

Corporate Governance Report

Fabege is a Swedish public limited-liability company with its 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.

Responsibility for the governance, management and control of Fabege's activities is shared among the shareholders at the Annual General Meeting (AGM), 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 the NASDAQ OMX Stockholm. The company's share capital is SEK 5,097m, represented by 165,391,572 shares. At the end of the year, Fabege had no treasury shares. In Fabege, all shares carry the same voting rights, which means that opportunities to exercise influence as an owner match each shareholder's capital share in the company. The following shareholder directly or indirectly holds shares representing one tenth or more of the votes for all shares in the company:

Shareholding 31 Dec 2013	Share of votes, %
Brinova Inter AB	14.9

Fabege's ownership structure is described on pages 94–95.

Articles of association

Fabege's Articles of Association state that the company is to 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 AGM. The full text of Fabege's Articles of Association is available at www.fabege.se.

Annual General Meeting

The AGM is the company's highest decision-making body. Shareholders who would like to participate in the business of the AGM must be registered in the transcript of the entire share register pertaining to the conditions prevailing five days prior to the AGM and notify the company of their intention, and that of no more than two advisors, to attend the Meeting. This must be done no later than 4:00 pm on the day stipulated in the notice convening the AGM.

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. Shareholders wishing to submit proposals to the Nominating Committee can do so by emailing nominatingcommittee@fabege.se or sending a letter to Fabege AB.

The proposal for Directors' fees must specify a breakdown between the Chairman, other Directors and committee work.

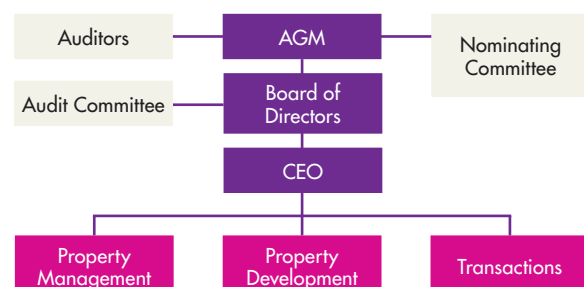
Board of Directors

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. Fabege's Board is to comprise a minimum of four and maximum of nine members.

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.

Governance structure



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

- The number of Board meetings (normally six scheduled meetings in addition to the statutory meeting)
- The forms for extra meetings and per capsulam 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 year-end report is addressed by the Board at a Board meeting held on the same date on which the report is published in the market. Other interim reports are delegated to the CEO and addressed at the immediate following Board meeting. However, Board members are always given the opportunity to read and submit opinions on all reports before they are published.

Issues relating to management remuneration

Fabege's Board does not have a specific remuneration committee. 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.

Auditing

Under the Swedish Companies Act, the company's auditor is required to examine the company's Annual Report and financial statements as well as

the administration of the Board of Directors and CEO. After the end of each financial year, the auditor is required to submit an audit report to the AGM. The appointment and remuneration of auditors is based on the AGM's resolutions on proposals submitted by the Nominating Committee.

At the 2013 AGM, accountants from the auditing firm, Deloitte, were appointed, with the authorised public accountant Kent Åkerlund appointed as auditor-in-charge for the period up to the 2014 AGM. In addition to Fabege, Kent Åkerlund has audit assignments for the following major companies: Clas Ohlson, Bactiguard, FastPartner, SATS and Tagehus. 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 auditor, Deloitte has performed audit-related assignments relating primarily to tax and accounting issues.

Audit Committee

The Board has appointed an Audit Committee from among its own members. 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 policies and financial follow-up and reporting, and the performance of audits. The Committee regularly meets with senior executives to discuss and form an opinion of the state of the company's essential processes from an internal control perspective. Board members review all interim reports. The year-end report, the corporate governance report and the administration report are discussed specifically at the Committee's meeting early each year. 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 composition requirements and its members possess skills and experience in accounting and other issues within the Committee's area of responsibility.

Management

Chief Executive Officer

The Chief Executive Officer (CEO) 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 existing 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 NASDAQ OMX Stockholm.

Fabege's Code of Conduct

Among other objectives, Fabege aims to maintain long-term relations with the company's stakeholders, offer a healthy workplace for employees and maintain high business ethics in operations. The Code of Conduct clarifies Fabege's approach to issues affecting human rights, employment terms and conditions, environment, business ethics and communications.

A self-evident basis for the Code of Conduct is that Fabege must respect applicable legislation and other provisions, good business practices and practices that comply with international human-rights, work and environmental standards in line with the ten principles of the Global Compact.

The Code of Conduct applies to all of Fabege's employees, irrespective of position. The Board of Directors and the Executive Management Team have a special responsibility to promote the application of the Code of Conduct. The content of the Code of Conduct is revised and reviewed annually by the Executive Management Team. All managers with employee responsibilities are responsible for ensuring familiarity and compliance with the Code of Conduct within his/her department/sphere of responsibility. All employees have access to all of Fabege's policy documents through the company's intranet.

The full text of Fabege's Code of Conduct is available at www.fabege.se/codeofconduct.



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

Executive Management Team

The CEO directs the work of the Executive Management Team and reaches decisions in consultation with the other members of management. All members of the Executive Management Team jointly account for operational control and manage the business and engage in daily management in accordance with the Board's guidelines, instructions and resolutions.

The key to success is having motivated employees. With the aim of creating the best conditions for this, Fabege's Executive Management Team has to establish a clear framework and objectives for the operation. It must create the conditions for employees to achieve the established objectives by:

- Clearly communicating the company's direction and objectives.
- Establishing an approach based on the company's collective expertise.
- Coaching, inspiring and creating workplace satisfaction and positive energy.
- Regularly reviewing and providing feedback on the established objectives.

Operational Executive Management Team meetings are held on a weekly basis. Once a month, minuted decision-making meetings are held, during which strategic and operational matters such as property transactions, letting, market trends, organisation and monthly and quarterly reviews are addressed. The CEO's assistant also participates in these meetings.

Operating segments

Fabege operates in three business areas; Property Management, Property Development and Transactions. The managers of each business area are members of the Executive Management Team. The management of operations and performance reviews are the responsibility of each respective business-area manager. Fabege's activities are goal-oriented at all levels, with the goals broken down, developed and established in the different business areas and at co-worker level. Performance measurements and reviews are conducted regularly.

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 comply with all rules 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. Fabege deviates from the Code when it comes to the recommendation that all members of the Board have to meet with the company's auditors without the presence of the CEO 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.

Corporate governance 2013

Annual General Meeting

The 2013 AGM was held in Stockholm on 21 March 2013. Erik Paulsson was elected to chair the meeting. The AGM was attended by shareholders holding a total of 82.4m shares, representing 49.8 per cent of the votes.

A full set of minutes from the AGM is available at Fabege's website, www.fabege.se. The following are the principal resolutions adopted at the AGM:

Election of Directors and resolution on Directors' fees (proposed by the Nominating Committee)

The AGM resolved that the Board should consist of eight Directors and re-elected Eva Eriksson, Christian Hermelin, Märtha Josefsson, Pär Nuder, Mats Qviberg, Erik Paulsson and Svante Paulsson to the Board. Gustaf Hermelin was newly elected to the Board. Erik Paulsson was elected Chairman. The AGM resolved that a total of SEK 2,120,000 (2,555,000) be paid in Directors' fees in 2013.

Cash dividend (proposed by the Board)

The dividend was set at SEK 3.00 and the record date was at 26 March 2013.

Principles for the appointment of the Nominating Committee (proposed by 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 must be appointed no later than six months prior to the AGM and representatives of the four largest owners will primarily be offered places on the committee.

Remuneration of management

The AGM resolved on guidelines for the remuneration of management. See also page 84.

Authorisation on share buybacks (proposed by the Board)

The AGM resolved 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. Transfers may occur of all treasury shares held by the company at the time of the Board's decision.

Auditing

The auditors reported their observations and simultaneously presented their views on the quality of internal controls in Fabege at the Board meeting in February 2014. The auditors have participated in and presented reports at all meetings of the Audit Committee (four in 2013). Reports were also presented to management during the year.

Fees paid to the company's auditors are described in Note 41 on page 80.

Nomination Committee

In accordance with the AGM's decision, the four largest shareholders have been offered one seat each on Fabege's Nominating Committee, and on 25 September 2013, the Nominating Committee was announced. The Nominating Committee comprises the following members: Bo Forsén (Brinova Fastigheter AB), Mats Qviberg (Investment AB Öresund), Eva Gottfridsdotter-Nilsson (Länsförsäkringar Fondförvaltning) and Anders Rydin (SEB Funds). The Nominating Committee collectively represented approximately 27.1 per cent of the voting rights of Fabege at 31 January 2014.

The Nominating Committee held two minuted meetings and remained in contact during the intervening periods. As a basis for its work, the Committee met with the Chairman of the Board and listened to his views on the work of the Board. The Committee also contacted the other Directors, the Audit Committee and the company's auditors to obtain a clear impression of the work of the Board. The Nominating Committee has 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 also discussed and took into account issues relating to the independence of Directors (see below for a description of the Board).

Nominating Committee's proposals, 2014

The Nominating Committee proposes the re-election of Eva Eriksson, Christian Hermelin, Märtha Josefsson, Pär Nuder, Erik Paulsson, Svante Paulsson and Mats Qviberg. The Nominating Committee thus proposes that there shall be seven Board members. The dependency of the Board members proposed for re-election is presented in the adjoining table. The proposed Board of Directors collectively meets the Code of Conduct's regulations on the independence of Board members. The Nominating Committee also proposes the election of Deloitte as auditor, with Kent Åkerlund as auditor-in-charge.

The Nominating Committee's report on its activities and proposals to the 2014 AGM are available on the company's website. The Committee's proposals are also described in the notice for the 2014 AGM.

Board of Directors

Composition of the Board, 2013

Eight Directors were elected to the Board at the 2013 AGM. The AGM elected Erik Paulsson as Chairman of the Board. Fabege's Chief Financial Officer, Åsa Bergström, serves as the Board's secretary.

Fabège'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. The Board aims to retain members with expertise in areas such as properties, the property market, funding and business development. Several members of the Board have significant personal shareholdings in Fabège, directly or indirectly. Fabège's Board meets the requirements on the independence of Directors provided for in the Code of Conduct.

The work of the Board, 2013

In 2013, the Board held six scheduled meetings of a total of ten meetings, including one statutory meeting, and three meetings held by correspondence. The agenda comprises a number of standing 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 (see figure on page 89).

In 2013, the Board made decisions on several major transactions and investments in the company's existing property portfolio. In 2013, Fabège sold a total of six properties for SEK 1,202m. Two properties

were acquired for a total of SEK 298m. Decisions were made on investments of approximately SEK 1.1bn 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 company's earnings were discussed at the Board meeting in February 2014.

Fees to the Board of Directors

The Directors are paid fees in accordance with the resolutions of the Annual General Meeting. For 2013, total fees of SEK 2,120,000 were paid, of which the Chairman received SEK 800,000. The other Directors received SEK 200,000 and SEK 120,000 for work on the Board's Audit Committee, of which the chairman received SEK 60,000 and the other members SEK 30,000.

Remuneration of management

In accordance with the principles of compensation and other terms of employment for management adopted by the AGM, the Board made a decision on the remuneration and other terms of employment for the CEO. During the year, the Board reviewed compliance with the principles of remuneration for senior executives.

Remuneration is to be on market terms and competitive. Responsibility and performance that coincide with the interests of shareholders are to be reflected in the remuneration. The fixed salary is to be re-evaluated annually. In addition to fixed salary, remuneration may be paid for target-related performance. Such remuneration shall depend on the extent to which pre-defined targets have been achieved within the framework of the company's activities. The targets encompass both financial and non-financial criteria. Any remuneration in addition to fixed salary should be subject to a ceiling and tied to the fixed salary. Variable remuneration is limited to a maximum of three (3) monthly salaries. Variable remuneration to company management must not exceed a maximum total annual cost for the company of SEK 2.5m (excluding social security fees), calculated on the basis of the number of persons who currently constitute senior executives. Other benefits, where applicable, may only constitute a limited portion of the remuneration.

Remuneration and other benefits and terms of employment for the CEO and management are described in Note 6 on page 75. The company's principles of remuneration and terms of employment will also be presented at the 2014 AGM.

The Audit Committee

The Board has appointed an Audit Committee from among its own members which, in 2013, consisted of Märtha Josefsson (Chairman), Eva Eriksson and Pär Nuder. In 2013, four meetings of the Audit Committee were held. During the year, considerable emphasis continued to be placed on the company's internal control system. The Audit Committee addressed areas such as sustainability and the environment, as well as sustainability accounting, segment reporting, financing and loans. The company's financial policy and communications policy were also reviewed. Particular importance was also attached to the follow-up of

the company's investments in Arenastaden and the management and reporting of the company's ongoing tax cases. Year-end accounts and valuation matters were addressed, as were operational and auditing risks. At each meeting, the company's auditors submitted a report of their review during the year. The minutes from the Audit Committee's meetings were shared with all Board members, and the Committee's Chairman submitted regular reports to the Board.

Executive Management Team

During the year, the Executive Management Team comprised the following persons:

Christian Hermelin: CEO

Åsa Bergström: Chief Financial Officer/Vice CEO

Urban Sjölund: Director of properties

Klas Holmgren: Director of Projects and Development

Klaus Hansen Vikström: Director of Business Development

As of January 2014, the Executive Management Team was expanded to include Anders Borggren, Director of Technical Operations.

Report on internal control in respect of financial reporting

Internal control is a process that is influenced by the Board of Directors, company management and the company's employees, and it is designed to provide reasonable assurance that the company's goals are achieved in the following 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.

The company applies the established COSO (Internal Control – Integrated Framework) framework in its work.

Control environment

Fabege has a geographically well contained organisation and homogeneous 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 CEO (and members of the Executive 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 2013, the Board performed its annual review and adopted rules of procedure for the Board, rules of procedure for the Audit Committee and the company's Code of Conduct.

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. There are defined policies for matters such as funding, environmental issues, equal opportunities and disclosure, accounting policies and instructions for the closing of the accounts and authorisation of payments. In 2013, Fabege implemented a comprehensive evaluation and update of its policies. All policies were discussed and decided on by the Executive Management Team. Information concerning resolved policies was also disseminated throughout the organisation. In addition, more detailed guidelines and instructions are reviewed and updated regularly. In May, Fabege submitted its annual "communication on progress" report to the UN Global Compact. Work on the development of the company's sustainability reporting is currently ongoing. The sustainability report forms a part of the company's annual report and has been reviewed since 2012 by the company's auditors.

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 Fabege:

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

Fabege conducts annual reviews and evaluations of risk areas for the purpose of identifying and managing risks in consultation the Board and the Audit Committee, for examination by the auditors.

Control activities

Critical processes, functions and areas are described and documented in respect of the 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 the required expertise. In 2013, all of the company's critical processes were subject to an internal review. In addition to the external audit performed in 2013, the company also performed an internal assessment of compliance and controls in a selection of critical processes.

A central controller function supports work on the follow-up of the operating units – Property Management and Development. The control department is in charge of operational reporting. Operational reports are prepared monthly and quarterly based on a standardised reporting package and submitted for comment/approval to executives with operational responsibility. Reviews and updates by executives with operational responsibility are made continuously 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 standalone systems/specifications of outcomes for income and expense items and balance sheet items. The company's operational reporting is under continuous development and improvement in terms of content and system support, and of accessibility to those with operational responsibilities.

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 abreast of 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 NASDAQ OMX Stockholm's Rule Book for Issuers. The aim is to improve knowledge of and build confidence in the company among investors, analysts and other stakeholders. In 2013, the effort to improve information and access to information on the external website continued. At the end of the year a new website was launched with clearer information about the company's stakeholders such as existing customers, potential customers and the investor market. Work to improve and further clarify information to the market has been ongoing and will continue in the next few years. During the year, several customer surveys were conducted with the aim of understanding customers and meeting their needs. A human resources survey was also conducted at the end of the year. Both surveys resulted in high performance indexes.

Follow-up

The internal control system 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.

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 Executive Management Team.

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 reviewing 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 various areas of activity, thus providing 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 is the Audit Committee's task of monitoring management's work on developing the internal controls and of ensuring that actions are taken to address any problems that have been identified in the course of examinations by the Board, Audit Committee or auditors.

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

In the course of its work on examining and evaluating the internal control of critical processes in 2013, the Audit Committee found no 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, Fabege is working to facilitate internal evaluations of critical processes. As a result of this work, and in view of the homogeneous 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 that the monitoring and examination described above, coupled with the external audits, are sufficient to ensure the maintenance of effective internal control in respect of financial reporting.