born
1968

Employed since
2015



Hanna Janson
Communication Director

Previous experience
Communications Manager Akademiska Hus AB region Stockholm; Pro tern Communications Director Akademiska Hus AB; Consultant, J KL AB Gothenburg and Stockholm

Education
BSc Economics, SSE

Born
1975

Employed since
2015



Henrik Nyström
Operations Support Director

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

Education
Economics (upper secondary school)

Born
1963

Employed since
2007



Åsa Welander
Property Management Director

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

Education
Law studies

Born
1973

Employed since
2015

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Consolidated income statement, SEK million

	Note	Full-year 2016	Full-year 2015
Rental income		1,751	1,714
Other income	2	161	153
Income from property management		1,912	1,867
Property expenses	3	-503	-467
Net operating income		1,409	1,400
Administration	4, 5	-61	-66
Financial income	6	19	4
Financial expenses	6	-98	-230
Profit from property management	7, 8, 9	1,269	1,108
Realised gain/loss on property sales	10	4	-1
Change in value of investment properties, unrealised	11	865	322
Change in value of financial instruments, unrealised	6	-38	45
EBT		2,100	1,474
Tax	12	-462	-296
Net profit for the year		1,638	1,178
Of which attributable to the parent company's shareholder		1,638	1,178

Consolidated statement of comprehensive income, SEK million

	Full-year 2016	Full-year 2015
Net profit for the year	1,638	1,178
Total other comprehensive income for the year, net after tax	-	-
Total comprehensive income for the year	1,638	1,178
Of which attributable to the parent company's shareholder	1,638	1,178

Comments to the income statement

Income from property management totalled SEK 1,912 million (1,867).

Rental income increased to SEK 1,751 million (1,714) as a result of new leases. Other income rose to SEK 161 million (153), mainly due to a SEK 26 million increase in modifications for customers and a decline of SEK 29 million in revenue from media due to the weather and new agreements. Moreover, we received SEK 8 million more in compensation for early lease termination than in 2015.

Property expenses, SEK 503 million (467)

The increase in our property expenses was largely due to higher costs for customer modifications of SEK 23 million and a SEK 25 million increase in maintenance costs. Media costs were down SEK 23 million due to weather conditions and new agreements.

Net operating income, SEK 1,409 million (1,400)

Altogether, the above resulted in a slight year-on-year increase in net operating income. At the start of the year, the models for capitalised and expensed planned maintenance were developed to obtain a more accurate net operating income per property.

Surplus ratio, 73.7% (75.0)

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

Net financial expense SEK 79 million (expense: 226)

The change in net financial items was primarily attributable to lower interest rates when renewing loans and leveraging the low interest-rate levels for new borrowings. Net financial items includes a positive change in exchange rates of SEK 64 million for foreign funding, which arose in conjunction with the final redemption of bonds in a foreign market.

Profit from property management, SEK 1,269 million (1,108)

The positive change in profit from property management was due to a substantial year-on-year decrease in the net financial expense.

Changes in value, SEK 827 million (367)

Value changes in investment properties totalled SEK 865 million (322) and were attributable the increase in market value of public sector properties.

Financial instruments declined in value by SEK 38 million (increase: 45) for the period. The change in unrealised gains/losses on financial derivatives was mainly due to a SEK 68 million decrease in interest-rate and currency derivatives in conjunction with final maturity in January 2016.

Tax expense, SEK 462 million (expense: 296)

Tax comprised tax paid of SEK 142 million (expense: 107) and a deferred tax expense of SEK 320 million (expense: 189).

Profit/loss after tax, SEK 1,638 million (1,178)

The increase was primarily due to lower financing expenses and an increase in unrealised changes in value on investment properties compared with 2015.

Consolidated balance sheet, SEK million

	Note	2016	2015
ASSETS			
Non-current assets			
Investment properties	11	22,999	20,919
Other property, plant and equipment	13	9	8
Derivatives	14, 21	86	52
Other financial investments	14	956	532
Other non-current receivables	15	10	11
Total non-current assets		24,060	21,522
Current assets			
Trade receivables		206	379
Tax assets		-	8
Derivatives	14	4	68
Other receivables	15	80	19
Prepaid expenses and accrued income	16	18	14
Cash and cash equivalents	17	4	2
Total current assets		312	490
Total assets		24,372	22,012
EQUITY AND LIABILITIES			
Equity			
Share capital		200	200
Other contributed capital		616	616
Retained earnings, including net profit for the year		7,028	5,836
Total equity		7,844	6,652
Liabilities			
Non-current liabilities			
Non-current interest-bearing liabilities	18, 21	8,599	7,304
Derivatives		88	85
Deferred tax liabilities	12	2,701	2,381
Total non-current liabilities		11,388	9,770
Current liabilities			
Current interest-bearing liabilities	18, 21	4,262	4,784
Trade payables		164	123
Tax liability		23	-
Derivatives		29	24
Other liabilities	19	120	104
Accrued expenses and deferred income	20	542	555
Total current liabilities		5,140	5,590
Total liabilities		16,528	15,360
Total equity and liabilities		24,372	22,012

Comments to the balance sheet

Investments

Group investments in property projects totalled SEK 702 million (356) for the period.

Acquisitions

We acquired the Ekerö Svartsjö 1:59 and 1:60 properties valued at SEK 95 million and the Luleå 11 property valued at SEK 490 million.

Disposals

In December, we sold six school properties as properties and vacated them in January 2017. The market value of the properties was SEK 72 million.

Market valuation

The estimated values of Specialfastigheter's investment properties are determined by means of an internal valuation based on actual data in respect of rents and operating expenses. Information concerning cost of capital, required yield and current market rents is cross-checked by external valuers. With regard to reliable rental income, the estimated cost of capital over the contract period was mainly between 5.25% (5.35) and 5.60% (5.60). The required yield ranges mostly from 5.60% (5.75) to 10.00% (10.00) depending on property location.

Market values were mainly influenced by property-specific events such as newly signed leases and investments.

As of 2013, IFRS 13 applies whereby the valuation of a property holding is categorised according to one of three levels. The valuation's degree of uncertainty varies according to the level used.

Specialfastigheter uses Level 3, where the degree of uncertainty is greatest as there is insufficient information from transactions or the market to use another level:

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

At 31 December 2016, the market value was SEK 22,999 million (20,919). The unrealised changes in value recognised for the period amounted to SEK 865 million (322). In Q2 and Q4, the internal valuation was cross-checked against an external valuation of 49 objects, equivalent to 82% of the total value at 31 December 2016, to assure its quality. The difference between the external and internal valuations amounted to less than 3%. Specialfastigheter applies a value below that obtained from the external valuations.

Changes in value of investment properties Jan–Dec 2016, SEK million

Market value, 31 December 2015	20,919
+ Investments incl. capitalised interest expenses	702
+ Acquisitions	585
– Sales	-72
+ Unrealised change in value	865
Market value, 31 December 2016	22,999

Unrealised changes in value	865
of which, change in cost of capital, yield and estimated market rents	957
of which, new and renegotiated leases	187
of which, change in the remaining term	-288
of which, raised presumed inflation for year 1 in the valuation model	89
of which, other	-80

Other financial investments

Other financial investments of SEK 956 million (532) comprised covered bonds of SEK 897 million (522) and cash deposits pursuant to CSAs of SEK 59 million (10).

Interest-bearing liabilities

Interest-bearing liabilities amounted to SEK 12,861 million (12,088).

Consolidated changes in equity, SEK million

Attributable to the Parent Company's shareholder

2016	Share capital	Other contributed capital	Retained earnings	Total equity
Opening balance, 1 January 2016	200	616	5,836	6,652
Comprehensive income				
Net profit for the year	-	-	1,638	1,638
Other comprehensive income	-	-	-	-
Sale, subsidiary	-	-	-	-
Total	200	616	7,474	8,290
Transactions with the shareholder				
Dividend	-	-	-446	-446
Total transactions with the shareholder	-	-	-446	-446
Closing balance, 31 December 2016	200	616	7,028	7,844

2015	Share capital	Other contributed capital	Retained earnings	Total equity
Opening balance, 1 January 2015	200	616	7,659	8,475
Comprehensive income				
Net profit for the year	-	-	1,178	1,178
Other comprehensive income	-	-	-	-
Sale, subsidiary	-	-	-1	-1
Total	200	616	8,836	9,652
Transactions with the shareholder				
Bonus issue	2,071	-	-2,071	-
Reduction and repayment of share capital ¹	-2,071	-	-	-2,071
Dividend	-	-	-929	-929
Total transactions with the shareholder	-	-	-3,000	-3,000
Closing balance, 31 December 2015	200	616	5,836	6,652

1) The 2015 AGM resolved to increase the company's share capital through a bonus issue of SEK 2,340,388,371 through the utilisation of non-restricted reserves. Moreover, the AGM resolved to reduce the company's share capital by SEK 2,071,400,000 through a repayment to the shareholder and a provision to non-restricted equity of SEK 268,988,371.

Equity

Capital management

In line with Board policy, the Group's financial objective is to maintain a sound capital structure and financial stability, to thereby retain the capital market's confidence and form the basis for continued development of business operations. The target equity/assets ratio is 25–35% and strategic planning includes adaptation to meet this target. The Board aims to preserve a balance between high returns, which is possible through higher borrowings, and the advantages and security offered by a high level of equity. The Group's profitability target is for profit after tax, after including changes in value and associated deferred tax, of 8% of average equity. The profitability target is a variable target that is adjusted depending on property portfolio's composition. The adjusted return on equity for 2016 was 13.7% (11.8). From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity. We have also restated these key performance indicators retroactively. Over the last five-year period, Specialfastigheter's adjusted return on equity averaged 13.4%, which well exceeds the Group's target of 8.0%. Specialfastigheter's dividend policy is to distribute 50% of net profit for the year after adding changes in value and associated deferred tax. The annual resolution on the dividend must also take into account the Group's future investment needs and financial circumstances. Over the last five years, the dividend has averaged 7.0% (7.0) of equity. The Group will pay an extraordinary dividend when the capital structure and financial needs of the business so allow. No change took place in the Group's capital management during the year. Neither the Parent Company nor any of its subsidiaries is subject to external capital requirements.

Share capital

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

Appropriation of profits

The Board proposes that the 2017 Annual General Meeting of Specialfastigheter Sverige AB resolve in favour of paying a dividend of SEK 497 million, or SEK 249 per share, to the owner. The proposed dividend constitutes 52.8% of the company's equity and 6.3% of the Group's equity and is in line with financial dividend target stipulations.

The company's holdings of financial instruments were measured at fair value in accordance with Chapter 4 Section 14a of the Annual Accounts Act. This entailed a decrease in equity of SEK 38 million excluding deferred tax, which represented approximately 4.0% of the Parent Company's equity excluding deferred tax. The proposed dividend to the shareholder reduces the Parent Company's equity/assets ratio from 11.9% to 9.3%, and the Group's equity/assets ratio from 32.2% to 30.8%. Group operations are run with stable, healthy profitability, and income is hedged in the long term through long lease agreements. In the Board's assessment, after distribution of the proposed dividend, the company will continue to have adequate financial capacity to meet the requirements placed on the Group's and the Parent Company's equity by the nature, scope, investment requirements and risks of the business.

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

Consolidated cash-flow statement, SEK million

	Full-year 2016	Full-year 2015
Operating activities		
Net operating income	1,409	1,400
Central administration	-61	-66
Net financial expense	-79	-226
Reversal, change in price of covered bonds	-4	4
Reversal of depreciation	2	2
Profit from sales, liquidations and acquisitions	3	61
Income tax paid	-110	-108
Cash flow from operating activities before changes in working capital	1,160	1,067
Change in working capital		
Change in receivables	104	-246
Change in other current liabilities	53	23
Total change in working capital	157	-223
Cash flow from operating activities	1,317	844
Investing activities		
Acquisition of investment properties	-585	-57
Investment in investment properties	-702	-346
Disposal of investment properties	81	3
Acquisition of property, plant and equipment	-1	-1
Disposal of property, plant and equipment	0	0
Cash flow from investing activities	-1,207	-401
Financing activities		
Investment, covered bonds	-371	-526
Borrowings	18,660	10,940
Repayments of borrowings	-17,951	-7,860
Dividend paid to Parent Company's shareholder	-446	-929
Repayment of share capital	-	-2,071
Cash flow from financing activities	-108	-446
Cash flow for the year	2	-3
Opening cash and cash equivalents	2	5
Closing cash and cash equivalents	4	2
Interest		
Interest received	14	4
Interest paid	85	193

Cash flow

Group cash flow from operating activities before investments during the period totalled SEK 1,317 million (844). Net investments in non-current assets amounted to a cash outflow of SEK 1,207 million (outflow: 401), which generated a cash flow after investments of SEK 110 million (443). A cash outflow of SEK 446 million (outflow: 929) was used for dividends, and

investments in covered bonds amounted to an outflow of SEK 371 million (outflow: 526). Borrowings after repayments totalled SEK 709 million (3,080). The item, Investment, covered bonds, pertained solely to the investment of cash and cash equivalents and is part of long-term investments, where the company has chosen to retain liquidity instead of repaying borrowings.

Consolidated five-year summary

The financial progress of the Group in summary

Property related	2012	2013	2014	2015	2016
Income from property management, SEK million	1,767	1,858	1,872	1,867	1,912
Occupancy rate,%	98.7	98.8	98.3	98.7	98.6
Investments including property acquisitions, SEK million	1,117	497	371	419	1,288
Market value, investment properties, SEK million ¹	18,712	19,455	20,271	20,919	22,999
Floor space, sq m, thousand	1,110	1,109	1,066	1,058	1,088
Yield,%	7.5	7.6	7.3	6.8	6.4
Total assets, SEK million	19,383	19,857	20,571	22,012	24,372
Equity, SEK million	6,628	7,564	8,475	6,652	7,844
Property management related	2012	2013	2014	2015	2016
Rental income, SEK/sq m	1,472	1,574	1,600	1,618	1,644
Property operations, SEK/sq m	273	268	267	273	253
Maintenance expenses, SEK/sq m ²	217	199	214	222	283
Net operating income, SEK/sq m	1,222	1,312	1,347	1,322	1,324
Administrative expenses, SEK/sq m	49	56	56	62	57
Finance related	2012	2013	2014	2015	2016
EBT, SEK million	1,381	1,673	1,782	1,474	2,100
Net profit for the year, SEK million	1,328	1,301	1,390	1,178	1,638
Cash flow before investments, SEK million	877	1,041	1,119	844	1,317
Surplus ratio,%	76.7	78.0	77.6	75.0	73.7
Interest coverage ratio, cash-flow based	4.7	5.5	4.9	5.8	14.0 ³
Return on equity,% ⁴	21.7	18.3	17.3	15.6	22.6
Adjusted return on equity,% ⁴	17.1	13.6	10.8	11.8	13.7
Return on total capital,%	9.5	10.2	10.4	8.2	9.8
Loan to value ratio,%	52.9	48.4	44.4	57.8	55.9
Equity/assets ratio,%	34.2	38.1	41.2	30.2	32.2
Dividend, SEK million	365 ⁵	481	3,000 ⁶	446	497

1) Investment properties under construction are recognised using the fair value method from 2012–2016.

2) Of which capitalised: SEK 173/sq m for 2012, SEK 159/sq m for 2013, SEK 154/sq m for 2014, SEK 139/sq m for 2015 and SEK 177/sq m for 2016.

3) The interest coverage ratio was unusually high due to a nonrecurring effect in Q1 2016.

4) From 2016, we have changed the calculation of Return on equity and Adjusted return on equity to now include net profit for the period in average equity.

We have also restated these key performance indicators retroactively.

5) Which comprised a dividend of SEK 260 million and a repayment of share capital of SEK 105 million.

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

Note 1 Group accounting policies

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

The Group's 8 limited companies are registered in Linköping (Sweden). The Parent Company is called Specialfastigheter Sverige AB (556537-5945). The Head Office is located in Linköping at the following address: Borggårdens, SE 581 07 Linköping, Sweden. The Group's subsidiaries own and manage real property, manage construction projects, own and manage movable property and pursue related business activities. Refer also to Note 16 for the Parent Company.

Valuation principles applied in the preparation of the Parent Company's and the Group's financial statements
Assets and liabilities are recognised at cost, other than investment properties and derivatives, which are measured at fair value.

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

Functional currency and presentation currency

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

Estimations and assessments in the financial statements

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

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

Assessments made by the company management in applying the IFRS that have a significant effect on the financial statements and estimates made, which may result in material adjustments in subsequent years' financial statements, are described in more detail in notes 11, 18 and 21 to the consolidated financial statements.

Accounting policies applied

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

Changes in accounting policies

New standards and interpretations that entered force in 2016 have not had any impact on the financial statements other than certain supplementary disclosures.

Amendments to the IFRS and interpretations not yet adopted

Amendments to standards and interpretations that enter force during the coming financial year have not been applied in preparing these financial statements. The new IASB standards and IFRIC interpretations mentioned below have not been applied in advance.

Standards	To be applied from the financial year starting:
IFRS 9 Financial Instruments	1 January 2018
<i>IFRS 9 is a new standard that replaces IAS 39. The standard entails changes in the classification and measurement of financial assets, where classification under IFRS 9 is made based on characteristics inherent in the instruments and the business model applied for financial instruments. Hedge accounting methods are changed to better reflect the company's risk management activities. The principles for impairment losses have been revised and require more timely recognition by companies of any losses. The impairment model in IFRS 9 is based on expected losses. In the Group's opinion, the changes will not affect the company's reporting to any significant extent based on current transactions and the business model.</i>	
IFRS 15 Revenue from Contracts with Customers	1 January 2018
<i>IFRS 15 addresses revenue recognition from contracts and is general in nature. The standard is based on the principle that revenue should be recognised on the transfer of promised goods or services to the customer, that is when the customer obtains control of that good or service, which may occur over time or at a point in time. Revenue should comprise the consideration that the company expects to receive for the delivered goods or services. IFRS 15 replaces all previously issued standards and interpretations that address revenue with one single model for revenue recognition. Specialfastigheter is of the opinion that the new standard will entail substantial disclosure requirements but, otherwise, will have limited impact on the financial statements. This is because the company's existing customer contracts are primarily defined as leases in accordance with IFRS 16 Leases. The service commitments included in prepared leases and which are recognised in line with IFRS 15 comprise a minor portion of the company's total income. In 2017, an evaluation will be initiated of how IFRS 15 will impact the Group's and the Parent Company's financial statements.</i>	
IFRS 16 Leases	1 January 2019
<i>The standard requires lessees to recognise assets and liabilities attributable to all leases with the exception of leases that are shorter than 12 months and/or pertain to small amounts. IFRS 16 replaces IAS 17 Leases and associated interpretations. Specialfastigheter's leases are primarily defined as leases in accordance with IFRS 16. As a lessor, the company's accounting will remain unchanged in all significant respects. The company will report leased service vehicles and company cars as a lessee in accordance with IFRS 16. Specialfastigheter's assessment is that the new standard will entail substantial disclosure requirements but, otherwise, will have limited impact on the financial statements. Under the new standard, most leased assets will be recognised in the balance sheet and the lessee must separate costs for interest payments and depreciation on the asset. [The new standard entails no major differences for lessors.] The EU is expected to adopt the new standard in 2017. In 2017, an evaluation will be initiated of how IFRS 16 will impact the Group's and the Parent Company's financial statements.</i>	
Classifications etc.	
Non-current assets and non-current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid after more than twelve months from the balance-sheet date. Current assets and current liabilities in the Parent Company and the Group consist essentially of the amounts expected to be recovered or paid within twelve months of the balance-sheet date.	
Segment reporting	
A segment is a component of the Group that is identifiable for accounting purposes and provides services within a defined economic environment, which is subject to risks and rewards that differ from those of other segments. The Group's segments consists of different tenants. The segments are formed based on our tenants' unique needs in terms of premises. Segment information in accordance with IFRS 8 is provided only for the Group. The Group provides financial information regarding its segments based on the information used by the company management for following up operations. Accordingly, we use the same follow-up internally for reporting to the Board and management as we do in our external financial follow-up.	
Consolidation principles	
Subsidiaries	
Subsidiaries are companies that are subject to control by the Parent Company Specialfastigheter Sverige AB. Control means the direct or indirect right to design a company's financial and operational strategies in order to obtain economic benefits. In assessing whether control exists, potential voting rights that are currently exercisable or convertible are taken into account.	
Subsidiaries are reported in accordance with the acquisition method. Under this method, an acquisition is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The cost to the Group is determined through an acquisition analysis at the time of the acquisition. In this analysis, the cost of the business combination is established, as are the fair values on the acquisition date of acquired identi-	

liable assets as well as assumed liabilities and contingent liabilities. The cost of the subsidiary's shares consist of the fair values at the acquisition date for the assets acquired, assumed or acquired liabilities, and transaction costs directly attributable to the acquisition. Transaction costs are expensed in the Group. Consolidations of subsidiaries' financial statements are entered in the consolidated financial statements from the date of the acquisition until the date when controlling influence ceases.

Transactions eliminated on consolidation

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

Income

Revenue recognition

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

Income from property sales

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

Operating expenses and financial income and expenses

Operating leases

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

Financial income and expenses

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

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

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

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

Taxes

Income taxes comprise current tax and deferred tax. Current tax is tax to be paid or received for the current year, with the application of the tax rates that are adopted or established in practice as of the balance-sheet date, which also includes adjustment of current tax attributable to previous periods. Income tax is recognised in profit or loss except when the underlying transaction is recognised directly in equity and where the associated tax effect is recognised in equity. Deferred tax is calculated using the balance-sheet method based on temporary differences between the carrying amounts and fiscal values of assets and liabilities. Temporary differences are not taken into account on the initial reporting of assets and liabilities that are not business combinations at the time of the transaction that do not affect either recognised or taxable earnings. Those properties that are acquired as company transactions are assessed as clear asset acquisitions. Furthermore, temporary differences attributable to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account. The valuation of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realised or settled.

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

Investment properties

Investment properties are properties held with the objective of generating rental income and/or value growth. Investment properties are initially recognised at cost, which includes all expenses directly attributable to the acquisition. Investment properties are recognised in the balance sheet at their fair value. For further information, see Note 11 to the consolidated financial statements.

Property, plant and equipment

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

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

Leased assets

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

Depreciation principles

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

Estimated useful lives, plant and equipment

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

Impairment losses

The recognised amounts of Group assets are reviewed at each balance-sheet date to assess whether any indication exists of an impairment loss. IAS 36 is applied for testing the need for impairment for assets other than financial assets (which are tested in accordance with

IAS 39), assets held for sale, disposal groups recognised in accordance with IFRS 5, investment properties recognised at fair value in accordance with IAS 40 and deferred tax assets. For assets excepted under the above, fair values are tested in accordance with the standard concerned.

Impairment testing of property, plant and equipment

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

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

Impairment testing of financial assets

On each reporting date, the company assesses whether any objective evidence exists of a financial asset or Group of assets needing impairment. Objective evidence consists of observable circumstances that have occurred and that have a negative impact on the possibility of recovering the cost. The recoverable amount for assets belonging to the categories of loans receivable and trade receivables which are recognised at accrued cost is calculated as the current value of future cash flows discounted by the effective interest rate applicable on initial recognition of the asset. Assets with a short maturity are not discounted. Impairment losses are expensed in profit or loss.

Reversal of impairments

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

Impairment of loans receivable and trade receivables recognised at accrued cost is reversed if a later increase in the recoverable amount can be objectively attributed to an event that has occurred after the impairment was carried out.

Financial instruments

Financial instruments that are recognised in the balance sheet include, on the assets side, loan receivables, financial investments, derivatives, trade receivables and cash and cash equivalents. The liabilities side contains loan liabilities, derivatives and trade payables.

Recognition and derecognition in the balance sheet

A financial asset or liability is recognised in the balance sheet when the company becomes party to the instrument's contractual conditions. Trade receivables are recognised in the balance sheet when the invoice is sent.

Liability is recognised when the counterparty has performed and a contractual obligation to pay exists, even if the invoice has not yet been received. Trade payables are recognised at the time an invoice is received.

A financial asset is removed from the balance sheet when the rights inherent in the agreement are realised or expire or if the company loses control over them. The same is valid for part of a financial asset. A financial liability is derecognised from the balance sheet when the obligation in the agreement is fulfilled or in any other way extinguished. The same is valid for part of a financial liability.

Classification and valuation

Financial instruments that are not derivatives are initially recognised at cost, which corresponds with the fair value of the instrument plus transaction expenses. This applies for all financial instruments except those that belong to the financial asset category and which are recognised at fair value in profit or loss – these assets are recognised at fair value excluding transaction expenses. A financial instrument is classified on initial recognition on the basis of the purpose for which the instrument was acquired. The classification determines how the financial instrument is measured after initial recognition, as described below.

Investments in the form of purchased covered bonds are initially recognised at a cost equivalent to the instrument's fair value.

Derivative instruments are initially recognised at fair value, which means that transaction expenses are charged against earnings for the period. After initial recognition, derivatives are recognised as described below. Increases and decreases in value are recognised under the item Change in value of financial instruments, unrealised. When using interest-rate swaps, the interest coupon is recognised as other financial income or other financial expense. Cash and cash equivalents consist of cash and immediately available bank balances.

Financial assets measured at fair value through profit or loss

Financial instruments in this category are measured continuously at fair value with changes in value recognised in profit or loss. These include derivatives with a positive fair value. Derivatives are included in the sub category termed held for trading.

Covered bonds are measured at fair value at the price quoted on the balance-sheet date, while increases and decreases in value are recognised as revenues and expenses under net financial items. Covered bonds are included in the sub category termed held for trading.

Loan receivables and trade receivables

Loan receivables and trade receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. These assets are valued at accrued cost. Accrued cost is determined on the basis of the effective-interest rate calculated at the acquisition date. Trade receivables are recognised in the amount expected to be received, that is after deductions for bad debts.

Financial liabilities measured at fair value through profit or loss

This category includes the Group's financial derivatives with negative fair values. Changes in fair value are recognised in profit or loss. Derivatives are included in the sub category termed held for trading.

Other financial liabilities

Loan financing

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

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

Other financial liabilities

Other financial liabilities, including trade payables, which are measured at accrued cost.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances. The assets are judged to be negotiable immediately with negligible risk of changes in value, which means that the carrying amount is equivalent to the fair value.

Derivatives

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

Derivatives measured at fair value

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

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

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

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

Remuneration to employees

Pension plans

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

Short-term employee benefits

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

Contingent liabilities

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

Cash-flow statement

The cash-flow statement was prepared using the indirect method.

The recognised cash flow includes only those transactions that entail inflows and outflows. In addition to bank balances, current financial investments that are only subject to an insignificant risk of fluctuation in value, and which are traded on an open market or have a remaining term of less than three months from the time of acquisition, are classified as cash and cash equivalents.

Rounding

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

Note 2 Other income

Other income refers to invoiced services, energy expenses and compensation received.

Note 3 Property expenses

	2016	2015
Energy, fuel and water	131	154
Property operations	219	192
Property tax	39	33
Maintenance	114	88
Total	503	467

Note 4 Administration

	2016	2015
Payroll expenses	48	47
Depreciation of plant and equipment	3	2
Other expenses (Inspections, consultants' fees, other)	10	17
Total	61	66

Note 5 Auditors' fees, SEK thousand

	2016	2015
Ernst & Young		
Audit assignment	561	561
Audit activities other than the audit assignment	28	113
Tax advice	146	22
Other services	98	58
Total	833	754

The audit assignment refers to the examination of the annual report, the accounting records and the administration by the Board and CEO. This also includes a fee for audit advice provided in connection with the audit assignment. Audit activities refers to the examination of the administration or of financial information arising from statutes, the Articles of Association, regulations or agreements that result in a report or other document also intended to form the basis for an assessment by persons other than the principal as well as advice or other assistance brought about by observations during the review assignment.

Other services include advice that is not attributable to any of the above types of service and which do not concern taxes. The largest issue during the previous year addressed issues pertaining to the merger of companies. The auditors Ernst & Young AB were elected at the 2014, 2015 and 2016 AGMs.

Note 6 Financial income and expenses

	SEK million		%	
Composition of net financial items	2016	2015	2016	2015
Interest expense, loans	111	149	0.86	1.36
Exchange-rate changes on foreign loans	-66	28	-0.51	0.27
Net interest income, derivatives	39	33	0.30	0.31
Translation gains/losses on investments	-4	4	-0.03	0.04
Other interest income and expenses	-14	-	-0.11	0.04
Operating net financial items	66	214	0.51	2.02
Other financial expenses	14	13	0.11	0.13
Capitalised interest expense, projects	-1	-1	-0.01	-0.01
Recognised net financial items	79	226	0.61	2.14
Change in value of financial derivatives	38	-45	0.29	-0.43
Total net financial items	117	181	0.90	1.71

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

Net financial items recognised according to category and class

Financial income	2016	2015
Interest income from financial assets not measured at fair value	1	-
Interest income from financial assets measured at fair value	18	4
Other financial income	-	-
Total financial income	19	4

Financial expenses	2016	2015
Interest expenses on financial liabilities not measured at fair value	-117	-155
Interest expenses on financial liabilities measured at fair value	-39	-33
Exchange-rate changes on foreign loans	66	-28
Other financial expenses	-8	-14
Total financial expenses	-98	-230
Total recognised net financial items	-79	-226

Change in value of financial derivatives recognised by category and classification	2016	2015
Changes in value on financial assets		
Derivatives measured at fair value	47	88
Changes in value on financial liabilities		
Derivatives measured at fair value	-85	-43
Change in value of financial derivatives	-38	45

Note 7 Depreciation

	2016	2015
Plant and equipment – Administration	3	2
Plant and equipment – Operations	0	0
Total depreciation	3	2

Note 8 Employees, payroll expenses and Board fees, SEK thousand

Parent Company total			Pension expenses		
	2016	2015		2016	2015
Number of employees	131	128	Chairman of the Board	-	-
Of whom women	29.77%	29.69%	Other Board members	-	-
Of whom men	70.23%	70.31%	Total	-	-
<i>The subsidiaries have no employees</i>			Senior executives		
Parent Company including the Board and senior executives				2016	2015
	2016	2015	Salaries and other remuneration		
Salaries and other remuneration	72,588	67,298	Chief Executive Officer	2,164	2,101
Social security expenses*	36,731	33,574	Other senior executives	7,049	5,572
* Of which, pension expenses	11,180	9,988	Total	9,213	7,673
Board			Pension expenses		
	2016	2015	Chief Executive Officer	645	605
Salaries and other remuneration			Other senior executives	2,075	1,714
Chairman of the Board	258	280	Total	2,720	2,319
Other Board members	719	695			
Total	977	975			

Specification of remuneration to Board members¹

	2016		2015	
	Salaries and other remuneration	Other benefits	Salaries and other remuneration	Other benefits
Bo Lundgren	258	-	280	-
Jan Berg	150	-	150	-
Carin Götblad	128	-	120	-
Eva Landén	158	-	135	-
Nina Linander ²	40	-	160	-
Mikael Lundström	130	-	130	-
Lotta Mellström ³	-	-	-	-
Ulrika Nordström ⁴	-	-	-	-
Maj-Charlotte Wallin ⁵	113	-	-	-
Total	977	-	975	-

continued, Note 8 Employees, payroll expenses and Board fees, SEK thousand**Specification of remuneration to senior executives⁶**

	Salaries and other remuneration		Other benefits ⁷		Pension expenses ⁸		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
CEO, Åsa Hedenberg	2,164	2,101	56	57	645	605	2,865	2,763
Business Director Sweden, Torbjörn Blücher	1,161	1,119	59	60	365	340	1,585	1,519
CFO, Kristina Ferenius ⁹	1,270	479	58	24	318	130	1,646	633
Projects and Development Director, Göran Cumlin ¹⁰	1,117	910	47	28	368	327	1,532	1,265
Director of Operations Support, Henrik Nyström	850	818	22	23	241	222	1,113	1,063
Property Management Director, Åsa Welander ¹¹	971	807	54	45	238	215	1,263	1,067
HR Director, Christina Burlin	950	896	0	0	343	334	1,293	1,230
Communication Director, Hanna Janson ¹²	730	254	2	0	202	84	934	338
Project Manager, Petter Lundqvist ¹³	-	136	-	4	-	31	-	171
Head of Technical Development and Acting Project Manager, Lars Lidén ¹³	-	153	-	9	-	31	-	193
Total	9,213	7,673	298	250	2,720	2,319	12,231	10,242

1) The 2016 AGM resolved that annual Board fees would be payable in an amount of SEK 240,000 to the Chairman of the Board and SEK 120,000 each to other Board members. In addition to the ordinary Board fees, a fee of SEK 30,000 per year was paid to each member of the Audit and Finance Committee and SEK 10,000 per year to each member of the Remuneration Committee. A fee of SEK 40,000 per year was paid to the Chairman of the Audit and Finance Committee and SEK 10,000 per year to the Chairman of the Remuneration Committee. Fees are only paid to members elected by the AGM, not employees of Specialfastigheter or the Government Offices of Sweden. No remuneration over and above that decided by the AGM has been paid to the Chairman of the Board or any Board member. Board fees have been paid as salary, but in two cases were invoiced within the framework of the operations conducted in the Board members' companies. When an assignment is carried out within a Board member's company, fees to members of the Board and committees are paid with an additional amount equivalent to the social security contributions that Specialfastigheter is otherwise not obliged to pay. Invoicing for Board and committee fees should be cost neutral for Specialfastigheter.

2) Stepped down in conjunction with the 2016 AGM.

3) Stepped down in conjunction with the extraordinary general meeting in October 2015.

4) Elected to the Board at the extraordinary general meeting in October 2015.

5) Elected to the Board at the 2016 AGM.

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

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

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

9) Joined the management group from 10 August 2015 and, for the 1 January 2015 to 9 August 2015 period, Head of Accounting Gunilla Dahlqvist Jonsson was an acting member of the management group.

10) Joined the management group from 23 February 2015.

11) Joined the management group from 16 February 2015.

12) Joined the management group from 31 August 2015.

13) Included in the management group from 28 February 2015.

Total for the Parent Company including the Board and senior executives

The Board, including alternates, comprises 11 (11) members; of whom five (six) are women and six (five) are men. Seven members are elected at the AGM and four members are appointed by employee organisations. The executive management team, which includes the CEO, is made up of eight (eight) individuals; of whom five are women and three are men. No variable remuneration or agreements on financial instruments apply for senior executives. Retirement pension and family pension commitments for salaried employees in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this comprises a multi-employer defined-benefit plan. For the 2016 financial year, the company did not have access to information that would have enabled it to recognise this plan as a defined-benefit plan. Accordingly, the ITP pension plan secured via insurance with Alecta was recognised as a defined-contribution plan. Fees for the year for pension insurance policies provided by Alecta were approximately SEK 4 million (4). Alecta's surplus may be distributed to the policy owners and/or the insured. At year-end 2016, Alecta's surpluses in the form of the collective consolidation level was 149% (153). The collective consolidation level is the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial commitments, which do not correspond with IAS 19.

Sick leave,% of total working hours

	2016		2015	
	Sick leave/ Reg. hours,%	Long-term sick leave/Total sick leave,%	Sick leave/ Reg. hours,%	Long-term sick leave/Total sick leave,%
Women	2.14	68.13	4.95	81.04
Men	2.78	51.08	1.84	41.97
Employees under 30	*	*	*	*
Employees aged 30–49	0.92	0.00	1.01	0.00
Employees over 49	4.26	70.56	4.58	78.84
All employees	2.60	55.17	2.74	62.39

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

Note 9 Segment accounting

	Swedish Prison and Probation Service		Defence and Judicial System		National Board of Institutional Care and other special operations		Eliminations		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Rental income	713	696	741	731	297	287	0	0	1,751	1,714
Other income	110	68	10	43	41	42	0	0	161	153
Income from property management	823	764	751	774	338	329	0	0	1,912	1,867
Earnings										
Net operating income	588	577	628	633	193	190	0	0	1,409	1,400
Administration (central overheads)	-24	-27	-21	-22	-16	-17	0	0	-61	-66
Net financial income/expense	-28	-82	-43	-119	-8	-25	0	0	-79	-226
Profit from property management	536	468	564	492	169	148	0	0	1,269	1,108
Gain/loss on property sales (divested properties)	5	0	0	0	-1	3	0	-4	4	-1
Change in value of investment properties, unrealised	195	49	658	304	12	-31	0	0	865	322
Change in value of financial instruments, unrealised	-13	16	-21	24	-4	5	0	0	-38	45
EBT	723	533	1,201	820	176	125	0	-4	2,100	1,474
Tax expense for the year	-159	-107	-264	-165	-39	-25	0	1	-462	-296
Profit/loss after tax	564	426	937	655	137	100	0	-3	1,638	1,178
Other disclosures										
Market value	8,070	7,535	12,509	11,053	2,420	2,331	0	0	22,999	20,919
Floor space, sq m	428	420	382	360	278	278	0	0	1,088	1,058

Segment accounting

Specialfastigheter Sverige AB's segments correspond to its tenants, who constitute the Group's business segments. Joint administrative expenses for property management are allocated on a cost-plus basis. The segments' results include directly attributable items and items that can be reliably allocated between the segments.

The majority of our tenants are public or state services. Of the annual rental income, the Prison and Probation Service accounts for 41% (40), the Defence and Judicial System for 42% (43) and Institutional Care and other special operations for 17% (17). None of our tenants are obliged to rent property from Specialfastigheter. Each tenant has its own decision-making process in its choice of landlord, despite the fact that many of our tenants are connected to the state in one way or another.

All of our revenues derive from Sweden and, accordingly, we have no revenue from abroad. The key performance indicator that we primarily concentrate on internally is net operating income.

Note 10 Realised gain/loss on property sales

	2016	2015
Proceeds, properties sold	78	6
Fair value, properties sold	-72	-7
Selling expenses	-2	0
Total	4	-1

Note 11 Investment properties

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

2016	Acquisition (+)/ Disposals (-) properties	Properties owned for the full year	Total 2016
Opening fair value	-	20,919	20,919
Investments regarding post-acquisition expenditure	-	701	701
Capitalised interest expenses	-	1	1
Acquisitions (+)	585	-	585
Divestments (-)	-72	-	-72
Unrealised changes in value	-	865	865
Closing fair value	513	22,486	22,999

2015	Acquisition (+)/ Disposals (-) properties	Properties owned for the full year	Total 2015
Opening fair value	-	20,271	20,271
Investments regarding post-acquisition expenditure	-	355	355
Capitalised interest expenses	-	1	1
Acquisitions (+)	57	-	57
Divestments (-)	-87	-	-87
Unrealised changes in value	-	322	322
Closing fair value	-30	20,949	20,919

Tax assessment value, investment properties	2016	2015
Buildings	2,920	2,441
Land	972	873
Total	3,892	3,314

Investment properties

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

If there are indications during the current year of substantial value changes for individual properties, parts of the property holdings, or the entire property holdings, the properties concerned are revalued in conjunction with quarterly reporting. Fair value is based on the market value, which is the estimated amount that would be obtained in a transaction at the valuation date between knowledgeable, independent parties who have an interest in the transaction being carried out after customary marketing in which both parties are assumed to have acted with insight, common sense and without coercion. Both unrealised and realised changes in value are recognised in profit or loss. Rental income and income from property sales are recognised in line with the principles described in the Revenue recognition section; see Note 1, page 76.

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

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

As of 2013, IFRS 13 applies whereby the valuation of a property holding is categorised according to one of three levels. There are different degrees of uncertainty in the valuation depending on the level used.

Specialfastigheter uses Level 3, where the degree of uncertainty is greatest as there is insufficient transaction/market data to allow using another level.

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

Valuation method

The estimated value of Specialfastigheter's investment properties was established through an internal cash-flow evaluation. In order to assure the quality of the internal evaluation, it is cross-checked against an external evaluation of 49 (42) objects, equivalent to 82% (89) of the total value.

External valuations take place according to a rolling schedule. The difference between the external and internal evaluations amounts to less than 3% (4). Specialfastigheter applies a value below that obtained from the external valuations. The market's required yield is used principally when calculating residual values, that is the property's estimated market value at the end of the calculation period.

The calculations are performed on a nominal basis using inflation of 1.5% (1.0) for the first year and 2.0% (2.0) per year for the remaining years in the calculation. The valuation properties generally have relatively long rental agreements with tenants who are considered to be reliable payers. Therefore, it is appropriate to use a differentiated cost of capital for net operating income and residual value in connection with the calculation of yield value. With regard to reliable rental income, the estimated cost of capital over the contract period was mainly between 5.25% and 5.60%. The cost of capital in 2015 was between 5.35% and 5.60%. The required yield ranges mostly from 5.60% to 10.00% depending on property location. The required yield in 2015 was between 5.75% and 10.00%. The average yield was 6.65% (6.82). We note continued substantial market interest in our type of properties, known as public sector properties.

continued, Note 11 Investment properties

The operations and maintenance expense levels used in the cash-flow statements are derived from normalised values based on current maintenance plans. Current rental terms have been used as the basis in the cash-flow statements.

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

Rental income for the year totalled SEK 1,751 million (1,714). Future rents attributable to non-terminable operational leases mature as shown below.

Maturity Profile, SEK million	2016	2015
Within 1 year		
Properties	56	54
Housing	3	2
Between 1 and 5 years		
Properties	312	202
Beyond 5 years		
Properties	1,483	1,553
Total	1,854	1,811

Note 12 Taxes

Recognised in profit or loss	2016	2015
Current tax	142	107
Deferred tax expense/tax income	320	189
Total recognised consolidated tax expense	462	296

Reconciliation of effective tax	2016	2015
Recognised EBT	2,100	1,474
Swedish income tax rate, 22%	462	324
Tax-exempt income	0	-18
Non-deductible expenses	0	0
Adjusted sale proceeds	0	-1
Standard interest, tax allocation reserve	0	1
Loss carryforwards	0	
Adjustment of earlier years' tax expense	-	-3
Adjustment of earlier years' deferred tax	-	-7
Total	462	296

Recognised in the balance sheet	2016	2015
Deferred tax liability	2,701	2,381
Total	2,701	2,381

Deferred tax assets and liabilities	2016	2015
Investment properties	-2,401	-2,088
Financial assets	6	-2
Tax allocation reserve	-214	-190
Accelerated depreciation	-92	-101
Total	-2,701	-2,381

No deferred tax has been recognised in equity.

Note 13 Other property plant and equipment

Plant and equipment	2016	2015
Opening cost	21	15
Purchases	4	6
Sales and disposals	0	0
Closing accumulated cost	25	21
Opening depreciation	13	11
Sales and disposals	0	0
Depreciation for the year	3	2
Closing accumulated depreciation	16	13
Closing residual value according to plan	9	8

Note 14 Financial investments

Derivatives	2016	2015
Non-current investments		
Interest-rate and currency derivatives measured at FVTPL	83	52
Electricity derivatives measured at FVTPL	3	0
Total	86	52

Current investments	2016	2015
Interest-rate and currency derivatives measured at FVTPL	0	68
Electricity derivatives measured at FVTPL	4	0
Total	4	68

Other financial investments	2016	2015
Non-current investments		
CSA deposits	59	10
Covered bonds	897	522
Other shares and participations	0	0
Total	956	532

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. As of 31 December 2016, the Group had lodged collateral total-ling SEK 59 million (10). One deposit of SEK 48 million regarding Nordea and one deposit of SEK 11 million for SEB. Collateral was lodged in the form of seven (four) covered bonds. As of 31 December 2016, the collateral amounted to SEK 897 million (522).

Note 15 Other receivables

Non-current receivables	2016	2015
Value-added tax for adjustment	10	11
Total	10	11

Current receivables	2016	2015
Receivables, properties sold	68	-
Receivables, liquidated companies	-	13
Opening suspended VAT	6	5
Other receivables	6	1
Total	80	19

Note 16 Prepaid expenses and accrued income

	2016	2015
Prepaid energy expenses	4	4
Other interim receivables	14	10
Total	18	14

Note 17 Cash and cash equivalents

	2016	2015
Bank balances	4	2
Total	4	2

Note 18 Interest-bearing liabilities

	31 Dec. 2016	31 Dec. 2015
Non-current liabilities		
Loans	8,599	7,304
Current liabilities		
Loans	4,262	4,784
Total	12,861	12,088

Of the Group's and the Parent Company's non-current loan liabilities, SEK 2,238 million (1,506) matured more than five years after the balance-sheet date.

Bonds in foreign currencies are translated to the balance-sheet date SEK exchange rate. The fair value of derivatives corresponds to the

translated amounts of the bonds, thus largely neutralizing the foreign exchange effects. The market value of bonds in foreign currencies is translated to the balance-sheet date exchange rate and recognised in the tables in SEK. Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity. The fair value of bonds in foreign currency is measured by discounting future cash flows at the balance-sheet date exchange rate for the respective maturity.

Funding is distributed as follows, SEK million**Category – Financial liabilities measured at amortised cost**

2016	Carrying amount	Nominal amount	Fair value
Overdraft facility	14	14	14
CSA deposits	0	0	0
Commercial paper	3,011	3,010	3,014
Fixed-interest bonds	6,204	6,205	6,530
Floating-rate bonds	2,998	2,995	2,997
Inflation-linked bonds	180	190	180
Foreign currency bonds	454	456	482
Total	12,861	12,870	13,217

2015	Carrying amount	Nominal amount	Fair value
Overdraft facility	339	339	339
CSA deposits	47	47	47
Commercial paper	2,830	2,830	2,832
Fixed-interest bonds	5,378	5,380	5,648
Floating-rate bonds	2,895	2,895	2,896
Inflation-linked bonds	177	190	177
Foreign currency bonds	422	357	423
Total	12,088	12,038	12,362

Maturity profile, SEK million

2016	Carrying amount	Nominal amount	Fair value	2015	Carrying amount	Nominal amount	Fair value
2016	-	-	-	2016	5,188	5,123	5,212
2017	4,262	4,260	4,274	2017	1,250	1,250	1,279
2018	1,689	1,689	1,710	2018	1,675	1,675	1,710
2019	1,852	1,850	1,909	2019	1,350	1,350	1,411
2020	1,120	1,120	1,155	2020	1,120	1,120	1,153
2021	1,700	1,700	1,782	2021	199	200	233
2022	500	500	515	2022	500	500	494
2023	454	456	483	2023	-	-	-
2024	230	230	284	2024	230	230	277
2025	500	500	525	2025	200	200	206
2026	374	375	400	2026	199	200	210
2027	-	-	-	2027	-	-	-
2028 and beyond	180	190	180	2028 and beyond	177	190	177
Total	12,861	12,870	13,217		12,088	12,038	12,362

Group financing in foreign currency at the balance-sheet date

2016					
Currency	Nominal	Interest%	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
USD	25,000,000	2.56	-0.07	227,790,000	227,040,000
USD	25,000,000	2.59	-0.04	227,790,000	227,040,000
2015					
Currency	Nominal	Interest%	Interest in SEK	Nominal amount in SEK	Carrying amount in SEK
CHF	50,000,000	3.00	0.87	357,000,000	422,859,801

continued, Note 18 Interest-bearing liabilities

Significant contractual conditions

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

Hedge accounting

Hedge accounting is not applied by the Group.

Currency distribution

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

The table on page 86 shows "Group financing in foreign currency at the balance-sheet date" by original currency and after taking currency swaps into account. Foreign currency loans are translated at the closing-date exchange rate and the exchange-rate change is reported in net financial items.

The Group has entered into Credit Support Annexes to ISDA agreements in order to manage exposures to counter-party risks in derivative contracts. These agreements are mutual and mean that the parties jointly undertake to provide collateral in the form of cash and cash equivalents for the underlying value of derivative contracts outstanding. The Group has not received any collateral as of 31 December 2016 but has provided collateral in two cases. Refer to Note 14 on page 85.

Note 19 Other liabilities

Other liabilities	2016	2015
Customer advances	15	15
VAT	98	81
Other liabilities	7	8
Total	120	104

Note 20 Accrued expenses and deferred income

	2016	2015
Deferred rental income	459	446
Accrued energy expenses	16	33
Accrued interest expenses	47	57
Accrued social-security expenses	2	2
Accrued holiday pay	8	8
Accrued payroll tax	2	2
Other items	8	7
Total	542	555

Note 21 Financial risks and financial policy

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

Financial operations

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

Rating

The credit rating institute Standard & Poor's (S&P) has rated the company's long-term funding with an AA-F/Stable outlook and retained A-1+ for short-term funding. S&P raised the rating from AA to AA+ in 2005 given the continued long-term ownership aims of the Swedish government and the company's long-term ability to achieve the owner's return requirement. S&P confirmed the AA+ rating on 16 December 2016. When S&P assesses Specialfastigheter's stand-alone credit-worthiness – the company's ability to stand-alone without Swedish state ownership – we receive an AA- credit rating.

Interest-rate risk

Interest-rate risk refers to the risk of negative effects on interest expenses for existing and future financing due to interest-rate changes. Specialfastigheter's interest-rate exposure is governed by limiting the proportion maturing within 12 months to a maximum of 70% of the net loan portfolio. The average fixed-interest period should be within a range of 1–5 years. On the closing date, the average fixed-interest period was 2.6 years (1.9). The fixed-interest period shows how quickly a change in interest rates will impact in the form of increased borrowing expenses. The objective of interest-rate risk management is to achieve low interest expenses over time while adapting the interest-rate profile to underlying business possibilities. At 31 December 2016, the portfolio's average interest rate for loans and derivatives was 0.93% (1.42). Inflation-linked bonds were issued for SEK 190 million (190) to protect inflation-linked items in the income statement, such as rental income and, operating and maintenance expenses.

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

On the balance-sheet date there were unutilised guaranteed loan commitments of SEK 4,736 million (3,911) covering the refinancing risk for the next 15 months' (11) maturity.

Financing risk

Financing risk refers to the risk that existing financing cannot be replaced or only at exceptionally high cost. The risk to Specialfastigheter also includes not being able to secure financing, for example in connection with a major acquisition. To limit financing risk, Specialfastigheter strives to raise credits with long maturities and even maturity profiles for commercial paper and bonds issued. To further reduce financing risk, there are also guaranteed loan commitments and overdrafts totalling SEK 4,750 million (4,250).

No special undertakings are included in loan commitments other than ownership clauses and disclosure commitments. Two loan commitments totalling SEK 3,000 million increase the margin on loans drawn from the facility if the company's rating falls below AA-. The maturity of financial liabilities has been spread over time to limit refinancing risk. As of 31 December 2016, maturity was 3.3 years (2.6), and with consideration for unutilised guaranteed loan commitments, maturity was 4.0 years (3.4).

During the year, we increased investments in covered bonds by SEK 350 million to a total nominal amount of SEK 850 million (500) with a medium-term maturity; these investments are used as collateral for raising whole loan repos.

continued, Note 21 Financial risks and financial policy

The company's nominal gross financial liability totalled SEK 12,870 million (12,038) at year-end. Further reductions of the refinancing risk are achieved by diversifying funding sources; refer to the "Credit facilities" table. Borrowing is conducted in the Swedish and international credit markets through bond and commercial paper programmes and in the Swedish and international banking markets. Specialfastigheter conducts borrowing against the balance sheet without pledging properties. The company's loan contracts have included an ownership clause ever since 1999, which strengthens lenders' positions. The clause means that lenders are entitled to call a loan in early if state ownership falls below 100%.

The "Liquidity risk" table on page 89 shows agreed undiscounted cash flows, which include all financial liabilities including interest payments. Where the future variable interest rate is unknown, it has been estimated with the aid of implicit forward interest rates. Rental income is used to meet the future commitments presented in the table. Credit risk is assessed as negligible for rental income.

Credit risks and counterparty risks in financial operations

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

The company's counterparty risk in derivative contracts totalled SEK 90 million (120) as of 31 December 2016; this corresponds to the company's total receivables from unrealised derivatives with positive values.

Securities received/paid are in the form of cash deposits.

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

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

	2016	2015
Financial assets	158	350
Financial liabilities	15	0

An impairment of SEK 0 million (2) was carried out on the balance-sheet date. SEK 1 million (1) of trade receivables were unpaid at 31 January 2017. Trade payables of SEK 15 million were paid in January.

Currency risk

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

while foreign currency loans are translated at the balance-sheet date exchange rate and reported in net financial items.

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

Nominal amounts (SEK) per business day

2016			
Original currency	Loan	Derivative	Total
USD	456.0	-456.0	0

2015			
Original currency	Loan	Derivative	Total
CHF	357.0	-357.0	0

Electricity price risk

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

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

Derivatives

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

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

Financial instruments measured at fair value

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

Level 1	Fair value determined by prices quoted in an active market for the same instrument.
Level 2	Fair value determined either by directly or indirectly observable market data not included in Level 1.
Level 3	Fair value determined based on data that is not observable in the market.

The table on the following page describes how fair value was determined for the company's financial instruments.

continued, Note 21 Financial risks and financial policy

Financial instruments – Measured at fair value

2016	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	-	-39	-	-39
Currency swaps	-	9	-	9
Electricity futures	3	-	-	3
Net	3	-30	-	-27

2015	Prices quoted in an active market (Level 1)	Measurement based on observable data (Level 2)	Measurement based on information other than observable data (Level 3)	Total
Interest-rate swaps	-	-40	-	-40
Currency swaps	-	68	-	68
Electricity futures	-17	-	-	-17
Net	-17	28	-	11

Credit facilities

	Loan limit, SEK million		Utilised, SEK million	
	2016	2015	2016	2015
CSA deposits	-	-	-59	37
Guaranteed loan commitments	4,750	4,250	14	339
Commercial paper	4,000	4,000	3,010	2,830
MTN programme	13,000	13,000	9,200	8,275
Private Placements	956	857	646	547
Whole loan repos	850	-	-	-
Investments	-1,000	-500	-850	-500
Total	22,556	21,607	11,961	11,528

Liquidity risk, SEK million

2016	Loans	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-3,148	2	-8	-6	-163
Between 3 and 12 months	-2,514	32	-19	13	-
Between 1 and 3 years	-4,929	76	-59	17	-
Between 3 and 5 years	-3,555	66	-76	-10	-
Total	-14,146	176	-162	14	-163

2015	Loans	Derivatives, inflow	Derivatives, outflow	Derivatives, total	Trade payables
Less than 3 months	-3,546	13	-12	1	-123
Between 3 and 12 months	-2,302	15	-29	-14	-
Between 1 and 3 years	-4,538	46	-49	-3	-
Between 3 and 5 years	-2,433	24	-43	-19	-
Total	-12,819	98	-133	-35	-123

Exposure to counterparty risks distributed across different rating categories

Institute with long rating, 2016	Asset	Liability	Securities received/ paid	Net exposure
AA-	27	-64	48	11
A+	29	-31	11	9
A	28	-19	-	9
BBB+	-	-	-	-
Electricity derivatives	6	-3	-	3
Total	90	-117	59	32

Institute with long rating, 2015	Asset	Liability	Securities received/ paid	Net exposure
AA-	89	-56	-47	-14
A+	31	-31	-	0
A	-	-2	-	-2
BBB+	0	-3	10	7
Electricity derivatives	0	-17	-	-17
Total	120	-109	-37	-26

continued, Note 21 Financial risks and financial policy

Hedged portion of future electricity consumption

2016					2015				
Year	GWh	Min. limit	Max. limit	Proportion	Year	GWh	Min. limit	Max. limit	Proportion
2017	102	70%	100%	79%	2016	108	70%	100%	71%
2018	102	40%	100%	55%	2017	108	40%	100%	46%
2019	102	20%	100%	50%	2018	108	20%	100%	35%
2020	102	0%	100%	30%	2019	108	0%	100%	32%

Maturity profile for electricity derivatives

2016			2015		
Year	GWh	Market value, SEK million	Year	GWh	Market value, SEK million
2017	81	3	2016	77	8
2018	57	1	2017	50	4
2019	51	-1	2018	38	3
2020	31	0	2019	35	2
2021	26	0	2020	9	0
Total	246	3	Total	209	17

Derivative portfolio's market value, SEK million

	2016			2015		
	Nominal value	Positive value	Negative value	Nominal value	Positive value	Negative value
Currency swaps	456	28	19	357	52	92
Interest-rate swaps	3,305	56	95	2,897	68	0
Electricity futures	-	6	3	-	0	17
Total	3,761	90	117	3,254	120	109

Sensitivity analysis

Change	Pre-tax change in profit or loss	Change in equity after tax
Change in net financial items if market rate increases 1%, annual expense change	Earnings decrease SEK 44 million (49)	Equity decreases SEK 34 million (38)
Change in value of financial derivatives if market rate increases by 1%	Earnings increase SEK 22 million (31)	Equity increases SEK 17 million (24)
Currency risk is hedged by currency swaps, which removes the effect of exchange-rate changes	No change	No change
Electricity price risk – electricity futures reduce price volatility. The majority of electricity expenses are then passed on to the tenants	No change	No change

Maturity structure for fixed-interest and tied-up capital

	Fixed-interest, SEK million		Tied-up capital, SEK million	
	2016	2015	2016	2015
2016	-	7,684 ¹	-	5,188 ¹
2017	6,614 ¹	650	4,203 ¹	1,250
2018	600 ²	586 ²	1,489 ²	1,461 ²
2019	850 ²	1,050	1,652 ²	1,350
2020	100 ²	91 ²	820 ²	812 ²
2021	1,550 ²	200	1,550 ²	200
2022	500	500	500	500
2023	454	-	454	-
2024	230	230	230	230
2025	500	200	500	200
2026	374	199	374	199
2027	-	-	-	-
2028 and beyond	180	177	180	177
Total	11,952	11,567	11,952	11,567

1) Includes CSA deposits given and received.

2) Includes investments in covered bonds

continued, Note 21 Financial risks and financial policy

Carrying amount per category

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at FVTPL				
Interest-rate derivatives	56	56	52	52
Currency derivatives	28	28	68	68
Electricity derivatives	6	6	0	0
Loan and trade receivables				
Trade receivables	206	206 ¹	379	379 ¹
CSA deposits	59	59 ¹	10	10 ¹
Accrued interest income	-	-	-	-
Cash and cash equivalents	4	4	2	2
Financial assets translated at balance-sheet date exchange rate				
Covered bonds	897	897	522	522
Other shares and participations	0	0	0	0
Financial liabilities measured at FVTPL				
Interest-rate derivatives	95	95	92	92
Currency derivatives	19	19	0	0
Electricity derivatives	3	3	17	17
Financial liabilities measured at amortised cost				
Commercial paper	3,011	3,014 ²	2,830	2,832 ²
Fixed-interest bonds	6,204	6,530 ²	5,378	5,648 ²
Floating-rate bonds	2,998	2,997 ²	2,895	2,896 ²
Trade payables	163	163 ¹	123	123 ¹
CSA deposits	-	-	47	47
Accrued interest expenses	47	47 ¹	58	58 ¹
Financial liabilities translated at balance-sheet date exchange rate				
Inflation-linked bonds	180	180	177	177 ²
Foreign currency bonds	454	482	422	423 ²

1) Fair value is measured by discounting future cash flows at the market interest rate on the balance-sheet date for the respective maturity. The fair value of bonds in foreign currency is measured by discounting future cash flows at the balance-sheet date exchange rate for the respective maturity.

2) Market quotations and generally accepted Level 2 calculation methods are used to determine fair value on the closing date.

Financial assets and liabilities that are offset or covered by a general netting arrangement, SEK million

Amounts covered by a general or similar netting agreement ¹						
2016	Gross amount	Offset amount	Net amount in balance sheet	Financial instruments	Financial collateral, received/paid	Net amount
Derivative assets	90	-	90	-90	-	0
Derivative liabilities	-117	-	-117	90	59	32
Total	-27	0	-27	-	59	32

Amounts covered by a general or similar netting agreement ¹						
2015	Gross amount	Offset amount	Net amount in balance sheet	Financial instruments	Financial collateral, received/paid	Net amount
Derivative assets	120	-	120	-120	-47	-47
Derivative liabilities	-109	-	-109	120	10	21
Total	11	-	11	-	-37	-26

1) These financial assets and liabilities are only offset in the case of insolvency or upon suspension of payments by either party. These also include arrangements where the Group has no intention of divesting the instruments concurrently.

Note 22 Related parties**Related-party transactions**

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2016	2015	2016	2015
Intra-Group income	-	-	2	5
Intra-Group expenses	-	-	-	-
Current intra-Group receivables	-	-	9	21
Non-current intra-Group receivables	-	-	217	1,269
Intra-Group liabilities	-	-	-	-

Transactions with the shareholder

	Consolidated IFRS		Parent Company Annual Accounts Act	
	2016	2015	2016	2015
Reduction and repayment of share capital	-	-	-	2,071
Dividend	-	-	446	929

There are no dealings with the owner, the Swedish State, other than those stipulated by law. The Parent Company, Specialfastigheter Sverige AB, corporate registration number 556537-5945, has a close relationship with its subsidiaries; refer to Note 16, page 100 for the Parent Company. For more information on salaries and other remuneration, expenses and commitments with respect to pensions and similar benefits of the Board, CEO and other senior executives, as well as contracts concerning severance payments; refer to Note 8 on page 81 of the consolidated financial statements.

ation, expenses and commitments with respect to pensions and similar benefits of the Board, CEO and other senior executives, as well as contracts concerning severance payments; refer to Note 8 on page 81 of the consolidated financial statements.

Note 23 Pledged assets and contingent liabilities

	2016	2015
Pledged assets	None	None
Contingent liabilities	None	None

Note 24 Events after the balance-sheet date

No significant events have taken place after the end of the period.

Parent Company – Income statement, SEK million

	Note	Full-year 2016	Full-year 2015
Rental income		1,721	1,571
Other income	2	160	145
Net sales		1,881	1,716
Operating expenses	3	-497	-444
Depreciation of investment properties		-590	-516
Gross profit		794	756
Central administration	4, 5	-61	-66
Gain/loss on property sales	6	49	3
Operating profit	7, 8	782	693
Profit/loss from financial investments			
Other interest income and similar profit/loss items	9	66	130
Interest expense and similar profit/loss items	9	-182	-273
Profit/loss after financial items		666	550
Appropriations	10	-66	-64
Tax on profit for the year	11	-132	-102
Net profit for the year	12	468	384
Of which attributable to the Parent Company's shareholder		468	384

Parent Company – Statement of comprehensive income, SEK million

	Full-year 2016	Full-year 2015
Net profit for the year	468	384
Total other comprehensive income for the year, net after tax	-	-
Total comprehensive income for the year	468	384
Of which attributable to the Parent Company's shareholder	468	384

Parent Company – Balance sheet, SEK million

	Note	2016	2015
ASSETS			
Non-current assets			
Investment properties	13, 14	14,904	13,219
Plant and equipment	15	9	8
Financial assets	11, 16	1,677	2,087
Total non-current assets		16,590	15,314
Current assets			
Trade receivables		206	365
Tax assets		-	18
Current investments	17	4	68
Current receivables	18	87	39
Prepaid expenses and accrued income	19	18	14
Cash and bank balances	20	4	2
Total current assets		319	506
Total assets		16,909	15,820
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (2,000,000 shares)		200	200
Statutory reserve		42	42
Total restricted equity		242	242
Non-restricted equity			
Retained earnings		231	269
Net profit for the year		468	384
Total restricted equity		699	653
Total equity		941	895
Untaxed reserves	21	1,380	1,217
Liabilities			
Interest-bearing liabilities			
Loan liabilities	22	12,861	12,088
Non-interest-bearing liabilities			
Tax liability		23	-
Other liabilities	23	383	312
Deferred tax liabilities	11	787	795
Accrued expenses and deferred income	24	534	513
Total liabilities		14,588	13,708
Total equity and liabilities		16,909	15,820

Parent Company – Changes in equity, SEK million

Attributable to the Parent Company's shareholder

	Restricted equity		Non-restricted equity		Total equity
	Share capital	Revaluation reserve	Statutory reserve	Retained earnings	
2016					
Opening balance, 1 January 2016	200	-	42	653	895
Comprehensive income					
Merged subsidiaries	-	-	-	24	24
Net profit for the year	-	-	-	468	468
Other comprehensive income	-	-	-	-	-
Total	200	-	42	1,145	1,387
Transactions with the shareholder					
Dividend	-	-	-	-446	-446
Total transactions with the shareholder	-	-	-	-446	-446
Closing balance, 31 December 2016	200	-	42	699	941

	Restricted equity		Non-restricted equity		Total equity
	Share capital	Revaluation reserve	Statutory reserve	Retained earnings	
2015					
Opening balance, 1 January 2015	200	-	42	3,269	3,511
Comprehensive income					
Net profit for the year	-	-	-	384	384
Other comprehensive income	-	-	-	-	-
Total	200	-	42	3,653	3,895
Transactions with the shareholder					
Bonus issue	2,071	-	-	-2,071	-
Reduction and repayment of share capital ¹⁾	-2,071	-	-	-	-2,071
Dividend	-	-	-	-929	-929
Total transactions with the shareholder	-	-	-	-3,000	-3,000
Closing balance, 31 December 2015	200	-	42	653	895

Share capital consists of 2,000,000 shares with a quotient value of SEK 100 and with one (1) vote per share.

1) The 2015 AGM resolved to increase the company's share capital through a bonus issue of SEK 2,340,388,371 through the utilisation of non-restricted reserves. Moreover, the AGM resolved to reduce the company's share capital by SEK 2,071,400,000 through a repayment to the shareholder and a provision to non-restricted equity of SEK 268,988,371.

Parent Company – Cash-flow statement, SEK million

	Full-year 2016	Full-year 2015
Operating activities		
Gross profit	794	756
Central administration	-61	-66
Net financial expense	-116	-143
Reversal, change in value of financial investments	37	-45
Reversal, change in price of covered bonds	-4	4
Reversal of depreciation	593	517
Profit/loss from sales, liquidations and mergers	-58	-14
Income tax paid	-109	-106
Cash flow from operating activities before changes in working capital	1,076	903
Changes in working capital		
Change in receivables	107	-244
Change in other current liabilities	43	17
Total change in working capital	150	-227
Cash flow from operating activities	1,226	676
Investing activities		
Acquisition of investment properties	-95	-58
Investment in investment properties	-498	-178
Disposal of investment properties	81	6
Acquisition of property, plant and equipment	-1	0
Disposal of property, plant and equipment	0	0
Cash flow from investing activities	-513	-230
Financing operations		
Investment, covered bonds	-371	-526
Borrowings	18,660	10,940
Repayments of borrowings	-18,554	-7,860
Dividend paid to Parent Company's shareholder	-446	-929
Repayment of share capital	-	-2,071
Cash flow from financing activities	-711	-446
Cash flow for the year	2	0
Opening cash and cash equivalents	2	2
Closing cash and cash equivalents	4	2
Interest		
Interest received	14	4
Interest paid	85	193

Note 1 Parent Company accounting policies

The Parent Company applies the same accounting policies as the Group, except in the cases specified below. The deviations between the Parent Company's and the Group's policies arise from limitations in the Parent Company's ability to apply IFRS as a result of provisions in the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and in certain cases for tax reasons.

Parent Company accounting policies

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 of the Swedish Financial Reporting Board, Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board applicable to listed companies are also applied. RFR 2 means that the Parent Company must apply all EU-approved IFRSs and interpretations insofar as this is possible under the provisions of the Annual Accounts Act, the Swedish Pension Obligations Vesting Act and with due consideration to the relationship between accounting and taxation.

Changes in accounting policies

New standards and interpretations that entered force in 2016 have not had any impact on the financial statements.

Classification and structure

The Parent Company's income statement and balance sheet follow the structure of the Annual Accounts Act. The principal difference in comparison with IAS 1 Presentation of Financial Statements applied in the layout of the Group's financial statements is the presentation of operating profit, financial income and expenses, non-current assets, equity and the occurrence of provisions as separate headings in the balance sheet.

Subsidiaries

Participations in subsidiaries are recognised in the Parent Company in accordance with the cost method. Acquisition-related expenses for subsidiaries are included in the cost of the shares in the subsidiary. Dividends received are recognised as income.

Depreciation

Earnings in the income statement have been charged with depreciation according to plan. In the case of plant and equipment, the difference between fiscal and planned depreciation is reported as an appropriation, and accumulated accelerated depreciation as untaxed reserves. A review of economic lives of buildings was carried out during the year. Since the maximum fiscal rate falls short of planned depreciation, a deferred tax asset arises. The company includes the deferred tax asset in its total recognised deferred tax liability.

Planned depreciation is based on an asset's cost and estimated economic life.

The following depreciation rates were used:

Building fixtures and fittings	10% per year
Buildings	2–7% per year
In ground fixtures and fittings	5% per year
Land improvements	5% per year

Buildings

Buildings in the Parent Company are recognised at cost less accumulated depreciation. Cost consists of the acquisition cost, land registration costs and value enhancing improvements. Only expenses that generate lasting value enhancement to a property are capitalised. Interest expenses are also capitalised during the production period in the case of major new builds, extensions and redevelopments.

In conjunction with the review of the economic useful life as described in the Depreciation section above, the company is having all properties valued using the model described in Note 11, page 84, Consolidated Financial Statements. If the value of a property thus estimated falls significantly below the carrying amount, an impairment loss is recognised for the property. No impairments were recognised in 2016. At 31 December 2016, the Parent Company's property holdings were valued at SEK 21,974 million.

Plant and equipment

Plant and equipment in the Parent Company are reported at cost less accumulated depreciation and any impairment losses in the same way as for the Group, but with the addition of possible positive revaluations.

Leased assets

For further information, see Note 1, page 77, consolidated financial statements.

Taxes

Untaxed reserves including deferred tax liabilities are recognised in the Parent Company. However, in the consolidated financial statements untaxed reserves are divided into deferred tax liabilities and equity.

Group contributions and shareholder contributions for legal entities

The recipient recognises shareholder's contributions directly in equity and the donor capitalises contributions in shares and participations, to the extent that impairment is not required. A Group contribution received by the Parent Company from a subsidiary is recognised applying the same principles as customary dividends from subsidiaries and are recognised as financial income. Group contributions paid by the Parent Company to subsidiaries are recognised as an increase in the carrying amount of the participations in the subsidiary. No Group contributions were paid during 2016.

Financial risk management

For further information, see notes 6, 14, 18 and 21, consolidated financial statements.

Note 2 Other income

Other income refers to invoiced services and energy expenses, compensation received and services invoiced to subsidiaries.

Note 3 Operating expenses

	2016	2015
Energy, fuel and water	128	151
Property operations	218	184
Property tax	39	25
Maintenance	112	84
Total	497	444

Note 4 Administration

	2016	2015
Payroll expenses	48	47
Depreciation of plant and equipment	3	2
Other expenses (Inspections, consultants' fees, other)	10	17
Total	61	66

Note 5 Auditors' fees

See Note 5, page 80, Notes to the consolidated financial statements.

Note 6 Gain/loss on property sales

	2016	2015
Proceeds, properties sold	78	6
Book value, properties sold	-27	-3
Selling expenses	-2	0
Total	49	3

Note 7 Employees, payroll expenses and Board fees

See Note 8, page 81, Notes to the consolidated financial statements.

Note 8 Depreciation

	2016	2015
Plant and equipment – Administration	3	2
Plant and equipment – Operations	0	0
Total	3	2

Note 9 Net financial items

	2016	2015
Gains, liquidation of subsidiary	-	10
Interest income, subsidiaries	1	28
Interest income, covered bonds	14	4
Other interest income	0	0
Investment gains	4	-
Changes in value on revaluation of financial derivatives	47	88
Financial income	66	130
Interest expenses, bonds	121	156
Other interest expenses	-37	58
Investment losses	-	4
Other financial expenses	14	13
Capitalisation of interest, projects in progress	-1	-1
Changes in value on revaluation of financial derivatives	85	43
Financial expenses	182	273
Net financial income	116	143

Note 10 Appropriations

	2016	2015
Difference between book depreciation and depreciation according to plan:		
Plant and equipment	-41	-45
Provision to tax allocation reserve	212	155
Reversal from tax allocation reserve	-105	-46
Total	66	64

Note 11 Taxes

	2016	2015
Recognised in profit or loss		
Current tax expense	140	100
Deferred tax expense	-8	2
Total recognised tax	132	102

	2016	2015
Reconciliation of effective tax		
Recognised EBT	600	486
Swedish income tax rate, 22%	132	107
Tax-exempt income	0	-2
Non-deductible expenses	0	0
Adjusted proceeds from sales	0	-1
Standard interest tax allocation reserve	0	1
Adjustment of earlier years' tax expense	-	-3
	132	102

	2016	2015
Recognised in the balance sheet		
Liabilities		
Deferred tax liability	787	795
Current tax	23	-
Total	810	795

	2016	2015
Deferred tax assets and liabilities		
Financial assets	-6	-1
Capitalised maintenance expenses	101	-66
Property depreciation, revaluation	692	-728
Total	787	-795

Deferred tax in respect of the revaluation reserve has been recognised in equity.

Note 12 Appropriation of profits and dividend

The dividend paid to the shareholder in May 2016 totalled SEK 446,000,000 (SEK 928,627,231) and comprised an ordinary dividend, as defined in the dividend policy, of SEK 446,000,000. The dividend per share was SEK 223 (464). Regarding the dividend for this year, the Board proposes that a dividend of SEK 249 per share be paid to the shareholder. A resolution will be taken by the shareholder regarding the dividend at the AGM. The dividend has not been taken up as a liability in the annual accounts. The dividend is estimated to total SEK 497,000,000.

Non-restricted equity, Parent Company:

Retained earnings	SEK 231,397,475
Net profit for the year	SEK 467,767,105
Total	SEK 699,164,580

The Board and CEO propose that earnings be appropriated as follows:

Dividend payable to the shareholder	SEK 497,000,000
To be carried forward	SEK 202,164,580
Total	SEK 699,164,580

Note 13 Buildings, building fixtures and fittings, land, land improvements, in ground fixtures and fittings

Buildings	2016	2015
Opening cost	11,176	10,902
Opening cost transferred through merger	1,121	-
Surplus value on merger	8	-
Purchases	88	2
Projects completed	42	114
Capitalised maintenance expenses	118	170
Sales and disposals	-93	-12
Closing accumulated cost	12,460	11,176
Opening depreciation	4,007	3,709
Opening depreciation transferred through merger	57	-
Sales and disposals	-62	-9
Depreciation for the year	361	307
Closing accumulated depreciation	4,363	4,007
Opening revaluations	4,274	4,274
Revaluations for the year	-	-
Closing accumulated revaluations	4,274	4,274
Opening depreciation on revalued amounts	203	71
Depreciation for the year on revalued amounts	132	132
Closing accumulated depreciation on revalued amounts	335	203
Opening impairment charges	94	94
Impairment charges for the year	-	-
Closing accumulated impairment charges	94	94
Closing residual value according to plan	11,942	11,146
Tax assessment value, properties in Sweden	2,920	1,765
Building fixtures and fittings	2016	2015
Opening cost	676	666
Opening cost transferred through merger	190	-
Purchases	-	-
Projects completed	8	10
Sales and disposals	-8	-
Closing accumulated cost	866	676
Opening depreciation	467	417
Opening depreciation transferred through merger	41	-
Sales and disposals	-8	-
Depreciation for the year	69	50
Closing accumulated depreciation	569	467
Closing residual value according to plan	297	209

Land	2016	2015
Opening cost	1,098	1,043
Opening cost transferred through merger	188	-
Surplus value on merger	94	-
Purchases	10	55
Sales and disposals	-2	0
Closing accumulated cost	1,388	1,098
Closing residual value according to plan	1,388	1,098
Tax assessment value, properties in Sweden	972	795
Land improvements	2016	2015
Opening cost	263	261
Opening cost transferred through merger	3	-
Projects completed	3	2
Sales and disposals	-2	-
Closing accumulated cost	267	263
Opening depreciation	115	103
Opening depreciation transferred through merger	0	-
Sales and disposals	-1	-
Depreciation for the year	13	12
Closing accumulated depreciation	127	115
Closing residual value according to plan	140	148
In ground fixtures and fittings	2016	2015
Opening cost	303	300
Opening cost transferred through merger	7	-
Projects completed	2	3
Sales and disposals	0	-
Closing accumulated cost	312	303
Opening depreciation	118	103
Opening depreciation transferred through merger	1	-
Sales and disposals	0	-
Depreciation for the year	15	15
Closing accumulated depreciation	134	118
Closing residual value according to plan	178	185
Total	2016	2015
Opening cost	13,516	13,172
Opening cost transferred through merger	1,509	-
Surplus value on merger	102	-
Purchases	98	57
Projects completed	55	129
Capitalised maintenance expenses	118	170
Sales and disposals	-105	-12
Closing accumulated cost	15,293	13,516
Opening depreciation	4,707	4,332
Opening depreciation transferred through merger	99	-
Sales and disposals	-71	-9
Depreciation for the year	458	384
Closing accumulated depreciation	5,193	4,707
Opening revaluations	4,274	4,274
Revaluations for the year	-	-
Closing accumulated revaluations	4,274	4,274
Opening depreciation on revalued amounts	203	71
Depreciation for the year on revalued amounts	132	132
Closing accumulated depreciation on revalued amounts	335	203
Opening impairment charges	94	94
Impairment charges for the year	-	-
Closing accumulated impairment charges	94	94
Closing residual value according to plan	13,945	12,786
Tax assessment value, properties in Sweden	3,892	2,560

Note 14 Construction in progress

	2016	2015
Opening balance	433	377
Accrued expenses for the year	699	355
Capitalised maintenance expenses	-118	-170
Projects completed	-55	-129
Closing balance	959	433

Note 15 Plant and equipment

	2016	2015
Opening cost	21	15
Purchases	4	6
Sales and disposals	0	0
Closing accumulated cost	25	21
Opening depreciation	13	11
Sales and disposals	0	0
Depreciation for the year	3	2
Closing accumulated depreciation	16	13
Closing residual value according to plan	9	8

Note 16 Financial assets

	2016	2015
Shares in subsidiaries	408	222
Other shares	0	1
Receivables from subsidiaries	217	1,269
Derivatives measured at FVTPL	86	52
CSA deposits	59	10
Covered bonds	897	522
Value-added tax for adjustment	10	11
Total	1,677	2,087

Shares in subsidiaries 2016

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Specialfastigheter Lejonet AB	100%	100%	500	291,881
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB	100%	100%	500	50
Västrike Fastighets AB	100%	100%	500	50
Carrying amount of shares in subsidiaries 2016				408,112

Shares in subsidiaries 2015

Subsidiary	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Lagallén Fastighets AB	100%	100%	1,000	95,912
Specialfastigheter Secure Åstorp AB	100%	100%	1,000	9,626
Specialfastigheter Gärdet AB	100%	100%	50,000	116,131
Nordrike Fastighets AB	100%	100%	500	50
Västrike Fastighets AB	100%	100%	500	50
Carrying amount of shares in subsidiaries 2015				221,769

continued, Note 16 Financial assets

Shares, indirectly owned subsidiaries 2016

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Owned by Nordrike Fastighets AB	100%	100%	500	50
Nordrike 2 Fastighets AB				
Owned by Västrik Fastighets AB				
Västrik 2 Fastighets AB (dormant company)	100%	100%	500	50
Västrik 3 Fastighets AB (dormant company)	100%	100%	500	50
Carrying amount of shares in subsidiaries 2016				150

Shares, indirectly owned subsidiaries 2015

	Equity	Voting rights	No. of shares	Carrying amount, SEK thousand
Owned by Nordrike Fastighets AB				
Nordrike 2 Fastighets AB	100%	100%	500	50
Owned by Västrik Fastighets AB				
Västrik 2 Fastighets AB (dormant company)	100%	100%	500	50
Västrik 3 Fastighets AB (dormant company)	100%	100%	500	50
Carrying amount of shares in subsidiaries 2015				150

Information on company registration numbers and registered offices

Subsidiary	Co. Reg. No.	Registered office
Specialfastigheter Lejonet AB	559077-3015	Linköping
Specialfastigheter Gärdet AB	556910-1370	Linköping
Nordrike Fastighets AB	556832-2290	Linköping
Västrik Fastighets AB (dormant company)	556963-5187	Linköping
Indirectly owned subsidiaries	Corp. Reg. No.	Registered office
Nordrike 2 Fastighets AB	556938-3929	Linköping
Västrik 2 Fastighets AB (dormant company)	556963-5179	Linköping
Västrik 3 Fastighets AB (dormant company)	556963-5161	Linköping

Merged subsidiaries in 2016	Co. Reg. No.	Registered office
Lagallén Fastighets AB	556757-1863	Linköping
Specialfastigheter Secure Åstorp AB	556686-0465	Linköping

Mergers

On 8 December 2016, the Swedish Companies Registration Office approved the mergers of the subsidiaries Lagallén Fastighets AB and Specialfastigheter Secure Åstorp AB into the Parent Company, Specialfastigheter Sverige AB. The following values applied at the merger date (SEK million).

Company	Lagallén Fastighets AB Co. Reg. No. 556757-1863	Specialfastigheter Secure Åstorp AB Co. Reg. No. 556686-0465	Total
Net sales	108	11	119
Operating profit	56	6	62
Assets	1,347	63	1,410
Untaxed reserves	90	6	96
Non-current liabilities	1,158	33	1,191
Current liabilities	35	2	37

The mergers have been reported in accordance with the Swedish Accounting Standards Board (BFN) recommendation BFNAR 2016:7 Merger of Wholly Owned Subsidiaries.

Note 17 Current investments

	2016	2015
Derivatives measured at FVTPL	4	68
Total	4	68

Note 18 Current receivables

	2016	2015
Receivables from subsidiaries	9	21
Receivables, properties sold	68	-
Receivables, liquidated companies	-	13
Opening suspended VAT	-	5
Other receivables	10	0
Total	87	39

Note 19 Prepaid expenses and accrued income

	2016	2015
Prepaid energy expenses	3	4
Other interim receivables	15	10
Total	18	14

Note 20 Cash and cash equivalents

	2016	2015
Bank balances	4	2
Total	4	2

Note 21 Untaxed reserves

	2016	2015
Accumulated difference between reported depreciations and depreciations according to plan	418	373
Tax allocation reserve	962	844
Total	1,380	1,217

Note 22 Interest-bearing liabilities

For further information, see Note 18, page 86, consolidated financial statements.

Note 23 Other liabilities

	2016	2015
Customer advances	-	0
Trade payables	162	120
Derivatives measured at FVTPL	117	109
VAT	98	76
Other liabilities	6	7
Total non-interest-bearing liabilities	383	312

Note 24 Accrued expenses and deferred income

	2016	2015
Deferred rental income	452	409
Accrued energy expenses	14	31
Accrued interest expenses	47	57
Accrued social-security expenses	2	2
Accrued holiday pay	8	8
Accrued payroll tax	3	2
Other items	8	4
Total	534	513

Note 25 Related parties

For further information, see Note 22, page 92, consolidated financial statements.

Note 26 Pledged assets and contingent liabilities

	2016	2015
Pledged assets	None	None
Contingent liabilities	None	None

Note 27 Events after the balance-sheet date

No significant events have taken place after the end of the period.

Declaration by the Board

The consolidated financial statements and annual accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and good accounting practice and present a true and fair view of the position and results of the Group and the Parent Company.

The Administration Report for the Group and the Parent Company presents a true and fair overview of the activities, financial position and results of the Group and the Parent Company and describes material risks and uncertainties faced by the Parent Company and the companies contained in the Group.

Bo Lundgren
Chairman

Åsa Hedenberg
CEO

Jan Berg

Carin Götblad

Eva Landén

Mikael Lundström

Ulrika Nordström

Maj-Charlotte Wallin

Masoomeh Antonsson
Employee Representative

Roger Törngren
Employee Representative

Our Audit Report was submitted on 23 March 2017
Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant, Ernst & Young AB

Auditor's report

To the General Meeting of SPECIALFASTIGHETER SVERIGE AB, Company Registration Number 556537-5945

Report on the annual accounts and consolidated financial statements

Opinion

We have conducted an audit of the annual accounts and the consolidated financial statements of Specialfastigheter AB (publ) for the 2016 financial year with the exception of the Sustainability Report on pages 43–51 and the Corporate Governance Report on pages 57–66. The company's annual accounts and the consolidated financial statements are included on pages 6–103.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated financial statements 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 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the Sustainability Report on pages 43–51 and the Corporate Governance Report on pages 57–66. The Administration Report is consistent with the other sections of the annual accounts and the consolidated financial statements.

We therefore recommend that the shareholder's General Meeting adopt the income statement and balance sheet for the Parent Company and the Group.

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.

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

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and the consolidated

financial statements for the period under review. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated financial statements as a whole, but we do not provide a separate opinion on these matters.

Valuation of investment properties

At 31 December 2016, the fair value of Specialfastigheter's properties amounted to SEK 22,999 million. Unrealised changes in value amounted to SEK 865 million. A description of the appraisal of the property holdings has been provided in Note 11.

Each quarter, Specialfastigheter conducts an internal valuation of its entire property holdings and, moreover, in Q2 and Q4, control validations are performed by external appraisers of a number of properties. This means that in 2016, 82% of the market value, corresponding to 49 objects, were valued by external appraisers.

The valuations are based on the cash-flow approach, which entails forecasting future cash flows. The required yield is assessed based on each property's unique risks and on market transactions completed for objects of a similar nature, since few directly comparable transactions occur. Changes in unobservable input data applied in the appraisals are analysed at each balance-sheet date by the company management against internally available information, completed or planned transactions as well as information from the external appraisers. Given the numerous assumptions and judgments that occur in connection with appraisals; we believe that this area should be considered a key audit matter.

Our audit examined the objectivity, independence and competence of the external appraisers. We have evaluated and examined the management's procedures for valuing properties through measures, including evaluating the appraisal method and appraisal input data. We have also carried out comparisons against known market data. With support from our valuation specialists, we have examined the company's internal valuation model. We have also examined, with our valuation specialists' support, the reasonableness of assumptions in terms of required yield, vacancy rate, rental income and operating expenses. We have assessed the appropriateness of the disclosures provided in the annual accounts.

Income taxes

The tax expense in the income statement amounts to SEK 462 million. In addition, Specialfastigheter reported a deferred tax liability of SEK 2,701 million. Note 12 contains a description of the tax calculation.

The calculation and reporting of current and deferred tax are complex processes and, to a high degree, are com-

prised of judgments and assumptions. These judgments and assumptions include, inter alia, decision data for fiscal depreciation, directly deductible redevelopment expenditure, sales of properties separately or as companies as well as changes in the value of properties and derivatives. Given the numerous assumptions and judgments that occur in connection with the calculation of taxes, we believe that this area should be considered a key audit matter.

Our audit evaluated and examined the management's procedure for calculating current and deferred tax as well as examined the calculations against verification data. With support from our tax specialists, we have assessed the application in terms of the applicable tax legislation.

We have assessed the appropriateness of the disclosures provided in the annual accounts.

Other information than the annual accounts and the consolidated financial statements

This document also contains other information than the annual accounts and the consolidated financial statements and can be found on pages 1–7, 43–51 and 108–112. The Board of Directors and the CEO are responsible for this other information.

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

In connection with our audit of the annual accounts and the consolidated financial statements, our responsibility is to read the information identified above, and consider whether the information is materially inconsistent with the annual accounts and the consolidated financial statements. 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.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the annual accounts and the consolidated financial statements in accordance with the Annual Accounts Act and, concerning the consolidated financial statements, in accordance with IFRS as adopted by the EU. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the annual accounts and the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing the company's capacity 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 CEO intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Among other tasks, the Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 financial statements.

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

- identify and assess the risks of material misstatement of the annual accounts and the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the CEO.
- conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting in preparing the annual accounts and the

consolidated financial statements. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion about the annual accounts and the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the annual accounts and the consolidated financial statements, including the disclosures, and whether the annual accounts and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and the consolidated financial statements, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

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

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory Administration Report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with auditing standards generally accepted 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the Parent Company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes, inter alia, continuous assessment of the company's and the Group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and, inter alia, take measures that are necessary to perform the company's accounting in accordance with law and execute 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 CEO 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 a reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

Auditor's review of the Corporate Governance Report

The Board of Directors is responsible for the 2016 Corporate Governance Report on pages 57–66, and for verifying that it has been prepared in accordance with "the Swedish Government's ownership policy and the guidelines for companies with state ownership" (state's ownership policy).

We have performed our review in accordance with FAR's statement RevU 16 Auditor's report on the Corporate Governance Report. This means that our review of the Corporate Governance Report is different and substantially more limited in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that our review is sufficient and provides a basis for our opinions.

A Corporate Governance Report has been prepared. The mandatory information in accordance with the state's ownership policy is consistent with the other sections of the annual accounts and the consolidated financial statements.

Linköping, 23 March 2017

Ernst & Young AB

Mikael Ikonen
Authorised Public Accountant

Property holdings

Specialfastigheter owns and manages a total of 104 (103) properties divided among three business areas. The buildings are spread geographically across the country.

	Number of buildings	Land area, sq m	Owned floor space, sq m
■ Prison and Probation Service business area	542	8,813,305	428,282
■ Defence and Judicial System business area	27	513,238	382,283
■ Institutional Care and Other Special Operations business area	612	9,127,869	277,549
Total:	1,181	18,454,412	1,088,114

Prison and Probation Service business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Asptuna	Lindhov 15:19, 15:3	Norsholm	Botkyrka	18	125,582	4,828
Beateberg	Kassetten 1, Västra Skogås 1:5	Trångsund	Huddinge	4	26,584	3,754
Borås	Provaren 2	Borås	Borås	7	55,720	5,558
Brinkeberg	Restad 3:13	Vänersborg	Vänersborg	3	48,049	7,412
Fosie	Fornlämningen 1	Malmö	Malmö	4	33,109	7,661
Färingsö	Svartsjö 1:59	Svartsjö	Ekerö	8	47,559	4,722
Gruvberget	Gruvberget 1:4-29, 1:31-34, 1:36-40, 2:1, 3:1, 5:2	Åmotsbruk	Bollnäs	32	106,054	4,511
Gävle	Källö 46:1	Gävle	Gävle	5	37,098	7,850
Hall	Hall 4:15	Södertälje	Södertälje	18	588,803	29,732
Halldalen	Hall 4:14, 4:3, 4:5	Södertälje	Södertälje	36	635,882	8,496
Halmstad	Eketånga 4:5	Halmstad	Halmstad	5	42,579	5,457
Haparanda	Bojan 2	Haparanda	Haparanda	6	21,631	3,075
Helsingborg	Kavalleristen 10	Helsingborg	Helsingborg	8	31,077	4,645
Hinseberg	Hinseberg 1:8	Frövi	Lindesberg	19	372,932	11,530
Huddinge	Rotorn 3	Huddinge	Huddinge	1	8,016	8,970
Håga	Hall 4:3, 4:4, 4:7, 4:8, 4:10, 4:12, Tysslinge 1:30, 1:31	Södertälje	Södertälje	9	174,795	5,586
Hällby	Tumbo-Berga 1:3, 1:5	Kvicksund	Eskilstuna	20	258,596	8,561
Högsbo	Högsbo 31:1	Västra Frölunda	Gothenburg	7	35,588	7,445
Kalmar	Ravelinen 1	Kalmar	Kalmar	3	4,857	2,993
Karlskoga	Surpussen 1	Karlskoga	Karlskoga	8	79,485	5,868
Kirseberg	Centralfängelset 1	Malmö	Malmö	8	20,272	12,403
Kristianstad	Vä 147:3	Kristianstad	Kristianstad	6	43,019	6,961
Kumla	Lövsångaren 1, 2	Kumla	Kumla	32	520,310	51,215
Ljustadalen	Filla 8:5	Sundsbruk	Sundsvall	4	37,555	1,371
Luleå	Porsön 1:401	Luleå	Luleå	4	27,085	3,944

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Mariefred	Gripsholm 4:4	Mariefred	Strängnäs	18	150,080	8,604
Norrtälje	Skogen 1	Norrtälje	Norrtälje	15	191,228	18,464
Nya Saltvik	Saltvik 2:64	Härnösand	Härnösand	10	295,597	23,953
Nyköping	Modellen 1	Nyköping	Nyköping	3	23,144	6,464
Rödjan	Marieholm 1:8	Mariestad	Mariestad	20	323,753	5,436
Sagsjön, Lindome	Annestorp 4:74	Lindome	Mölnadal	9	60,000	3,639
Skenäs	Skenäs 1:19	Vikbolandet	Norrköping	18	1,637,649	7,350
Skogome	Skogome 2:2	Hisings Backa	Gothenburg	14	275,307	12,868
Skänninge	Östanå 6	Skänninge	Mjölby	14	146,508	16,353
Smälteryd	Lygnersvider 1:29	Sätilla	Mark	17	200,334	5,546
Storboda	Rosersberg 2:7	Rosersberg	Sigtuna	5	88,466	6,536
Sörbyn	Sörbyn 9:2	Hörnefors	Umeå	19	861,265	7,117
Svartsjö	Svartsjö 1:60	Svartsjö	Ekerö	9	47,688	4,721
Svartsjö Bostäder	Svartsjö 1:60	Svartsjö	Ekerö	7	7,000	776
Tidaholm	Ramstorp 4:10	Tidaholm	Tidaholm	17	277,255	15,315
Tillberga	Hubbo-Sörby 9:48	Västerås	Västerås	8	64,251	13,502
Tygelsjö	Pile 1:7, 1:10	Tygelsjö	Malmö	18	120,662	10,306
Täby	Rönninge 3:4	Täby	Täby	3	23,934	3,978
Umeå, Ersboda	Teglet 1	Umeå	Umeå	4	38,034	3,902
Ystad	Termostaten 1	Ystad	Ystad	7	59,550	8,198
Åby	Funbo-Åby 9:1	Uppsala	Uppsala	25	134,363	5,026
Österåker	Prästgården 1:11	Åkersberga	Österåker	7	405,000	15,679
Total Prison and Probation Service				542	8,813,305	428,282

Defence and Judicial System business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
FOI	Armeringen 1	Umeå	Umeå	4	290,535	13,575
Formgivaren	Formgivaren 1	Solna	Solna	1	9,169	34,967
Försv N Undreg	Bergnäset 3:53	Luleå	Luleå	4	22,000	3,949
Lejonet	Lejonet 11	Luleå	Luleå	2	10,596	21,800
Kristallen	Kristallen 2	Lund	Lund	0	2,647	0
Kronoberg	Kronoberg 18	Stockholm	Stockholm	7	42,358	163,000
Rådhuset	Fruktkorgen 1	Stockholm	Stockholm	1	13,595	22,765
Tegeludden	Tegeludden 8	Stockholm	Stockholm	1	3,504	14,812
Tre Vapen	Tre Vapen 4	Stockholm	Stockholm	3	94,224	66,458
Öb Högkvarteret	Kavalleristen 3	Stockholm	Stockholm	4	24,610	40,958
Total Defence and Judicial System				27	513,238	382,283

Institutional Care and Other Special Operations business area

	Property designation	Location	Municipality	Number of buildings	Land area, sq m	Owned floor space, sq m
Bergsmansgården	Brotorp 1:7	Fjugesta	Lekeberg	7	21,400	3,452
Björkbacken	Bergsjön 21:1	Gothenburg	Gothenburg	5	18,680	2,906
Brättegården	Brätte 1:2	Vänersborg	Vänersborg	15	98,300	4,175
Bärby	Funbo-Broby 1:3	Uppsala	Uppsala	18	191,907	6,555
Ekebylund	Ekeby 5:4	Rosersberg	Sigtuna	12	12,180	2,289
Eknäs	Eknäs 2:2	Enköping	Enköping	11	65,870	4,938
Fagared	Fagared 3:1	Lindome	Mölnadal	14	378,805	7,029
Flygvapen-museum	Malmen 2:8	Linköping	Linköping	5	71,853	17,296
Folåsa	Fålåsa 12:1	Vikingstad	Linköping	18	153,604	5,689
Granhult	Granhult 2:4	Ramsberg	Lindesberg	9	37,222	2,161
Gudhem	Gudhem 12:3, Holmängen 7:1	Gudhem	Falköping	19	217,084	11,066
Gällivare	Ackjan 1	Gällivare	Gällivare	3	16,234	1,715
Rebecka	Troxhammar 8:2	Skå	Ekerö	23	220,995	6,457
Hessleby	Hässleby 2:2	Mariannelund	Eksjö	15	500,060	7,189
Hornö	Hornö 1:1, 1:8	Enköping	Enköping	16	398,223	5,052
Johannisberg	Grytnäs 2:1, Grytnäs 2:11	Kalix	Kalix	9	131,901	5,253
Jokkmokk	Jokkmokk 10:14	Jokkmokk	Jokkmokk	3	11,454	2,207
Karesuando	Karesuando 18:1, 18:2	Karesuando	Kiruna	3	7,749	1,116
Karlsvik	Bosjökloster 1:716	Höör	Höör	13	96,879	3,606
Hässleholm	Fridhem 9	Hässleholm	Hässleholm	2	7,166	1,305
Kiruna	Älgen 1	Kiruna	Kiruna	1	15,270	2,173
Klarälvsgården	Orretorp 2:2	Deje	Forshaga	6	243,800	2,587
Ljungaskog	Ljungaskog 15:28	Örkellunga	Örkellunga	12	281,202	4,745
Ljungbacken	Gräskärr 1:1, Olidan 3:17, Olidan 4:9	Uddevalla	Uddevalla	25	276,152	7,001
Lunden	Klostergården 2:10	Lund	Lund	1	26,391	4,621
Långanäs	Långanäs 1:1	Eksjö	Eksjö	30	434,995	8,775
Lövsta	Lövsta 1:33, 1:67	Vagnhärad	Trosa	37	500,628	9,247
Nereby	Nereby 1:1	Härestad	Kungälv	18	162,660	3,601
Perstorp	Ugglan 1	Perstorp	Perstorp	4	4,264	1,000
Renforsen	Degerfors 38:9, Slaktaren 1	Vindeln	Vindeln	7	34,098	3,183
Revinge	Revinge 1:14	Lund	Lund	22	472,000	17,912
Runnagården	Krusbärsbusken 10	Örebro	Örebro	13	77,522	4,184
Ryds Brunn	Ryd 1:143	Ryd	Tingsryd	8	21,620	5,143
Råby	Stora Råby 32:6, 32:21, 32:23	Lund	Lund	4	0	3,381
Rällsögården	Dammen 1:11-15, 1:37, 3:1, 3:2, Rällsön 1:1-4	Kopparberg	Ljusnarsberg	17	1,297,250	6,574
RPK Gothenburg	Backa 866:772	Hisings Backa	Gothenburg	1	25,417	4,462
Sandoskolan	Sandö 1:4, 1:5, 2:5	Sandöverken	Kramfors	36	433,348	30,830
Kronåsen Uppsala	Kronåsen 3:2	Uppsala	Uppsala	1	53,260	4,474
Skövde	Skövde 5:104	Skövde	Skövde	35	965,764	7,850
Stigby	Stigby 1:9, 7:3	Visingsö	Jönköping	17	78,146	6,475
Sundbo	Sundbo 7:106, 7:107, 7:109, 7:63	Fagersta	Fagersta	24	382,990	9,320
Tärnaby	Laxnäs 1:18	Tärnaby	Storuman	2	11,031	1,033
Vemyra	Vemyra 3:1, 3:2	Sollefteå	Sollefteå	12	173,400	4,293
Åstorp	Bulten 2	Åstorp	Åstorp	2	17,939	5,007
Älvgården	Ytternora 2:6, 2:7	Hedemora	Hedemora	20	75,600	6,394
Östfora	Östfora 1:30	Järlåsa	Uppsala	21	290,915	5,149
Öxnevala	Brännared 2:3	Öxnevala	Mark	16	114,641	6,681
Total Institutional Care and Other Special Operations				612	9,127,869	277,549

Definitions

Adjusted return on equity, %

Profit/loss after tax, after including changes in value and associated deferred tax, in relation to average equity.

Carbon dioxide, CO₂

When fossil fuels are burned, carbon dioxide – a greenhouse gas – is released.

Equity/assets ratio, %

Adjusted equity on the balance-sheet date as a percentage of total assets.

Equity, SEK million

Recognised equity.

Floor space, sq m

Estimated lettable floor space in square metres.

Green appendices

Specialfastigheter's green appendices (also known as green leases) are a standardised template developed by the Swedish Property Federation for reducing the environmental impact from premises. The agreement sets out the landlord's responsibilities, the tenant's responsibilities and shared responsibilities, and details the measures agreed by the landlord and tenant to reduce environmental impact through information and collaboration in terms of energy and indoor environment, material selection and waste management.

Greenhouse gases

Greenhouse gases is an umbrella term for many different gases that increase the greenhouse effect.

Interest coverage ratio, cash-flow based

Profit/loss before tax after adding financial expenses, changes in value and gains/losses from property sales, divided by financial expenses excluding changes in value of financial derivatives.

Loan-to-value ratio, %

Interest-bearing net loan liabilities in relation to the closing value of investment properties.

Net operating income, SEK million

Income from property management less property expenses.

Occupancy rate, %

Total floor space of let premises in relation to total lettable floor space.

Operating net financial items, SEK million

Interest expense less interest income for the year.

Profit from property management, SEK million

Profit from property management is a specific earnings metric commonly used in the property sector to facilitate comparability in the sector. It is calculated as the sum of net operating income, administrative expenses and net financial items.

Rent per sq m, SEK

Annual rent divided by the lettable floor space in square metres at the end of the year.

Return on equity, %

Profit/loss for the year in relation to average equity.

Secure facilities

Properties that have been adapted for operations with security requirements in terms of operational, personal, information or perimeter security.

Surplus ratio, %

Net operating income divided by income from property management.

Yield, %

Net operating income divided by the average market value of investment properties.

Specialfastigheter has selected the above key performance indicators based on established practices in the real estate sector and our own governance.

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