

RISKS AND RISK MANAGEMENT

ATRIUM LJUNGBERG'S PROPERTY portfolio is primarily focused on retail and office operations in the Swedish market. We are thereby exposed to the performance of the Swedish economy as a whole and in particular the markets in which we operate. The Board of Directors has overall responsibility for risk management while the operational work has been delegated to the CEO and the various business areas.

Taking into account our operations, prioritised areas for risk management are letting, project and construction activities, property valuation and financing. Our operations and the opportunity to attain our goals are affected by both external factors and business risks. We cannot influence external factors, but we can work in a preventative

manner and be prepared for different scenarios. Operational risks are mainly handled by awareness of the risk and continuous work on minimising the negative impact which may occur.

The Board of Directors has overall responsibility for risk management while the operational work has been delegated to the

CEO and the various business areas. Risk management in the administration and project and construction activities is largely decentralised while financing, insurance and property valuation are managed centrally. Also see the corporate governance statement, pages 92–95 and internal control, pages 98–99.

RISK	RISK DESCRIPTION	MANAGEMENT/OPPORTUNITIES
MANAGEMENT AND PROPERTY PORTFOLIO		
Property values	The property portfolio is estimated at fair value, market value. The market value is determined partly by the expected yield which the market's players accept. A lower yield requirement affects the market value positively as well as a higher expected future operating net.	The market's yield requirement is an external factor which we cannot directly influence. By working in the long-term with our management and developing our areas to attractive places, we create the conditions for better and more stable cash flows from our properties which promote stable yield requirements.
Assumptions for property valuation	The real estate valuation is based on a number of input data and assumptions. In the valuation process there is a risk that the assumptions which have been made do not reflect the current market conditions and the valuation thereby becomes incorrect.	The real estate valuation is done on a quarterly basis. Approximately 40–50 per cent of the market value is valued externally every year. Our internal valuations are subjected to quality assurance by independent valuers. See more in note A1 on page 123.
Unpredictable events in our properties	Our properties can be affected by unpredictable events in the form of fire, water damages and other damages.	We continuously work with preventative measures such as, for example, updated fire alarms, sprinkler systems, entrance control systems and trained security officers. All properties are insured for their full value through If.

Sensitivity analysis, property valuation

Value parameter	Assumption	Impact on value, SEK m
Rental level	+/- 10 %	+/- 3,580
Operating cost	+/- 10 %	-/+687
Yield requirement	+/- 0.25 % units	-1,718 /+1,912
Long-term vacancy level	+/- 2 %	-/+ 1,046

The table shows how the effects of different parameters impact the market value.

Sensitivity analysis, change in value

Change property value	-10 %	0 %	+10 %
Change in value, SEK m	-3,605	0	3,605
Gearing ratio	47 %	42 %	38 %

The changes in the value of properties also affect the company's key ratios. The above sensitivity analysis shows how Atrium Ljungberg's gearing ratio is affected by changes in value of +/- 10%.

RISK	RISK DESCRIPTION	MANAGEMENT/OPPORTUNITIES
MANAGEMENT AND PROPERTY PORTFOLIO, CONTD.		
Rental income	<p>Our rental income is affected by the economic performance in the subsidiary markets in which we operate and by how successfully we develop the areas where our properties are located.</p> <p>Economic growth is assumed to result in increased demand for premises, with lower vacancies as a result – a trend which, in turn, usually leads to higher market rents. A negative economic trend is assumed to result in the opposite effect.</p>	<p>We build urban environments with a focus on retail and office operations which are supplemented with housing, service, culture and education. The mix makes Atrium Ljungberg less sensitive to the economic development and increases the risk spread in the tenant structure.</p> <p>As commercial lease contracts are often signed for a term of three to five years, changed market rents have an impact on rental income gradually.</p> <p>As only 1 per cent of the rental income comprises sales-based rent, in the short-term Atrium Ljungberg is affected by declining sales of retail hubs to a very small extent. However, in the long-term it impacts the demand of our premises.</p>
Letting rate	<p>A change in the company's letting rate has a relatively rapid effect on income.</p>	<p>By operating in strong subsidiary markets with close relations with both existing and prospective customers, we can satisfy the customers' need for premises in a timely manner and thereby prevent and reduce the risk of high vacancy levels.</p>
Property costs	<p>Changed property costs can impact the property's operating net and thereby indirectly also the market value of the property. A large share of the cost is linked to energy consumption in the form of heating, cooling and electricity.</p> <p>Property costs are impacted by seasonal variations. Generally costs are higher during the first and last quarter of the year, primarily caused by higher costs of heating and property maintenance.</p>	<p>Some of the property costs are passed on to the tenant through regulations in the lease contracts and cost increases or savings consequently only have a limited impact on our results. Any vacancies that arise do, however, affect the result, not only in the form of lost rental income but in the form of costs that cannot be passed on to the tenants.</p> <p>We work purposefully, for the benefit of both our tenants and the company, to increase the efficiency of our consumption. As a part of this, Atrium Ljungberg has set a goal of reducing energy consumption per square metre between the years 2014 and 2021 by 20 per cent.</p> <p>Unforeseen damage and repairs can have a negative effect on the company's results and are prevented by means of a long-term maintenance programme in order to maintain a good standard throughout the property portfolio.</p> <p>We have ten properties with leasehold. The leasehold agreements are usually renegotiated at 10 or 20 year intervals. See more on leasehold fees for 2016 in note IE4 on page 116.</p>

INVESTMENTS AND ACQUISITIONS

Investments	<p>Atrium Ljungberg develops and constructs own properties continuously in its project activities. Risks in these activities are that the customers' needs and expectations are not fulfilled, that the projects are more expensive due to miscalculation or changed conditions.</p>	<p>The projects are largely managed with in-house expertise and our subsidiary company TL Bygg. Consequently we have direct contact with the customers, short decision-making processes as well as rapid and simple handover to the management team.</p> <p>The company applies its prudence concept to all investments. This entails that no investments are made without having secured a reasonable yield by agreeing lease contracts.</p>
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Sensitivity analysis cash flows

	Change, %	Effect on profit, year 1, SEK m	Effect on profit, full-year, SEK m
Rental income	+/- 5 %	+/- 12	+/- 110
Property management costs	+/- 5 %	-/+ 35	-/+ 35
Letting rate	+/- 1 % unit	+/- 22	+/- 22
Atrium Ljungberg's average borrowing rate	+/- 1 % unit	-/+ 66	-/+ 151

¹⁾ The effect on the profit in year 1 relates to the effect in the immediately subsequent year with reference to fixed terms in lease contracts and loan agreements.

Bad debt losses

SEK m	
2012	4
2013	6
2014	7
2015	15
2016	12

RISK	RISK DESCRIPTION	MANAGEMENT/OPPORTUNITIES
INVESTMENTS AND ACQUISITIONS, CONTD.		
Acquisitions	Atrium Ljungberg's expansion also takes place through acquisition of properties. Risks during the acquisition are that the letting rate and rental trend will be lower than expected or that the technical standard is lower than the conducted assessments. Another risk is that there are unexpected environmental consequences. During the acquisition of properties through companies there is also a tax risk.	The risks during an acquisition are prevented by a due-diligence process in which we inspect the property and examine agreements, accounts and fiscal aspects with both internal and external specialists. All acquisitions are made with the intention of owning and developing the properties in the long-term.
Project portfolio	Property development through investments in in-house properties and production of development rights is very important in terms of the company's value growth. A limited project portfolio can reduce future growth.	In order to maintain long-term growth, we are constantly searching for new business opportunities and projects through continuous dialogue with municipalities and other market players. See pages 35–37 for further information about our project portfolio.
EMPLOYEES AND SUPPLIERS		
Expertise	The ability to attract and retain skilled personnel is an important prerequisite for our success.	By working towards being one of Sweden's best workplaces in accordance with "Great Place to Work®," Atrium Ljungberg strives to both attract and retain competent personnel. See pages 24–25 for further information.
Suppliers	Supplier risk refers to the risk that our suppliers cannot fulfil their deliveries, that they use unethical business practices or do not fulfil the environmental requirements which have been imposed.	Atrium Ljungberg's purchasing function comprises efficient support for the entire organisation by coordinating purchasing. This results in higher quality and lower costs. Furthermore, the purchasing function ensures that the Group's suppliers comply with Atrium Ljungberg's requirements within sustainability and business ethics.
Corruption	Improprieties which affect Atrium Ljungberg and which may seriously injure our brand and staff.	Atrium Ljungberg has established a whistleblowing service through an external party. In this manner we can guarantee a system with highest secrecy and total anonymity which makes it safe for our employees, customers and collaboration partners to submit a complaint. Complaints can be submitted through our website and are then handled by the external party. There is a policy for business ethics with guidelines which provide more concrete guidance.
FINANCIAL RISKS		
Credit risk	The term, credit risk, refers to the risk that our tenants will be unable to fulfil their payment obligations.	Each market area continuously evaluates the capacity of new and existing tenants to pay the agreed rent. In many cases, default in payment of rent is secured through deposits and bank guarantees. A large number of tenants in different sectors ensures a good risk spread.
Currency risk	Currency risk refers to the risk that our income/expenses are lower/higher, and that our receivables/liabilities are lower/higher.	We have no income or any financing in foreign currencies. The only exception is purchases made in foreign currency, which entails a small currency risk.
Interest	The main risks involve fluctuations in profits and cash flow as a result of changes in interest rates.	The interest maturity structure has been spread over different terms through interest derivatives in order to limit the risk of severe fluctuations in interest expenses. See pages 86–87 for further information.
Refinancing	Refinancing risks and credit risks linked to renegotiations of existing credit and financing of future investments taking into account the company's high investment rate comprise a risk.	In order to limit the refinancing risk, a maximum of 50 per cent of the financing is provided for by an individual lender. Atrium Ljungberg has credit agreements with five different lenders, of which the largest has 13 per cent. Bank financing is supplemented with financing in the capital market through certificates and MTN programmes. See pages 86–87 for further information about financing.

RISK	RISK DESCRIPTION	MANAGEMENT/OPPORTUNITIES
ENVIRONMENT AND OUTSIDE WORLD		
Contamination in our properties	According to the Swedish Environmental Code, the property owner may be liable to defray measures resulting from a contamination incident or a serious case of environmental damage.	We conduct surveys and screening work ahead of property acquisitions and new projects in order to identify any potential environmental risks. The process also contributes to identifying opportunities for energy efficiency and reducing the incidence of material with a negative impact on human beings and the environment.
Climate changes	Extreme weather conditions such as cloudburst, storms and large temperature fluctuations as a result of global climate changes risk damaging our property portfolio and increasing the construction and development cost of properties.	Atrium Ljungberg works continuously on improvement maintenance in order to increase the resistance of our properties during extreme weather conditions. The risks are considered to the highest degree possible for new production and major reconstruction projects.
Requirements for more efficient energy consumption	Increased agency requirements for energy consumption.	Atrium Ljungberg works continuously on energy efficiency through implementation of new technology in both the existing property portfolio and for new production, which results in lower current expenses. See pages 21–23 for further information about our energy work.
E-commerce	E-commerce has become an important sales channel and the sales volume is increasing annually from e-commerce. Several retail companies are establishing online stores. This may impact the demand for retail premises.	According to HUI Research, e-commerce accounted for 7.7 per cent of the total retail sector in 2016. We are monitoring the trend closely and also have a close dialogue with our retail customers. Atrium Ljungberg builds places with attractiveness and flexible premises which can be adapted to new conditions. In recent times combining online trade and retail sale has also been successful as the consumer can attain further experiences in the physical store and have the opportunity of collection and return of purchased goods.
Changed tax rate	Current accounting regulations require deferred tax liabilities to be reported as if all property sales were taxed at 22 per cent. However, the size of the actual deferred tax liability depends on the company's tax position, how long we have held the property and the market's pricing of the deferred tax liability in conjunction with sale of the property through companies.	Assuming a deferred tax rate of 4 per cent (in accordance with EPRA NNNNAV) for costing purposes for properties, the deferred tax totals SEK 556 million, rather than the reported value of SEK 3,275 million, which would have a positive effect on shareholders' equity of SEK 2,426 million.
Changed tax rules within the property and stamp duty area	In 2015 the Government decided to appoint a special investigation to review the property and stamp duty area. The investigation should particularly review the regulations for packaging of properties and acquisitions through registration of property measures. The investigation will be presented on 31 March 2017.	We do not currently have knowledge of the conclusion of the investigation and its impact on the Group. Atrium Ljungberg is monitoring the development carefully.
Changed tax rules for the right to deduction for borrowing costs	The EU Directive against tax avoidance should be implemented in Swedish legislation by the end of 2018 at the latest. The Directive aims to combat tax avoidance and stop advanced tax planning. The EU Directive specifies the minimum level of measures which individual countries must implement. This may include a restriction of the current right to deduction for interest rates and other borrowing costs.	The fiscal effect of the investigation cannot currently be presented, but Atrium Ljungberg is monitoring the development.