

CORPORATE GOVERNANCE REPORT 2018

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At Hemfosa, the purpose of corporate governance is to ensure that rights and obligations are allocated among the company's various bodies in accordance with applicable laws, regulations and processes. Efficient and transparent corporate governance enables the owners to assert their interests in relation to the company's management at the same time as the division of responsibility between management and the Board, but also within the company, is clear cut. Such efficient and transparent corporate governance enables decisions to be taken efficiently, thus enabling Hemfosa to act swiftly when new business opportunities arise.

Hemfosa is a Swedish public limited-liability company whose shares were listed on Nasdaq Stockholm in March 2014. Corporate governance in Hemfosa is based on laws, the Articles of Association, the Nasdaq Stockholm Issuers Rules, the Swedish Corporate Governance Code (the Code) and the rules and recommendations issued by relevant organizations. The Code is based on the "comply or explain" approach. This means that a company applying the Code may choose to depart from specific rules, but must then provide an explanation for such non-compliance, and describe the solution chosen instead. The Code is available at www.corporategovernanceboard.se, where the Swedish model for corporate governance is also described. During 2018, Hemfosa complied with the Code without any deviations. During the year, Hemfosa also applied the Nasdaq Stockholm Rule Book for Issuers and generally acceptable practices in the stock market.

This Corporate Governance Report is being issued in accordance with the Swedish Annual Accounts Act and the Code and provides an account of Hemfosa's corporate governance during 2018.

General Shareholder Meetings

Under the Swedish Companies Act, General Meetings of Shareholders are the company's highest decision-making body and shareholders are entitled to pass resolutions concerning the company at such meetings. Provisions regulating General Meetings of Shareholders are contained in the Swedish Companies Act, the Code and in Sections 12 and 13 of the Articles of Association. In addition to what is stipulated by law, it is stated in Hemfosa's Articles of Association concerning a shareholder's entitlement to attend a General Meetings of Shareholders that pre-notification must be completed no later than the day specified in the notice to attend the Meeting.

Notice to attend a General Meeting is issued by publishing the notice on the company's website and placing an advertisement in Post- and Inrikes Tidningar (the Swedish Official Gazette). At the same time, information confirming that official notification has taken place is published in Svenska Dagbladet or, should the national distribution of Svenska Dagbladet be discontinued, in Dagens Nyheter. The AGM is to be held at the location of the Board of Directors' registered office or in Stockholm and the AGM is to be held within six months of the end of the fiscal year. The company's fiscal year extends from January 1 to December 31.

2018 AGM

Resolutions passed at Hemfosa's 2018 AGM included authorization of the Board on one or more occasions during the period up to the following AGM, either applying or disapplying the existing shareholders' preferential rights, to decide on the issuance of ordinary shares. The total number of ordinary shares that may be issuable pursuant

HEMFOSA'S 2019 ANNUAL GENERAL MEETING

Hemfosa Fastigheter's Annual General Meeting will take place at 2:00 p.m. on May 7, 2019, at Berns Stockholm (Kammarsalen), Berzelii Park in Stockholm. A form for notifying attendance at the Meeting will be available on www.hemfosa.se.

Hemfosa always endeavors to ensure that the Board of Directors, Executive Management Team, Nomination Committee and the auditor attend general meeting of shareholders.

NOMINATION COMMITTEE 2019

Hemfosa's Nomination Committee prior to the 2019 AGM has the following members: Lennart Francke, who was appointed by the largest shareholder in terms of votes, is Chairman of the Nomination Committee. Prior to the 2019 AGM, the Nomination Committee held six minuted meetings during 2018.

- Lennart Francke, Chairman, *Swedbank Robur Funds*
- Eva Gottfridsdotter-Nilsson, *Länsförsäkringar Fondförvaltning AB*
- Thomas Ehlin, *Fourth AP Fund*
- Gunnar Balsvik, *Kåpan Pensioner*
- Bengt Kjell, *Chairman of Board of Hemfosa*

to this authorization may correspond to no more 10 percent of the total number of ordinary Hemfosa shares at the time of exercising the authorization. The AGM also resolved to authorize the Board of Directors to make decisions on the acquisition and transfer of ordinary Hemfosa shares. The acquisition of ordinary Hemfosa shares will be permissible in a number that ensures the company at any time after the acquisitions holds a total of no more than 10 percent of all of the Hemfosa shares. Transfer of ordinary shares is permissible in a number not exceeding the total number of ordinary treasury shares held by Hemfosa at the particular time. The authorization in respect of resolutions concerning the new issue of shares was exercised during the year; also refer to Ordinary and preference shares on page 51.

Extraordinary General Meeting, September 13, 2018

An Extraordinary General Meeting of Hemfosa was held on September 13, 2018. Attorney at law Wilhelm Lünig was elected Chairman. A total of 82,261,789 shares were represented at the Meeting, corresponding to approximately 46 percent of the company's 178,728,248 shares and about 48 percent of the voting rights. The Extraordinary General Meeting of Hemfosa resolved to distribute all of the shares in the wholly owned subsidiary Nyfosa AB to the ordinary shareholders of Hemfosa. It was resolved that one ordinary Hemfosa share would confer the right to one Nyfosa share and that preference shares would not confer entitlement to Nyfosa shares. It was also resolved that the value of the distributed Nyfosa shares would be established on the basis of the carrying amount at the time of the distribution of the shares to ordinary Hemfosa shareholders by applying the applicable accounting policies.

A resolution was also passed authorizing the Board of Directors to determine the record date for entitlement to the distributed shares.

The Hemfosa share and shareholders

The number of shares in the company on December 31, 2018 was 178,728,248, divided between two classes of shares: 167,728,249 ordinary shares and 10,999,999 preference shares. The number of voting rights totaled 168,828,248.9. The preference shares provide entitlement and precedence to a dividend of SEK 10 per preference share but confer no further rights to the company's assets. The preference shares are limited in terms of the number of voting rights that each share carries, namely 1/10 of a voting right per preference share. At year-end, the share capital amounted to SEK 89,364,124 and the quotient value per share was SEK 0.5.

The number of shareholders on December 31, 2018 was 26,288. No shareholders, directly or indirectly, hold shares that represent one tenth or more of the votes for all shares in the company.

Articles of Association

Hemfosa's Articles of Association were adopted by the AGM on May 7, 2015 and are presented in full at www.hemfosa.se.

The Articles of Association state that the company is to, directly or indirectly, own and manage properties and property-related assets and engage in related activities. The Board of Directors has its registered office in Nacka. The company is not permitted to take any decisions that conflict with the Articles of Association without first refer-

The company's five largest shareholders on December 31, 2018

MSEK	Number of shares		Percentage of	
	Ordinary shares	Preference shares	Share capital, %	Voting rights, %
Swedbank Robur Funds	9,846,942	-	5.5	5.8
Kåpan Pensioner Försäkringsförening	8,716,274	-	4.9	5.2
Länsförsäkringar Fondförvaltning AB	7,838,012	-	4.4	4.6
Vanguard	5,043,773	529,765	3.1	3
Fourth AP Fund	4,767,825	-	2.7	2.8

ring such a matter to a shareholders' meeting for resolution and a possible amendment of the Articles of Association. The Articles of Association contain no specific clauses governing the appointment or dismissal of Board members or regarding amendment of the Articles of Association.

Nomination Committee

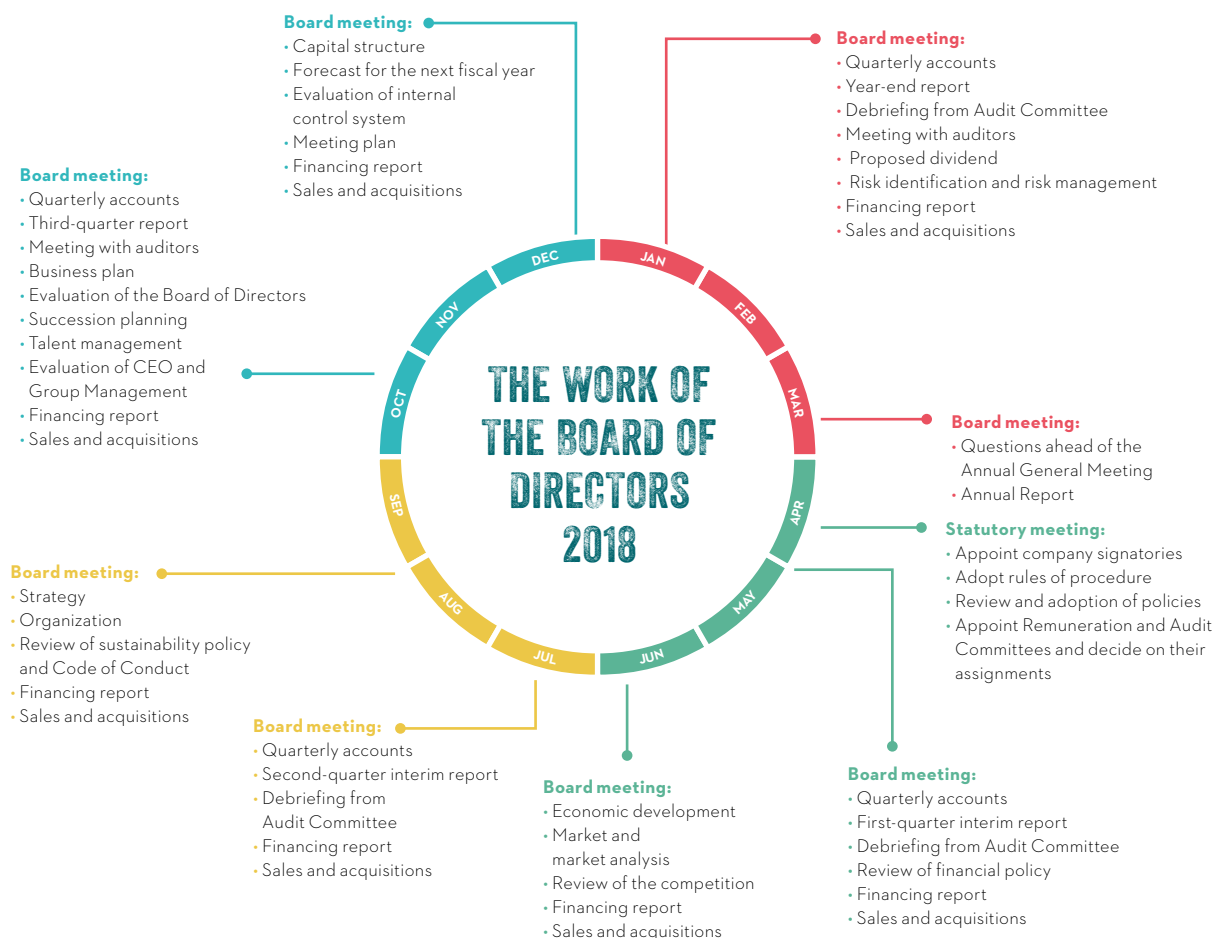
The AGM of Hemfosa on March 4, 2014 adopted instructions for the Nomination Committee's work. According to the instructions, the task of the Nomination Committee, which is to include the Chairman of the Board and four representatives of the four largest shareholders in the company in terms of voting rights, according to Euroclear's transcript of the share register at August 31, is to issue proposals to the AGM concerning the number of Board members and composition of the Board, including the Chairman of the Board, and proposals concerning fees to Board members, including any separate fees for Committee work. The Nomination Committee is also to present a proposal for the Chairman of the AGM and, where appli-

cable, for auditors and their fees. Insofar as it is considered necessary, the Nomination Committee is also to present proposals concerning amendment to the current rules of the Nomination Committee.

Board of Directors

According to the Articles of Association, Hemfosa's Board of Directors is to comprise at least four and no more than ten members. The AGM on April 18, 2018 resolved to reelect Bengt Kjell, Jens Engwall, Anneli Lindblom, Per-Ingemar Persson, Caroline Sundewall, Ulrika Valassi and Gunilla Högbom as Board members. Against the background of the distribution of Hemfosa's former wholly owned subsidiary Nyfosa, Jens Engwall announced on November 28, 2018 that he was stepping down from Hemfosa's Board of Directors to focus fully on his assignment as President and CEO and Member of the Board of Nyfosa. For information about the Board members, their assignments outside the Group and their shareholdings in Hemfosa, refer to the "Board of Directors and auditors" section on pages 62-63.

The Board has a number of scheduled meetings with standing items on the agenda. In addition, there are meetings in connection with transactions and other potential issues.



The Board is required to satisfy the shareholders' long-term interests and is ultimately responsible for the company's organization and the administration of the company's affairs. The Board has adopted Rules of Procedure for its activities and an instruction for the CEO. The Board has also established a number of overall policies, guidelines and instructions for the company's operations. These include a financial policy, communication policy, insider policy, IT policy and a Code of Conduct. All of these internal governing documents are evaluated at least once annually and thereto updated continuously to comply with legislation, or should other requirements arise. According to the Code, a majority of the Board members elected by the Meeting shall be independent in relation to the company and the company's management. At least two of these are also to be independent in relation to the company's major shareholders. The company's Board is deemed to meet the independence requirements, since all AGM-elected Board members are independent in relation to the company and Group Management. All of the Board members have also been deemed to meet the independence requirement in relation to major shareholders.

Chairman of the Board

The Chairman of the Board is elected by a general meeting of shareholders and directs the work of the Board of Directors. The Chairman of the Board is required to ensure that the work of the Board of Directors is conducted efficiently, that the Board fulfills its commitments and that the Board's decisions are executed by the company and company management. The Chairman is to ensure that the Board receives the information and the decision base necessary for making well-founded decisions.

Board of Directors work during 2018

The company's Board held 29 meetings during 2018, including a statutory Board meeting. The agenda ahead of each scheduled Board meeting included a number of

standing items: The CEO's review of the operations, acquisitions, divestments and investments, organization and organizational development as well as financial reporting. In 2018, the Board addressed the Group's demerger process, several major acquisitions, divestments and investments, as well as financing and refinancing programs. The relatively large number of meetings during the year was mainly due to a number of strategy meetings prior to and in conjunction with the decisions to evaluate, propose and execute a demerger of Hemfosa.

Composition of the Board

The composition of the Board of Directors in 2018, the year the members were elected to the Board, their date of birth, total director fees, the members' independence and their attendance of Board meetings in 2018 are presented below.

Evaluation of the Board and the CEO

Once annually, in accordance with the Board of Directors' rules of procedure, the Chairman of the Board initiates an evaluation of the Board's work. The 2018 evaluation was performed via a questionnaire answered by the Board members. In addition, the Chairman of the Board had some separate contacts with the members. The purpose of the evaluation was to gain an impression of the Board members' views concerning how the work of the Board is conducted and the type of measures that could be implemented to increase the efficiency of the Board's work. Another aim was to gain an impression of the type of matters that the Board should be given more scope to address and the areas that could potentially require additional experience and expertise on the Board. The results of the evaluation were reported within the Board and were forwarded by the Chairman of the Board to the Nomination Committee.

Committee

The Board currently has two committees: an Audit Committee and a Remuneration Committee. The members of

COMPOSITION OF THE BOARD

AGM-elected	Elected, year	Born in	Total annual fee, SEK	Independent in relation to shareholders	Independent in relation to company and management	Attendance Board meetings
Chairman of the Board						
Bengt Kjell	2013	1954	475,000	Yes	Yes	29/29
Members						
Anneli Lindblom	2013	1967	270,000	Yes	Yes	29/29
Caroline Sundewall	2013	1958	245,000	Yes	Yes	29/29
Ulrika Valassi	2013	1967	210,000	Yes	Yes	28/29
Per-Ingemar Persson	2016	1956	210,000	Yes	Yes	24/29
Gunilla Högbo	2017	1958	245,000	Yes	Yes	29/29
Jens Engwall ¹	2013	1956	-	Yes	No	27/28

¹ Jens Engwall was a member of the Hemfosa Board through November 28, 2018.

the committees are appointed for one year at a time at the statutory Board meeting and the work conducted by the committees and their decision-making rights are regulated in annually adopted committee instructions. The committees have a preparatory and administrative role. The matters addressed at committee meetings are minuted and reported at the next Board meeting.

Audit committee

The Audit Committee works according to an annually established agenda and is tasked with monitoring the company's financial statements and the efficiency of the company's internal control and risk management activities. The Audit Committee also keeps itself informed of the audit of the Annual Report and the consolidated financial statements and evaluates the way in which the audit contributes to the reliability of the financial statements. The Committee is also tasked with reviewing and monitoring the auditor's independence and objectivity, paying particular attention to whether the auditor provides services outside the scope of his/her audit. Prior to the AGM, the Audit Committee is also to submit a recommendation to the Nomination Committee concerning the choice of auditor. According to the Swedish Companies Act, Committee members may not be employed by the company and at least one member must be adept in accountancy or auditing. In 2018, the Audit Committee comprised Board members Anneli Lindblom (Chair), Caroline Sundewall and Gunilla Högbom, who are all deemed independent in relation to the company, Group Management and the company's major shareholders.

During 2018, the Audit Committee held six meetings. All committee members attended all meetings. The meetings addressed such matters as the company's interim reports, the orientation of the external audit and the company's internal control over the financial reporting.

Remuneration Committee

The Remuneration Committee is tasked with preparing matters in respect of remuneration policies for the CEO and other senior executives, as well as individual remuneration for the CEO in accordance with the remuneration policy. The policies encompass the relationship between fixed and any variable components of the remuneration as well as the link between performance and remuneration, the principal terms of any bonus and incentive schemes and the general terms for non-monetary benefits, pensions, employment termination and severance pay. The Board in its entirety determines the remuneration and other terms of employment for the CEO. However, share-based incentive schemes for Group Management are determined by the AGM.

The Committee is also to assist the Board in monitoring the system by which the company complies with laws, stock-exchange rules and the Code of rules governing the disclosure of information related to remuneration of the

CEO and other senior executives, and to monitor and evaluate any schemes that are ongoing or have been concluded during the year for variable remuneration of the CEO and other senior executives, the application of guidelines for remuneration of the CEO and other senior executives that the AGM is legally obliged to resolve and current remuneration structures and levels. According to the Code, the Chairman of the Board may chair the Committee and other AGM-elected members must be independent in relation to the company and company management. In 2018, the Remuneration Committee comprised Board members Bengt Kjell (Chair), Ulrika Valassi and Per-Ingemar Persson, who were all adjudged to be independent in relation to the company and Group management.

In 2018, five meetings of the Remuneration Committee were held. All committee members attended all meetings. The meetings addressed such matters as the company's guidelines for remuneration of senior executives and remuneration levels for the CEO and other senior executives, as well as the incentive plan for all employees that was introduced during the year.

Remuneration

At the AGM on April 18, 2018, the Meeting resolved that until the next AGM, an annual fee of SEK 475,000 (previously SEK 450,000) would be paid to the Chairman of the Board and that SEK 210,000 (previously SEK 200,000) would be paid to each of the other Board members who are not employed by the company. It was also resolved that fees for Committee work amounting to SEK 60,000 (unchanged) were to be paid to the Chairman of the Audit Committee and SEK 35,000 (unchanged) to each of the other members of the Audit Committee. It was resolved that no fee would be paid for work on the Remuneration Committee.

CEO and other senior executives

The CEO is appointed by the Board and is responsible for the daily management of the company and the Group's activities in accordance with the Board's instructions and regulations. The division of responsibilities between the CEO and the Board is defined in the Board's Rules of Procedure, as well as the CEO Instructions and Delegation of Authority established by the Board. The CEO functions as Chairman

GROUP MANAGEMENT

Group Management comprises the following people.

- Caroline Arehult, CEO
- Peter Anderson, CFO
- Linda Eriksson, Head of Finance
- Annika Ekström, Head of Property Management
- Anna Alsborger, Head of Transactions



of Group Management and makes decisions in consultation with other members of Group Management. Group Management meets every month or otherwise as required.

Guidelines for remuneration of senior executives

In accordance with the guidelines adopted at the company's AGM on April 18, 2018, Hemfosa is to apply the remuneration levels and employment terms and conditions required to be able to recruit and retain a management team with high expertise and the capacity to achieve set goals. The forms of remuneration will be designed to motivate senior executives to do their utmost to ensure shareholder interests.

Accordingly, the forms of remuneration are to be on market terms and competitive. They will also be simple, long-term and measurable. Remuneration of senior executives may comprise a fixed and variable portion. The fixed salary for senior executives is to be market-aligned and based on expertise, responsibility and performance. The purpose of the variable increment, which must be capped, is to reward target-related performance and improvements in simple and transparent structures. An outcome must relate to the fulfillment of pre-set goals with respect to earnings, cash flow, growth, value and individual measurable targets. Variable remuneration of the various senior executives must not exceed four months' salary and is not to be pensionable. The variable salary for the entire team of senior executives in the Group may not exceed MSEK 4.

Senior executives may be offered incentive programs that are to primarily be share or share-price based. The aim of an incentive program must be to ensure long-term commitment to the company's development and be implemented on market-based terms. Share and share-price based incentive programs must be resolved by the AGM.

The company is to be permitted to make cash payments connected to the senior executives' acquisition of shares or share-based instruments. Such cash remuneration should normally not exceed 15 percent of fixed salary.

Pension conditions for senior executives are to be based on defined-contribution pension plans and comply with or correspond to the general pension plan, the ITP1 plan in Sweden. Termination salary and severance pay for a senior executives must not exceed a total of 18 monthly salaries if notice is served by the company and six monthly salaries if notice is served by the executive. Senior executives in this connection are defined as the Chief Executive Officer, CFO and other members of Group Management. The Board of Directors is entitled to deviate from the above guidelines for remuneration of senior executives if there are special reasons in individual cases. Should the Board of Directors deviate from the guidelines for remuneration of senior executives, this must be reported at the immediately following AGM.

In the 2018 fiscal year, remuneration was paid to the CEO and certain other senior executives in accordance with the table in Note 5.

Auditor

The company's financial statements and accounting records, and the administration of the Board and management, are reviewed and audited by the company's auditor. At the AGM on April 18, 2018, the registered firm of accountants KPMG AB was elected auditor for the period up to the end of the 2019 AGM. Authorized Public Accountant Björn Flink was appointed Auditor in Charge. During the year, Björn Flink stepped down as Auditor in Charge and was succeeded by Authorized Public Accountant Peter Dahllöf.



The auditor shall report significant accounting errors and suspected irregularities to the Audit Committee. On at least two occasions per year, normally in connection with the meeting to address the annual accounts, the auditor is to report his/her observations during the audit of the company and assessment of the company's internal control to the company's Board. The auditors also participate in the Annual General Meeting to present the Auditors' Report, which describes the audit process and any observations made.

In 2018, above and beyond the audit assignment, KPMG was engaged for additional services, primarily tax matters and transaction counseling. Such services were always, and solely, provided to the extent that is consistent with the regulations in the Swedish Auditing Act and FAR's rules of professional conduct pertaining to the objectivity and independence of auditors.

Diversity policy

Hemfosa, through the Nomination Committee, applies rule 4.1 of the Swedish Code of Corporate Governance as its diversity policy when formulating proposals concerning the

election of Board members. This rule entails that, taking into account the company's operations, development phase and other relationships, the Board of Directors must have an appropriate composition characterized by versatility and breadth with respect to the AGM-elected Board members' expertise, experience and background. An even gender distribution is sought. The aim of the diversity policy is to satisfy the importance of sufficient diversity on the Board of Directors in respect of gender, age and nationality, as well as experience, professional background and lines of business.

The Nomination Committee stated ahead of the 2018 AGM that the proposed members possess the versatility and breadth in terms of expertise, experience and background that is required to understand the company's operations. It was also stated that the proposal entails that the Board of Directors will consist of four women and three men and that the proportion of men is nearly 43 percent. This was established to accord with the Swedish Corporate Governance Board's stated objective of about 40 percent for the least represented gender.

Internal control over financial reporting and risk management

Hemfosa's internal control over the financial reporting is designed to manage risks and ensure high reliability in the processes for the preparation of financial statements, and for ensuring compliance with applicable reporting requirements and other requirements to which Hemfosa is subject as a listed company. According to the Swedish Companies Act and the Code, the Board is responsible for the internal control of the company's financial reporting. Hemfosa complies with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for evaluating a company's internal control over financial reporting, which contains the following five components: control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

The division and delegation of responsibilities has been documented and communicated in internal governing documents for the Board and the company including:

- Board of Directors' rules of procedure
- CEO instructions
- Delegation of Authority
- Attestation ordinance
- Other internal governing documents (such as the accounting manual and business policy)

All internal governing documents are regularly updated to include changes in, for example, legislation, accounting standards or listing requirements, and when otherwise required.

Risk assessment

In accordance with the Rules of Procedure, the Board and the Audit Committee undertake an annual evaluation of the company's internal control. Risks considered to exist are identified and measures are established to reduce these risks. The auditor is invited to present his/her report of the effectiveness of the internal control activities to a Board meeting and the Audit Committee.

The primary risks identified by Hemfosa are project risks, declining property value and the loss of key personnel.

Control activities

Since the company's accounting system is structured so that the conclusion of agreements, payment of invoices and so forth must comply with the decision paths, signing and payment authorizations set out in the internal governing documents, an underlying control structure has been established to counteract and prevent the risks identified by the company.

In addition to these control structures, a number of control activities are performed to further detect and correct errors and deviations. Such control activities comprises monitoring at various levels of the organization, such as

the Board's monitoring and verification of compliance with Board decisions, a review and comparison of profit/loss items, reconciliation of accounts and approval and recognition of business transactions by the accounts department.

Information and communication

Hemfosa has built an organization that ensures the company's financial reporting is correct and effective. The internal governing documents clarify who is responsible for what, and the daily interaction between the officers concerned ensures that the necessary information and communication reaches all relevant parties.

Group Management is regularly supplied with certain financial information about the company and its subsidiaries to keep itself informed of the development of leasing and other property management work, and to review and monitor ongoing and future investments and liquidity planning. The Board is informed by Group management in respect of risk management, internal control and financial reporting.

The company's communication policy ensures that all information disclosed both externally and internally is correct and issued at the appropriate time on each occasion.

Monitoring

As presented above, regular follow-up activities are performed at all levels of the organization. The Board performs regular evaluations of the information submitted by the company's management and the auditors. The company's auditors also personally report their audit observations and assessment of the internal control activities directly to the Board. Monitoring undertaken by the Board to develop internal control activities and to ensure that measures are taken to deal with any problems and proposals that arise is particularly significant. This control is largely the responsibility of the Audit Committee.

Evaluation of the need for a separate internal audit function

Hemfosa currently has no internal audit function. The Board has addressed this matter and concluded that the existing follow-up and evaluation structures provide a satisfactory basis. On the whole, this has resulted in it not being considered warranted to have a special internal audit unit. The decision is re-evaluated annually.

Differences in relation to the code

Hemfosa applies the Code. As mentioned above, the Code is based on the "comply or explain" principle. This means that a company applying the Code may choose to depart from specific rules, but must then provide an explanation for the non-compliance. During 2018, Hemfosa complied with the Code without any deviations.