

# Corporate Governance Report

Fabege is a Swedish public limited-liability company with registered office in Stockholm. The company's corporate governance is based on its Articles of Association, the Swedish Companies Act and other applicable laws and regulations. Fabege applies the Swedish Corporate Governance Code (the "Code"), whose main purpose is to improve standards of governance among Swedish businesses. The Code is based on the principle of 'comply or explain'. The reasons for Fabege's departures from the Code are explained in greater detail below. This Corporate Governance Report does not form part of the formal annual report documents, but constitutes a separate report. It has not been examined by the company's auditors.

Responsibility for the governance, management and control of Fabege's activities is shared among the shareholders at the Annual General Meeting, the Board of Directors and the Chief Executive Officer. Fabege works continuously to achieve a more efficient and appropriate governance of the company.

## SHAREHOLDERS

Fabege's shares are listed on Nasdaq OMX Stockholm. The company's share capital is SEK 5,096m, represented by 169,320,972 shares. Of these, 4,929,400 are treasury shares, representing 2.9 per cent of the total number of shares. In Fabege all shares carry the same voting rights at the AGM, which means that opportunities to exercise influence as an owner are consistent with each shareholder's capital share in the company. Fabege's ownership structure is described on pages 76–78.

## ARTICLES OF ASSOCIATION

Fabege's Articles of Association state that the company shall seek to acquire, manage, add value to and divest properties. The Board of Directors has its registered office in Stockholm. In other respects, the Articles of Association contain provisions on the number of shares, the number of

Directors and auditors, and the Annual General Meeting. The full text of Fabege's Articles of Association is available at [www.fabege.se](http://www.fabege.se).

## ANNUAL GENERAL MEETING 2009

The Annual General Meeting is the company's highest decision-making body. The 2009 Annual General Meeting was held in Stockholm on 31 March 2009. Erik Paulsson was elected to chair the meeting. The AGM was attended by shareholders holding a total of 68.7m shares, representing 42 per cent of the votes. A full set of minutes from the AGM is available on Fabege's website, [www.fabege.se](http://www.fabege.se). The following are the principal resolutions adopted at the AGM:

### Election of Directors and resolution on Directors' fees (proposal of the Nominating Committee)

The AGM resolved that the Board should consist of eight Directors and approved the re-election of Göte Dahlin, Christian Hermelin, Sven-Åke Johansson, Märtha Josefsson, Mats Qviberg, Erik Paulsson and Svante Paulsson to the Board. Arne Berggren was elected to the Board

as a new Director as a replacement for Helen Olausson, and Erik Paulsson was elected Chairman. The AGM resolved that Directors' remuneration should remain unchanged in 2009.

### Election of an auditor

Deloitte AB were reappointed as the company's auditors until the 2013 AGM with Svante Forsberg as Chief Auditor.

### Cash dividend (proposal of the Board)

The dividend was fixed at SEK 2.00 and the record date was set at 3 April 2009.

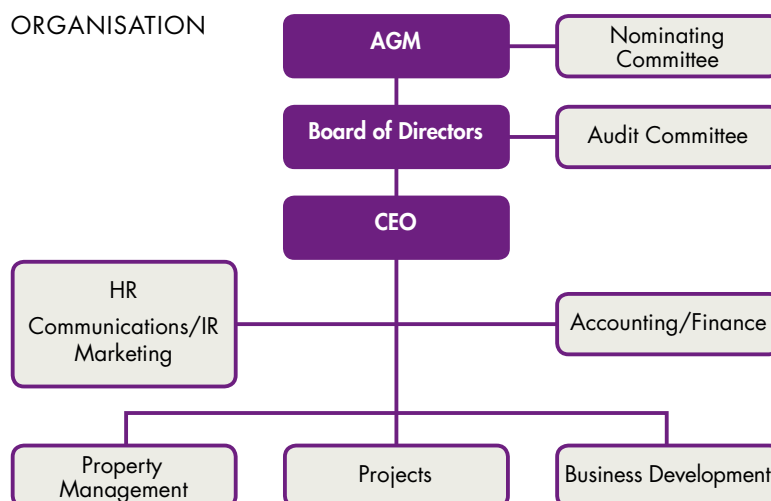
### Principles for the appointment of the Nominating Committee (proposal of the Nominating Committee)

The AGM adopted a set of principles for the appointment of the Nominating Committee and the proposals that the Nominating Committee is required to prepare. The Nominating Committee will consist of representatives for the four largest owners.

### Compensation to management

The shareholders decided that the guidelines on compensation for management should remain unchanged.

## ORGANISATION



### Authorisation on share buybacks (proposal of the Board)

The AGM decided to authorise the Board, for a period ending no later than the next AGM, to acquire and transfer shares.

Share buybacks are subject to a limit of 10 per cent of the total number of outstanding shares at any time.

### THE NOMINATING COMMITTEE

The Nominating Committee is the AGM's body for preparing decisions relating to appointments. The Committee's task is to draw up proposals for the appointment of the AGM chairman, Chairman of the Board and Directors, Directors' fees, the appointment of auditors, auditors' fees and any amendments to the principles governing the election of the Nominating Committee. The proposal for Directors' fees must specify a breakdown between the Chairman, other Directors and committee work.

In accordance with the AGM's decision, the four largest shareholders have been offered one seat each on Fabege's Nominating Committee, and on 24 September 2009 a Nominating Committee was announced that represents about 28.4 per cent of the votes in Fabege. The Nominating Committee consists of the following members: Anders Silverbåge (Brinova Fastigheter AB), Peter Laveson (Investment AB Öresund), Anders Rydin (SEB fonder) and Thomas Ehlin (Nordea fonder).

The Nominating Committee has held five minuted meetings and remained in contact during the intervening periods. As a basis for its work, the Committee has met with the Board Chairman and listened to his views on the work of the Board. The Committee has also contacted the other Directors, the Audit Committee and the company's auditors to obtain a clear idea of the work of the Board. It has also studied the company's strategy, risk management and control functions.

The Nominating Committee has discussed the size and composition of the Board of Directors in respect of industry experience, expertise, and the need for

continuity and renewal of the work of the Board. The Committee has also discussed and taken account of issues relating to the independence of Directors (see below for a description of the Board).

The Nominating Committee's report on its activities and proposals to the 2010 AGM are available on the company's website. The Committee's proposals are also described in the notice for the 2010 AGM.

### THE BOARD OF DIRECTORS

Under the Swedish Companies Act, the Board of Directors is responsible for the company's organisation and the administration of the company's affairs. The Board is required to continuously assess the financial situation of the company and Group. Its main task is to manage the company's activities on behalf of the owners in a way that secures the owners' interest in a strong long-term return on capital.

#### Composition

Eight Directors were elected to the Board at the 2009 AGM. The AGM also elected Erik Paulsson as Chairman of the Board. Sven-Åke Johansson was appointed Deputy Chairman at the constituent Board meeting. Fabege's Chief Financial Officer, Åsa Bergström, acts as the Board's secretary. In April 2009, after Valot Invest sold its stake in Fabege, Arne Berggren stepped down from the Board. During the remainder of 2009, the Board consisted of seven members.

Faberge's Board of Directors includes members that have skills and experience of great significance for the support, monitoring and control of the operations of a leading property company in Sweden. It includes members with expertise on property, the property market, funding and business development. Collectively, the members of the Board have significant personal shareholdings in Fabege, directly or indirectly. Faberge's Board meets the requirements on independent Directors provided for in the Code and in the company's listing agreement with the Stockholm stock exchange.

The Nominating Committee proposes re-electing Göta Dahlin, Christian Hermelin, Märtha Josefsson, Erik Paulsson, Svante Paulsson och Mats Qviberg to the Board. Out of the proposed Directors, Erik Paulsson is to be regarded as dependent both in relation to the company and in relation to major shareholders, Svante Paulsson as dependent in relation to major shareholders and the CEO, Christian Hermelin, as dependent in relation to the company. The other proposed Directors are, according to the definitions contained in the Code and listing agreement, independent in relation to both the company and major shareholders.

#### Rules of procedure and instructions

Each year, the Board of Directors of Fabege adopts a set of rules of procedure, including instructions on division of labour and reporting, to supplement the provisions of the Companies Act, Fabege's Articles of Association and the Code.

In addition to the general provisions of the Companies Act, the Rules of Procedure regulate the following:

- The number of Board meetings (normally five ordinary meetings in addition to the constituent meeting)
- The forms for extra meetings and telephone meetings
- Items to be included in the agenda at each meeting
- When Board material should be made available
- Minute-taking
- The duties of the Board
- The special role played by the Chairman in the Board and the specific duties arising from that role
- The appointment of an Audit Committee and a specification of the tasks to be performed by the Committee
- The forms for preparing issues relating to compensation
- Delegation of decision-making powers by the Board
- Reporting by the auditors and meetings with the auditors

The items that should normally be included in the agenda are financial and operational reporting, decisions on acquisitions and sales and on investments in existing properties, current market issues, HR issues and reporting by the Audit Committee.

### Board meetings

In 2009 the Board held six ordinary meetings and a total of eleven meetings, including one constituent meeting, one extra meeting and three telephone meetings.

There are a number of standing agenda items: financial and operational reporting, decisions on acquisitions, investments and sales, current market issues, HR issues and reporting by the Audit Committee. In addition to these, the Board has addressed a number of specific issues, as follows:

1. February: Year-end financial statement 2008, annual report 2008, evaluation of the work of the Board, follow-up of compliance with guidelines on compensation for senior executives
2. March. Briefing prior to the AGM
3. March. Constituent meeting after the AGM, signing for the company, committees
4. April: Telephone meeting
5. May: Interim report for the first quarter, rules of procedure for the Board and Audit Committee, ethical guidelines
6. May: Telephone meeting
7. June: Telephone meeting
8. June: Strategy discussion
9. August: Interim report for the second quarter
10. November: Interim report for the third quarter, evaluation of the CEO's performance, issues relating to management remuneration.
11. December: Strategic plan 2010, budget 2010

In 2009, the Board made decisions on several major transactions and investments in the company's existing property

portfolio. In 2009 Fabege acquired one property for SEK 56m and sold 14 properties for SEK 1,234m. Decisions were made on investments of SEK 1,230m relating to the development and improvement of properties in the company's existing portfolio. At the end of the year an assessment was made of the Board, which showed that the Board was operating in a highly satisfactory manner.

The Directors are paid Directors' fees in accordance with the resolutions of the Annual General Meeting. For 2009, total fees of SEK 2,235,000 were paid, of which the Chairman received SEK 375,000 plus extra remuneration of SEK 835,000 for project work. The other Directors received SEK 185,000 and SEK 100,000 for work on the Board's Audit Committee, of which the chairman received SEK 50,000 and the other members SEK 25,000.

Information on Directors' attendance at meetings is provided in the table below. The table also shows which Directors are members of the Audit Committee.

### Attendance, number of meetings

During the period eleven Board meetings and four meetings of the Audit Committee were held.

	Board Directors	Audit Committee
Erik Paulsson, Chairman	11	
Sven-Åke Johansson, Deputy Chairman	11	4
Arne Berggren <sup>1)</sup>	1	
Göte Dahlin, Director	10	4
Christian Hermelin, Director	11	
Märtha Josefsson, Director	11	4
Helen Olausson, Director <sup>2)</sup>	2	
Svante Paulsson, Director	11	
Mats Qviberg, Director	11	

<sup>1)</sup> Stepped down in April 2009.

<sup>2)</sup> Stepped down at the 2009 AGM.

### The Audit Committee

The Board of Directors has appointed an Audit Committee from among its own members consisting of Sven-Åke Johansson

(Chairman) and Märtha Josefsson. The Audit Committee acts as an extension of the Board for the monitoring of issues relating to accounting, auditing and financial reporting. Its remit includes addressing issues relating to operational risks and risk management, internal control (environment, design and implementation), accounting principles and financial follow-up and reporting, and the performance of audits. The Committee meets regularly with the company's auditor to obtain information on the focus, scope and results of audit activities. It operates according to separate rules of procedure, which are reviewed and adopted annually by the Board. Fabege's Audit Committee meets the Code's requirements on composition and its members possess skills and experience on accounting and other issues within the Committee's area of responsibility.

In 2009 four meetings of the Audit Committee were held. During the year a lot of emphasis continued to be placed on the company's internal control system. The Audit Committee also addressed issues such as the leadership of project activities and project follow-up, processes for the closing of the accounts and financial reporting, tax procedures, the company's management of funding issues and valuations of properties. Other issues addressed by the Committee included relevant accounting and tax issues and the revised Swedish Corporate Governance Code. The Committee's members also discussed risks in the business and accounting practices as well as the focus of audits. At the beginning of the year an assessment was made resulting in a proposal to re-elect Deloitte as the company's auditors at the 2009 AGM. At each meeting the company's auditors submitted reports on their audits during the year. Minutes of the Audit Committee's meetings were distributed to all Directors and the chairman of the Committee reported to the Board on a regular basis.

### Issues relating to management remuneration

In accordance with the principles of compensation and other terms of employment for management adopted by the AGM, the Board has adopted a decision on remuneration and other terms of employment for the Chief Executive Officer. All members of the Board except the CEO perform the tasks incumbent on a remuneration committee and thus participate in the process of drafting and making decisions on remuneration issues. During the year the Board reviewed compliance with the principles of remuneration for senior executives.

Remuneration and other benefits and terms of employment for the CEO and management are described in Note 6 on page 58. The company's principles of remuneration and terms of employment will also be presented at the 2010 AGM.

## MANAGEMENT

### The Chief Executive Officer

The Chief Executive Officer is responsible for operational governance and for the day-to-day management and leadership of the business, in accordance with the guidelines, instructions and decisions adopted by the Board of Directors.

In addition to the general provisions relating to division of responsibility contained in the Swedish Companies Act, the rules of procedure governing the work of the CEO specify:

- the CEO's duty and obligation to ensure that the Board of Directors receives information and the necessary documentation on which to base decisions.
- the CEO's role of presenting reports at Board meetings.
- the CEO's duty and obligation to ensure that the necessary information is retrieved on a continuous basis from each company in the Group.
- the CEO's duty and obligation to monitor compliance with the Board's decisions in respect of goals, business concept, strategic plans, ethical and other guidelines, and, where necessary, request a review of the same by the Board.

- issues that must always be submitted to the Board, such as major acquisitions and sales or major investments in exiting properties.
- the CEO's duty and obligation to ensure that Fabege fulfils its obligations in respect of disclosure, etc. under the company's listing agreement with the Stockholm stock exchange.

The rules of procedure also contain a separate reporting instruction, which governs the content and timing of reporting to the Board.

### Group management

In 2009, the Group management consisted of seven persons, in addition to the CEO: Chief Financial Officer  
Director of Communications  
Director of Properties (Stockholm City)  
Director of Properties (Other Markets)  
Director of Projects & Development  
Director of Business Development  
Director of Transactions

As of January 2010, the Group management consists of six persons in addition to the CEO, as one of the Directors of Properties is no longer a member of the Group management (current Group management team, see page 75).

Group management meetings are normally held every two weeks. In these meetings the management team addresses strategic and operational issues such as property transactions, lettings, market trends, organisational issues and monthly and quarterly reviews. The Executive Assistant of the CEO also takes part in these meetings.

### REPORT ON INTERNAL CONTROL IN RESPECT OF FINANCIAL REPORTING

Internal control is a process that is influenced by the Board of Directors, management and the company's employees and that has been designed to provide a reasonable assurance that the company's goals are achieved in the follow categories:

- that the company has an appropriate and efficient organisation for its business operations
- that the company produces reliable financial statements
- that the company complies with applicable laws and regulations

This report has been prepared in accordance with the Swedish Corporate Governance Code (Sections 10.5 and 10.6). The report, which is limited to internal control in respect of financial reporting, does not constitute a part of the formal annual report and has not been examined by the company's auditors.

In its work, the company uses the established COSO framework (Internal Control – Integrated Framework).

### Control environment

Fabega has a geographically well contained organisation and homogenous operational activities but its legal structure is complex. The business is capital-intensive and is characterised by large monetary flows, including rental income, expenses for project activities, acquisitions/sales of properties and financial expenses.

Overall responsibility for ensuring good internal control and efficient risk management rests with the Board of Directors. To be able to perform its work in an appropriate and efficient manner, the Board has adopted a set of rules of procedure. The Board's rules of procedure are aimed at ensuring a clear division of responsibility between the Board of Directors (and its committees) and the Chief Executive Officer (and his management team) with a view to achieving efficient risk management in the company's operations and in financial reporting. The rules of procedure are updated annually. In 2009, the Board performed its annual review and adopted rules of procedure for the Board, rules of procedure for the Audit Committee and a set of ethical guidelines governing conduct at the company.

The management team is responsible

for designing and documenting and for maintaining and testing the systems/ processes and internal controls that are required to manage significant risks in the accounts and the company's day-to-day activities. Operational responsibility for internal control rests with the company's management and with those individuals who by virtue of their roles in the company are in charge of each defined critical process, function or area.

The company's financial reporting is governed by a set of policies and guidelines. The company has defined policies for matters such as funding, environmental issues, equal opportunities and disclosure, accounting principles and instructions for the closing of the accounts and authorisation of payments. A thorough review and update of all policies was initiated in 2009 and will continue into 2010. In addition to the policies, the company has adopted more detailed guidelines and instructions, which are reviewed and updated on a regular basis.

#### Risk assessment

Risks and critical processes, functions and areas are defined on the basis of the control environment, significant results and balance sheet items as well as significant business processes. The following processes, functions and areas have been defined as critical for Fabège:

- Acquisitions and sales
- New lettings and renegotiations
- Projects
- Closing of the accounts and reporting
- Funding
- Valuation of properties
- Rent payments
- Purchasing
- Tax

Fabège conducts annual reviews and evaluations of risk areas for the purpose of identifying and managing risks in consultation between management, the Audit Committee, the company's auditors and other parties.

#### Control activities

Critical processes, functions and areas are described and documented in respect of division of responsibility, risks and controls. The necessary instructions, procedures and manuals are produced, updated and communicated to the relevant staff to ensure that they have up-to-date knowledge and adequate tools. The measures are aimed at integrating risk management in the company's day-to-day procedures. Compliance with policies, guidelines and instructions is monitored on an ongoing basis. Employees are given frequent training to ensure that they have required expertise. In 2009 particular emphasis was placed on internally reviewing and assuring processes for the closing of the accounts and financial reporting, funding, new lettings and renegotiations, projects, purchasing and remuneration.

In addition to the external audit performed in 2009, the company also performed an internal assessment of compliance and controls in critical processes.

The operating units, Property Management and Projects, have a separate controller function which supplements the central controller function at Group level. Operational reports are prepared monthly and quarterly based on a standardised reporting package and submitted for comments/approval to executives with operational responsibility. Reviews and updates with executives with operational responsibility are made throughout the year. Performance is assessed against budgets and forecasts, which are updated twice a year. Since 2009 the company has been producing rolling 12-month forecasts.

A central function prepares consolidated financial statements and other financial reports in close collaboration with the controller function/operating units and the finance function. This work includes integrated control activities in the form of reconciliation with stand-alone systems/specifications of outcomes for income and expense items and balance sheet items.

#### Information and communication

Management is responsible for informing the staff concerned about their responsibility to maintain good internal control. The company Intranet and briefing sessions are used to ensure that employees are kept up-to-date on the company's governing policies and guidelines.

Responsibility for external information rests with the Communications department. The company's Investor Relations activities are based on principles for regular and accurate information in accordance with stock exchange regulations. The ambition is to improve knowledge of and build confidence in the company among investors, analysts and other stakeholders.

In addition to financial reporting to the Board, more detailed reports are prepared, at more frequent intervals, in support of the company's internal governance and control activities. Monthly reports are presented and discussed at meetings of the senior management team.

#### Follow-up

The internal control system also needs to change over time. The aim is to ensure that this is monitored and addressed on an ongoing basis through management activities at various levels of the company, both through monitoring of the individuals responsible for each defined critical process, function and area and through ongoing evaluations of the internal control system.

The company's management reports regularly to the Board based on the adopted instructions for financial reporting, which are designed to ensure that the information provided is relevant, adequate, up-to-date and appropriate.

The Audit Committee also reports to the Board. It acts as the extended arm of the Board in monitoring the formulation and reliability of financial reports. In addition to examining the content of and methods used in preparing financial reports, the Audit Committee has studied the way in which the more detailed and

frequent internal reporting is used in evaluating and managing different areas of activity, which provides an indication of the quality of the control environment. The Committee also performs regular reviews and evaluations of internal controls in respect of critical processes and regularly studies the results of the external auditors' examinations of the company's accounts and internal controls.

The auditors examine the company's financial reporting in respect of the full-year financial statements and review all quarterly interim reports.

The Board regularly evaluates the information submitted by management and the Audit Committee. Of particular significance, when required, is the Audit Committee's task of monitoring management's work on developing the internal controls and of ensuring that measures are taken to address any problems and proposals that have been identified in the course of examinations by the Board, Audit Committee or auditors.

The Board of Directors has informed itself through its members and through the Audit Committee on risk areas, risk management, financial reporting and internal control and has discussed risks for errors in financial reporting with the external auditors.

In the course of its work on examining and evaluating internal control in respect of critical processes in 2009, the Audit Committee has not found reason to alert the Board's to any significant issues in respect of internal control or financial reporting.

#### Internal auditing

To supplement the external auditing activities, work began in 2009 on internally evaluating critical processes in the company. As a result of this work, and in view of the homogenous and geographically limited nature of the company's activities and its simple organisational structure, the Board has not found reason to set up a separate internal audit unit. The Board believes the monitoring and examination described above, coupled with the external audits, are sufficient to ensure that effective internal control in respect of financial reporting is maintained.

#### AUDITING

Under the Swedish Companies Act, the company's auditor is required to examine the company's annual report and accounts as well as the management performed by the Board of Directors and Chief Executive Officer. After the end of each financial year, the auditor is required to submit an audit report to the Annual General Meeting. The appointment and remuneration of auditors is based on the AGM's resolutions on proposals submitted by the Nominating Committee.

At the 2009 AGM, the auditing firm, Deloitte, was appointed as the company's auditors with the authorised public accountant Svante Forsberg as chief auditor for the period up to the 2013 AGM.

In addition to Fabege, Svante Forsberg has audit assignment for the following major companies: Anticimex, Black Earth Farming, Connecta, Diligentia, o2 Vind, and Skandia Liv. He has no other assignments for companies that are closely related to Fabege's major owners

or the CEO. In addition to its assignment as Fabege's appointed auditors, Deloitte has performed audit-related assignments relating primarily to tax and accounting issues.

The auditors reported their observations and simultaneously presented their views on the quality of internal controls in Fabege at the Board meeting in February 2010. The auditors have participated in and presented reports at all meetings of the Audit Committee (4 in 2009). Reports were also presented to management in 2009.

Fees paid to the company's auditors are described in Note 45 on page 65.

#### DIFFERENCES IN RELATION TO THE CODE

The application of the Code is based on the principle of 'comply or explain', which means that a company is not obliged to follow all rules without exception and that deviations from one or several individual rules do not constitute a breach of the Code if there are reasons for this and explanations are provided for such deviations.

- All members of the Board of Directors have met with the company's auditors, but not without the presence of the Chief Executive Officer or another member of the management team. After consulting with the auditors, the Board has not found it necessary to arrange such a meeting, partly because the auditors have, on several occasions, presented reports to the Audit Committee without the presence of the CEO.

Stockholm, 26 February 2010

The Board of Directors