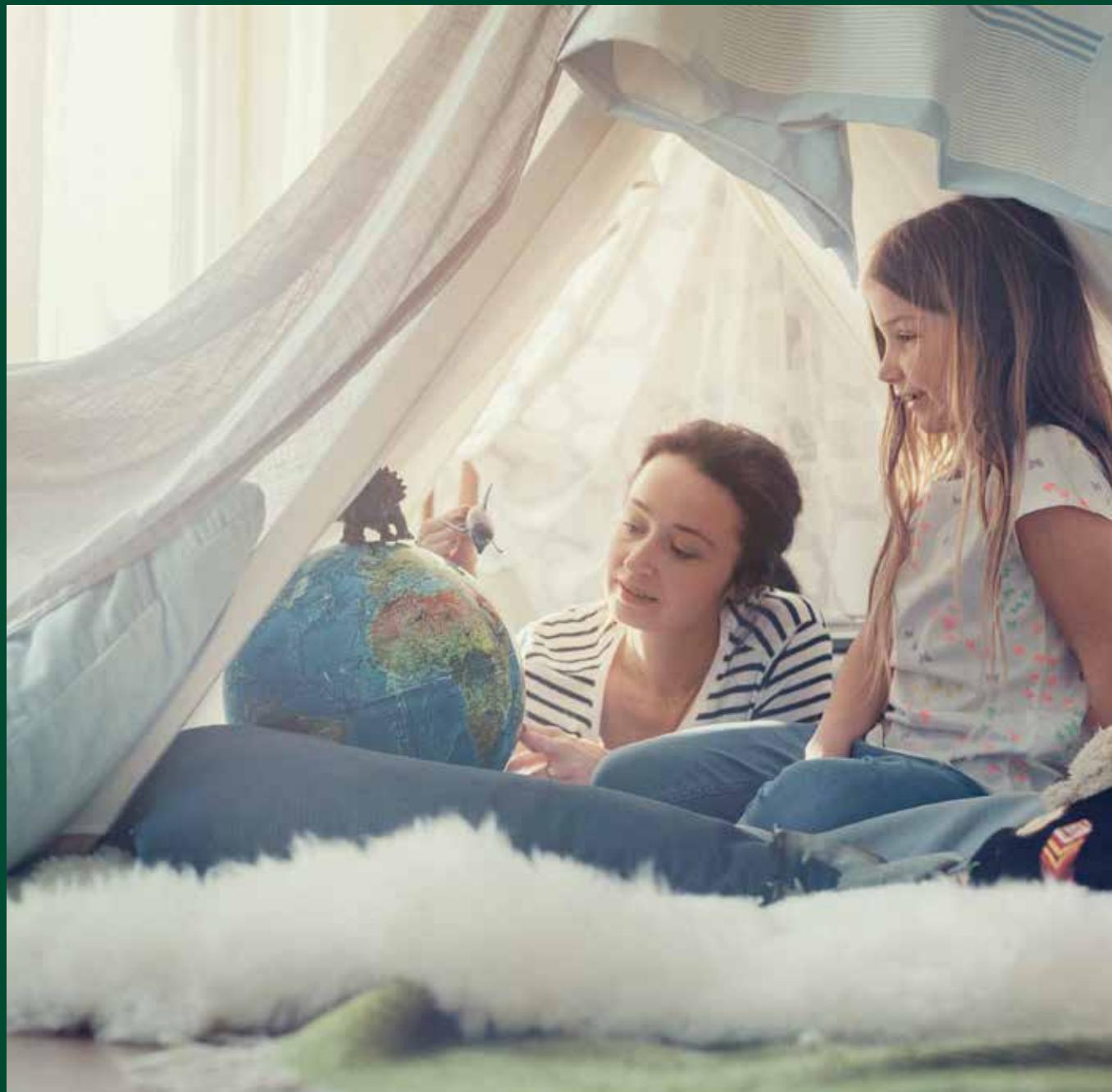




Annual Report 2018





BO BONAVA

The Swedish "bo" means living and "nav" means hub.
That is what we are all about. We don't just build houses.
We create homes and neighbourhoods where
people live their lives.

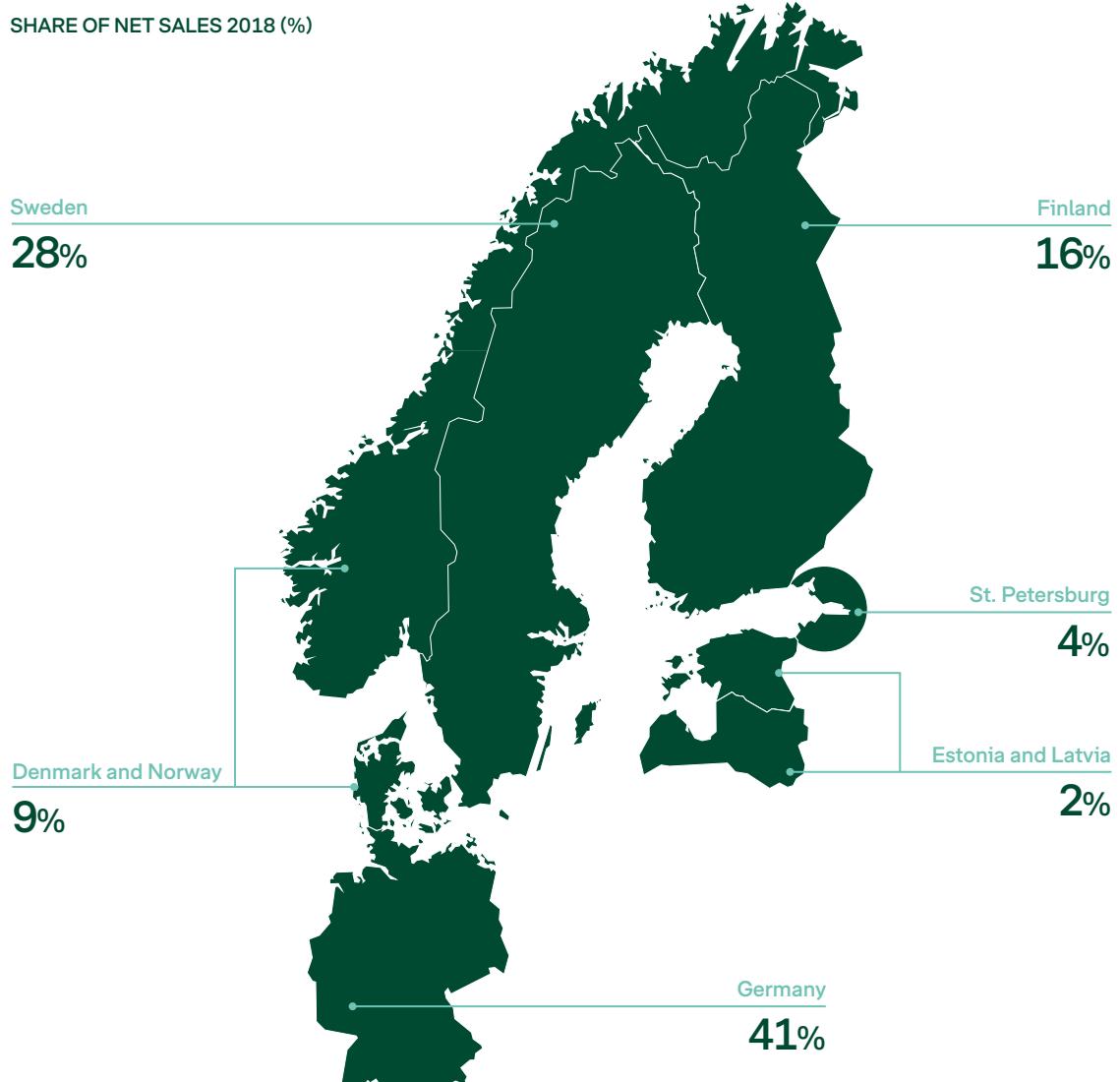
A leading residential developer in northern Europe

Bonava develops and sells homes across 23 regions in eight countries. The selected geographical markets are Sweden, Germany, Finland, Denmark, Norway, St. Petersburg, Estonia and Latvia. Bonava focuses on major city regions with pronounced growth and

with stable local labour markets, which generates demand for new housing over time.

We develop land into affordable and sustainable neighbourhoods, where housing is adapted to customers' wants and needs, as well as the unique circumstances of each

place. Bonava provides multi-family housing and single-family housing, and develops homes for consumers and investors, such as pension funds, alongside municipalities and other stakeholders. That is how Bonava helps to create new and happy neighbourhoods.



Housing units in production at the end of the year

10,712

Sold homes during 2018

6,009

Production starts of homes during 2018

6,478



We create happy neighbourhoods where people feel they belong, thrive and want to spend time. Our offering targets consumers and investors with a product mix of multi-family homes, semi-detached houses and single-family homes.

→ Read more about Bonava's offering on page 34.



Bonava offers an exciting working environment where you can be part of a journey: Bonava's journey, your individual career path and the journey our projects take from land acquisition through to blueprints and all the way to homes and neighbourhoods where our customers can be happy and feel at home.

→ Read more about working at Bonava on page 54.

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The statutory Annual Report covers pages 87–130.

The statutory Sustainability Report covers pages 22–32, 66–69 and 131–144.

The Annual Report is published in Swedish and English. The Swedish version is the original. In any instance of discrepancy between the two versions, the Swedish original shall apply.

The year in numbers

Key performance indicators

SEK M	2018	2017	2016
Net sales	14,008	14,479	13,492
Operating profit	1,654	1,946	1,562
Operating margin, %	11.8	13.4	11.6
Profit after financial items	1,513	1,721	1,283
Profit for the period after tax	1,265	1,402	1,004
Earnings per share, SEK ¹⁾	11.74	12.99	9.26
Cash flow before financing	-764	-26	536
Net debt	5,542	4,165	3,699
Capital employed at period end	13,332	12,003	10,134
Return on capital employed, %	12.8	16.6	14.6
Equity/Assets ratio, %	34.9	33.7	33.7
Number of housing units started in the period	6,478	6,702	5,832
Number of housing units in production at period end	10,712	9,880	9,113
Number of housing units sold in the period	6,009	5,702	6,233
Number of housing units recognised for profit in the period	5,225	5,464	4,778
Dividend, SEK	5,20 ²⁾	5.20	3.80

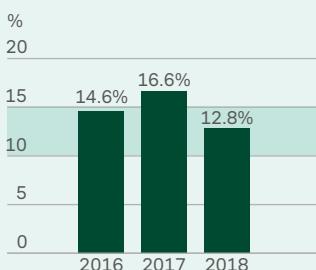
¹⁾ No dilution effect.

²⁾ Proposed by the Board.

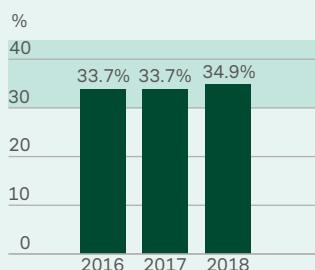
For definitions of key performance indicators, see bonava.com/en/investor-relations/financial-information.

Financial targets

Return on capital employed (%), target 10–15%

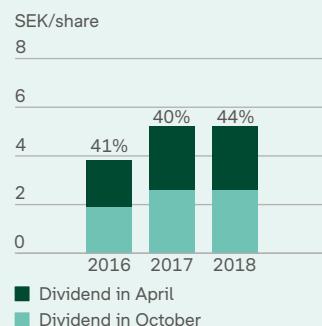


Equity/Assets ratio (%), target >30%



Dividend policy (%)

At least 40 per cent of consolidated profit after tax should be distributed to shareholders



Sustainability targets



Happy neighbourhoods for the many

By 2020, 50 per cent of Bonava's production starts of housing units shall be in the affordable segment.



Protecting our planet

By 2020 Bonava shall fight climate change through science-based targets. By 2020, 50 per cent of Bonava's production starts of housing units on markets with Nordic Swan eco-labelling or Green Zoom certification, shall be subject to environmental certification or labelling.



Passionate workplace

The long-term goal of Zero-Harm: no person whether an employee, subcontractor, member of the public or customer should injure themselves or fall ill because of Bonava's workplaces.



Reliable business

Bonava shall publish annual Sustainability Reports in accordance with GRI's guidelines and report progress to UN Global Compact.

→ Read more about how Bonava works with Sustainability and our sustainability targets on page 22.

The year in brief

Significant events

- For the sixth consecutive year, Bonava was ranked as Germany's most active residential developer. Germany is Bonava's largest market and stands for 41 per cent of the net sales.
- Investor relations are growing and in December 2018, Bonava executed its first investor deal in the Baltics which means that we have now executed investor deals on all our markets.
- The work on streamlining our design and production processes continues, and we launched a new kitchen concept based on customer insights during the year.
- At the end of 2018, Bonava had 10,712 housing units in production which is an increase compared to last year and with a maintained good sales rate of 68 per cent.
- Sustainability remains an important focus area for Bonava, and we are currently developing targets according to the Science Based Targets Initiative.



In September, Bonava started the last phase of Märtas Berså in Sollentuna, Sweden. Since 2009, five neighbourhoods with a total of 387 homes have been developed along the road Sollentunavägen.

→ Read more about Bonava's operations in Sweden on page 44.



In Germany, our largest market, Bonava is developing the neighbourhood Parkstadt Karlshorst which is located around 10 km from central Berlin. 1,000 new homes are planned, with 250 subsidised rental apartments, a further 250 rental apartments and the remaining 500 apartments to be sold as condominiums.

→ Read more about our operations in Germany on page 46.

Comments from the CEO



JOACHIM HALLENGREN, PRESIDENT AND CEO

"We have chosen a diversified strategy where we invest in different geographical regions with focus on both consumers and investors."

It is only three years since we presented the business concept that would eventually become Bonava and outlined the strategy that we intended to pursue. We introduced concepts such as affordable housing and the importance of neighbourhood, terms that are now common parlance when discussing the residential property market. At that time, Stockholm's housing market was hot, although we predicted a slowdown. This led us to pursue a diversified strategy where we invest in different geographical regions with focus on both consumers and investors. This has created a balanced portfolio that is

less sensitive to fluctuations, and adapted to the market's needs.

Germany our largest market

When summarising 2018, it feels natural to start with Germany where we have retained our position as the market's most active residential property developer. Germany is now our largest market, according to plan. Net sales increased by 14 per cent compared to 2017, outperforming our target of an annual growth of 5–10 per cent in Germany until 2020. Demand for housing is strong on this market, and German authorities expect that

some 230,000–290,000 housing units annually will be needed over the coming years. The demand from consumers and investors is good, and we are currently working on several major projects, for instance in Berlin. House prices remain stable, while our efficient methods generate good project margins.

As we predicted three years ago, the overheated Swedish market has now cooled down, particularly in Stockholm. We expect the Swedish market to remain cautious in 2019, and we are responding to market conditions by increasing the proportion of rental

"On the basis of customer insights, we have developed an entirely new kitchen concept that gives our customers what they want. We have gone from having a kitchen catalogue with thousands of items to choose from where every customer put together their own kitchen, to a modularized kitchen offering.

This generates remarkable savings for Bonava, both in money and time, while simultaneously the customer's decision-making process becomes simpler and more enjoyable. By modularizing and simplifying processes Bonava can become the cost leader on more markets."

apartments sold to investors and decreasing the share of housing units for consumers. Many investors consider that rental apartments in regions experiencing a housing shortage represent an attractive alternative to the stock market and other investments during an economic downturn. Although margins on our investor transactions are lower, the process is faster. We complete sales before projects start, while capital tied up is low and the transactions are associated with lower risk.

Another pleasing event during 2018 was the completion of our first investor transaction in the Baltics in the fourth quarter, which means that we have now signed investor deals on all Bonava's markets.

Focus on growth and efficiency

Naturally, we consider the economic cycle in our business decisions and adjust our investments and prices accordingly. At the same time, there's a general housing shortage on Bonava's markets and a continued demand for affordable housing. We are working strategically on our building rights portfolio to expand on markets that generate the highest returns. Since 2013, we have increased the number of building rights in Germany by close to 120 per cent, while simultaneously decreasing the number of building rights in Sweden. We are optimistic about the future and anticipate further growth, evidenced in 2018 when sales of housing units increased year-on-year, and there were more units started than units sold. At the end of the year, there were almost 1,000 more housing units in production year-on-year, while the sales rate remained solid at 68 per cent. This confirms the stability of our business model.

During 2018, we continued to streamline, standardise and digitalise our building

process. The information flow in the design and production process is digitalised, known as VDC (Virtual Design and Construction) in the industry. VDC reduces the degree of manual input required and increases the quality of the information exchange between suppliers, architects and customers. With VDC we also achieve a circular production model and reduce the climate impact.

Several new support systems have been established – from planning and design to procurement and production. This includes the ability to convert 3D-models to cost calculations in a highly automated process. The time required for project planning has been reduced from weeks to hours. We have also established a knowledge hub in Latvia for the digital visualisation of our projects. This service was previously purchased from external suppliers, but we have now established the internal competences required and thereby significantly reduced cost and duration.

Another activity that is rationalised our procurement is simply asking our customers what they want. On the basis of these customer insights we have packaged our kitchen offering in a completely new manner. From offering a catalogue with thousands of items where every customer put together their own kitchen, we now offer a base design with a number of additional styles and add on packages, across the Bonava group. This implies significant cost and time savings, whilst we have listened to our customers and provided them with what they want. Through modularizing and simplifying processes Bonava can become the cost leader on more markets.

Long-term sustainable progress

In 2018, we reached our financial targets for return on capital employed and equity/

assets ratio. The Board proposes a dividend of SEK 5.20 (5.20) per share, in line with Bonava's dividend policy.

The world is facing major challenges, and Bonava wants to be part of the solution and play an active role in the transition towards socially, environmentally and economically sustainable progress. Bonava is a member of UN's Global Compact and we are working on producing targets under the Science Based Targets Initiative. Through our production based on eco-labelled housing units under Nordic Swan or Green Zoom certification, we contribute to sustainable production. A key part of our sustainability work relates to the safety of our employees in the workplace. We pursue our "Zero Harm" vision on a daily basis, which means that all Bonava's workplaces should be free from injuries and ill health.

To conclude, I would like to thank all my colleagues at Bonava for their commitment, creativity and hard work during the year. Bonava comprises 2,100 people across eight markets, who challenge themselves every day to change the housing game, creating better homes and lives for the many.



Joachim Hallengren
President and CEO



The residential development market

Increased demand for affordable housing

Demand for affordable housing has increased on Bonava's markets in recent years. Economic growth, low unemployment rates, low interest rates and rapid urbanisation are examples of factors driving the growing demand.

Bonava operates in Sweden, Germany, Finland, Denmark, Norway, St. Petersburg, Estonia and Latvia. The market for new residential housing, in the areas where Bonava operates, has grown in recent years. Favourable macroeconomic and demographic factors have led to an increase in demand for new residential housing.

In the last five years, investments in new production increased by over 25 per cent in the EU, and total investments amounted to EUR 316 Bn (312) during the year¹⁾. More than 90 per cent of Bonava's net sales in 2018 derived from our largest markets Sweden, Germany, Finland, Denmark and Norway. On these markets, investments have increased in recent years, and during 2018 investments in new residential housing on these markets totalled EUR 98 Bn (95). During the last five years, investments increased the most in Sweden, Denmark and Germany.

Sweden

Between 2010 and 2016, the Swedish housing market was characterised by strong growth and rising housing prices. The market slowed towards the end of 2017, and has been cautious in 2018. House prices, which increased by 1.7 per cent in 2018, had stabilised towards the end of the year. Investments in new residential production decreased to EUR 12.0 Bn (12.2) in 2018.

Germany

The housing market in Germany, our largest market, has been strong with rising prices in recent years. Market growth varies depending on segment. During 2018, prices increased by 2.9 per cent for new rental units, 7.7 per cent for new condominiums and 9.6 per cent²⁾ for new single family homes.

Finland

The Finnish economy continues to recover, and GDP increased by 2.7 per cent between 2017 and 2018³⁾. During 2018, house prices increased by 2.3 per cent⁴⁾ and investments in new production amounted to EUR 7.4 Bn (6.8).

Denmark–Norway

In Denmark, Bonava operates in the Copenhagen region where the housing market was strong during the year. In 2018, housing prices increased by 3 per cent in the Copenhagen region⁵⁾. Total transactions volumes in residential real estate was EUR 4.9 Bn, down by 6 per cent compared to 2017⁶⁾. In Norway, Bonava operates in Bergen where house prices decreased by 2 per cent in 2018⁷⁾. After several years of strong price growth and newly instated political regulation, the Norwegian housing market has slowed down slightly, which was reflected in house prices. Investments in new residential production increased to EUR 10.0 Bn (11.1).

¹⁾ The estimated value of the investments in all housing projects in EUR Bn. Euroconstruct, report 86, 2018.

²⁾ Empirica Institute Jan 2019.

³⁾ Eurostat 2019.

⁴⁾ Eurostat 2019.

⁵⁾ Finans Denmark 2019.

⁶⁾ RED Danish Investment Atlas 2019.

⁷⁾ Eiendom Norway 2019.



Aronia

Area: Sätra, Sweden

Housing type: Multi-family housing, 64 homes

Status: Moving in from summer 2020

Aronia is the first housing project developed by Bonava's Design studio. Bonava's in-house architects, HVAC developers and project managers mean that Bonava controls the entire value chain – from blueprint to completed homes. Aronia is part of our strategic journey towards digitalised processes where VDC (Virtual Design and Construction) is incorporated throughout

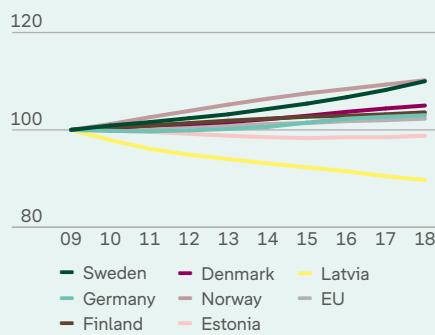
the project life cycle. Digitalisation enables us to streamline our processes whilst simultaneously increasing the quality of our homes. Costing, project procurement, time and resource planning tools are integrated in Bonava's digital models, which creates new opportunities to build more affordable housing.

FACTORS INFLUENCING THE HOUSING MARKET

► Population growth

Population growth has been strong on our markets, while new housing starts has historically been low, a combination that is increased demand for housing. On Bonava's markets, Sweden and Norway have seen the highest population growth in the last ten years. While the urbanisation trend is accelerating, immigration has contributed to increased population growth on several of our markets. Accordingly, it is becoming increasingly important for Bonava as a residential property developer to produce good-value homes that more people can afford to buy.

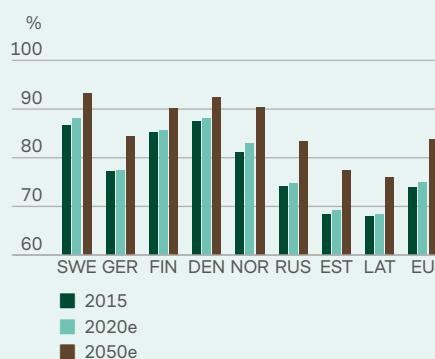
Population growth on Bonava's markets during 2009–2018 (Index 100=2009)



► Urbanisation

The urbanisation trend is strong in Europe and more people are moving to metropolitan areas. It is becoming increasingly important for Bonava to develop new neighbourhoods with good infrastructure so that new areas can be incorporated into the city environment. The urbanisation trend is expected to continue and to increase on all of Bonava's markets. When more people look to move to metropolitan areas, the demand for affordable housing will increase.

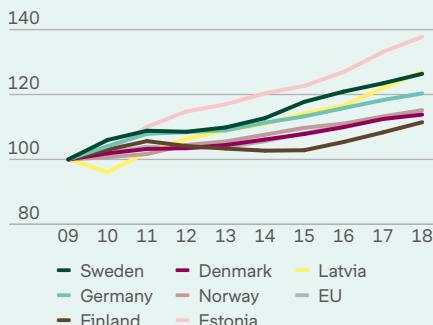
Rate of urbanisation on our markets



► Economic growth

Positive growth on the housing market is strongly correlated with GDP growth. GDP growth has been strong on all of Bonava's markets in recent years.

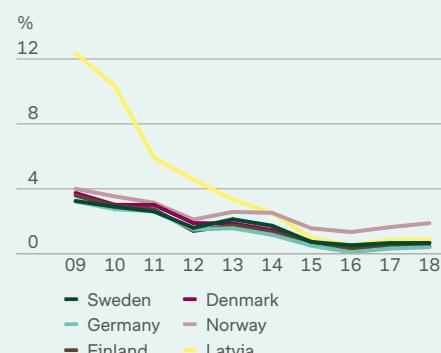
GDP growth on Bonava's markets during 2009–2018 (Index 100=2009)



► Interest rates

Low interest rates increase consumption and willingness to invest on the housing market. Low interest rates result in lower housing costs, and enable further room for borrowing. On most of Bonava's markets, interest rates on long-term government bonds are historically low.

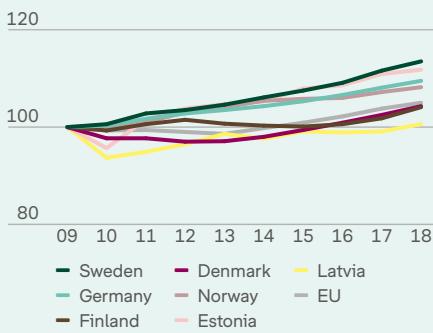
Interest rates on Bonava's markets during 2009–2018



► Employment

The housing market is closely correlated to the employment market. Increased unemployment can result in difficulties for households to be granted mortgages to buy a new home, or to pay interest on current mortgages. High unemployment also reduces mobility on the housing market. The employment rate measures the proportion of the population that is in employment and a high employment rate increases investment appetite on the housing market. The employment rate has been strong in Sweden, Norway and Germany in recent years.

Employment rate on Bonava's markets during 2009–2018 (Index 100=2009)



► Access to credit

Laws and regulations affecting consumer purchasing power such as access to and cost of credit have a major impact on the housing market. In recent years, Sweden has introduced a number of regulations affecting the housing market, including an LTV-cap (Loan To Value) in 2010, an amortization requirement in 2016, and an extended amortisation requirement in 2018. These regulations have resulted in a reduction in mortgage lending.

► Climate change and overexploitation of limited resources

The environmental challenges the world is facing are largely a result of the overexploitation of natural resources such as fossil fuels, minerals, water, land and biodiversity. Global usage of material resources has increased tenfold since 1900 and is expected to double again by 2030. This puts pressure on Bonava and other residential developers to actively minimise their environmental impact by adopting circular production models. Bonava needs to streamline and optimise its usage of resources from the acquisition of land and choice of materials, to providing sustainability support and advise to customers moving into Bonava homes. It is essential that Bonava meets the current environmental requirements, but equally important that building systems can be upgraded to future energy performance and resource exploitation requirements.

* Figures for 2018 were unavailable at the time of publication of the Annual Report.

Bonava's position on the housing market

Growing demand for affordable housing – in line with our strategy

The strong economic growth on a majority of Bonava's markets has led to a significant increase in house prices over the last decade. Low interest rates have fuelled purchasing power and increased the investment appetite of consumers and investors alike. Simultaneously, there has been a historical shortfall of new housing in relation to demographic trends on several of Bonava's markets, which has fuelled substantial demand for new homes. Additionally, immigration and urbanisation have increased across our markets and there is distinct demand for affordable housing. To meet the growing demand for affordable housing, Bonava needs to focus on lowering production costs and increasing productivity. Bonava's objective is that 50 per cent of its housing units in production shall be categorised as affordable by the end of the strategy period in 2020.

→ Read more about how 2018 turned out and how we create affordable homes on page 18.

Great opportunities for increased productivity

Productivity growth is generally low in the construction sector, and was even negative in Sweden between 1997 and 2016¹⁾. On our largest market, Germany, productivity growth was positive although construction still lags behind the manufacturing industry. Productivity growth in manufacturing in Sweden and Germany was 107 per cent and 54 per cent respectively between 1997 and 2016, compared to productivity growth of -13 per cent and 5 per cent respectively in the construction industry. In order to increase productivity, increased standardisation and industrialisation are needed. Bonava's focus is currently on streamlining, standardising and digitalising the construction process. However, to stay competitive in the development of affordable housing in the future, specifically in metropolitan areas, industrialisation of the building process also needs to take place. New and more efficient production methods will change the housing production of the future, and Bonava wants to be a driving force in this development.

Increased productivity growth – essential for developing new homes in the affordable segment

Studies show that the rate of digitalisation and productivity growth in the construction industry are low. The construction industry has an even lower rate of digitalisation and lower level of productivity growth than the agriculture, forestry, fishing and hunting sectors. Digitalisation is an important tool for increasing sector productivity and efficiency. Digitalisation is central to improving the efficiency of design and production processes. Using Virtual Design and Construction (VDC) enables Bonava to compile and structure the data and information flows used when planning and constructing a neighbourhood. VDC generates a digital information flow and increases the quality of the shared information for suppliers, architects and customers. Bonava is in the process of digitalising its processes across all markets. Digitalisation creates opportunities for increased modularisation, which generates more cost and time-efficient deliveries of Bonava's products, without compromising architectural qualities.

¹⁾ OECD; gross added value per hour, constant prices, labour productivity.



Bonava's role in society

Development of affordable housing

To be successful in developing affordable housing Bonava welcomes questions and perspectives from different parts of the industry and society. Digitalisation, rationalisations, sustainability, long-term political views etc. are all subjects that Bonava frequently discusses and revisits in different forums and situations. We often share our experience and competencies, often with political decision-makers on different levels, civil servants and the academic world. The focus of the discussion is on how the industry and Bonava can create new neighbourhoods and affordable homes for the many. Due to Bonava's unique position as a residential developer in eight countries, we can contribute with important insights and experience from other markets.

Dissemination of knowledge

Bonava aims to drive progress and development in society, and we share our insights in meetings with the media and actively participate in relevant industry contexts. In July, we arranged two well-attended round table events during the Almedalen conference on the Swedish island of Gotland. We participated in discussions on how we can successfully develop affordable housing and what Sweden can learn from Germany in terms of streamlining the planning process. The latter

subject was taken from a report published at the beginning of the summer, with the aim of simplifying planning procedures in Sweden using German building regulations as a model. In Denmark, Germany and the Baltics, Bonava has contributed to driving the debate about the future of housing development in different interviews and articles. On several occasions, Bonava Germany has commented on the German housing development market in some of the country's major newspapers. On these occasions, Bonava has specifically mentioned the opportunities linked to digitalisation and the importance of reliable processes to obtain high productivity.

The housing market plays an increasingly important role in the modern economy. The market needs to operate efficiently and be sound, both in balancing the production of rental apartments with other ownership structures, as well as between new neighbourhoods and the interplay with the existing environment. At the end of the day, this is about national and regional competitiveness, the ability to attract top competencies and create well-functioning and inclusive neighbourhoods.

A key operator on the Swedish residential market

During 2018, the general housing debate changed from being about how many homes

need to be built to who they are actually being built for. Additionally, in Sweden rental apartments are becoming increasingly popular as a long-term housing alternative. Another explicit focus of the current debate relates to how the construction industry can become more efficient through digitalisation. These trends are relevant for all of Bonava's eight markets, and here we are able to contribute to driving progress. In this context, a close dialogue with municipalities and regional authorities is crucial. Bonava actively contributes on all of our markets by meeting the requirements on residential development resulting from increased urbanisation. As a major operator on the housing market, Bonava plays an important role in society, through speeding up the process towards sustainable urban development. Our experience from the different markets contributes to this process. Are there needs that Berlin's municipalities have in common with the municipality of Umeå in northern Sweden? Can lessons from the Finnish market be applied to Sweden in terms of maintaining a dialogue with local authorities? The answer is a resounding yes. Bonava focuses on building and nurturing a positive and open dialogue with representatives from municipalities and other industry operators to optimise the conditions for succeeding with our vision.





Strategy and objectives

Strategy and objectives

Bonava's strategy is based on our experience that the similarities between different markets are strong enough for us to benefit from operating as a single company. Based on this foundation, Bonava can become northern Europe's cost-leading supplier of affordable homes.

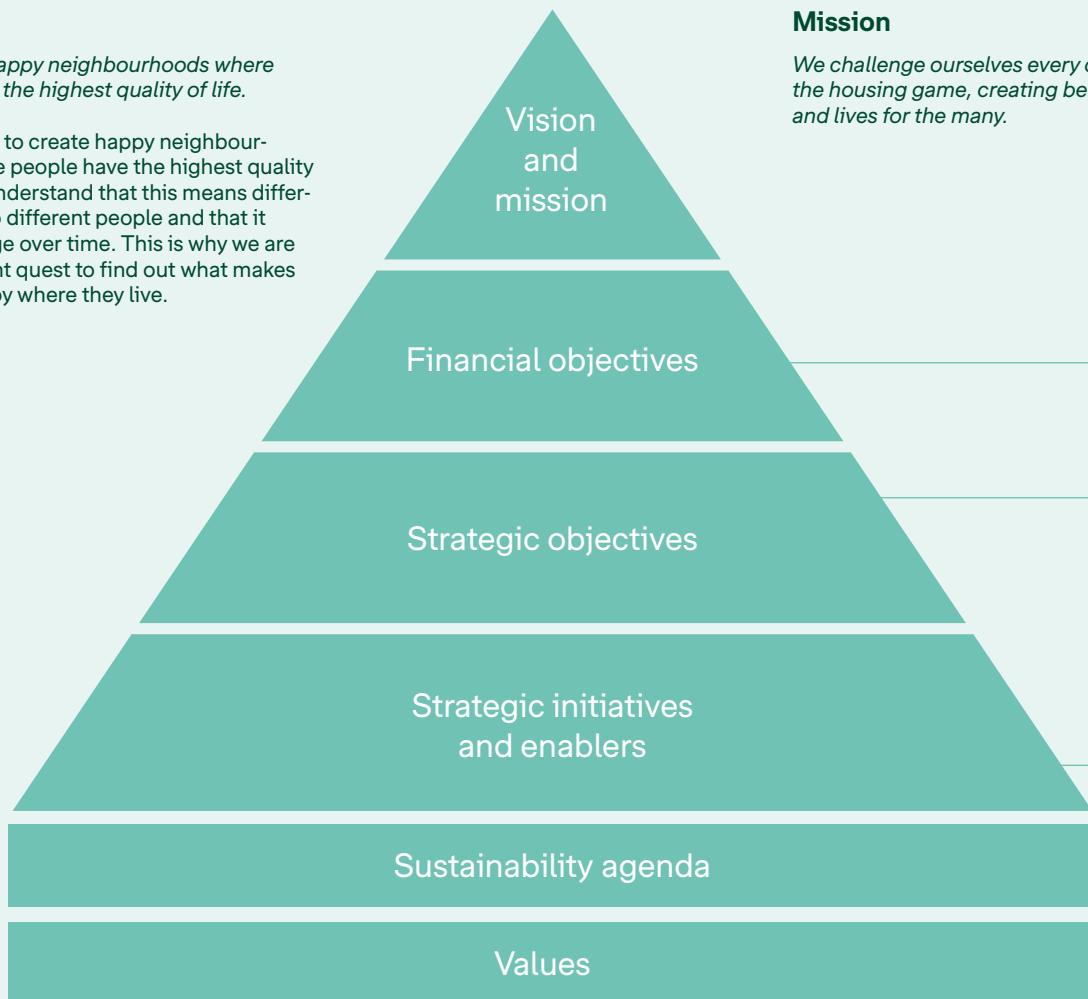
Vision

We create happy neighbourhoods where people have the highest quality of life.

Our vision is to create happy neighbourhoods where people have the highest quality of life. We understand that this means different things to different people and that it might change over time. This is why we are on a constant quest to find out what makes people happy where they live.

Mission

We challenge ourselves every day to change the housing game, creating better homes and lives for the many.



"We challenge ourselves every day to change the housing game, creating better homes and lives for the many."

Bonava's strategy is based on our experience that the similarities between different markets are strong enough for us to benefit from operating as a single company, with a broad geographical presence and shared processes. Simultaneously, residential development is a local business in that neither customers nor products are mobile.

Additionally, municipalities and local authorities play a central role as they formulate policies and regulations, as well as stipulations governing the planning process, and grant permits.

This means that many industry operators are local or regional. Nevertheless, many of the characteristics of residential develop-

ment are the same across international borders. Studies show that customer needs are largely the same regardless of country. This is the foundation of Bonava's strategy and the initiatives that will be implemented in the current strategy period until 2020.

Financial objectives and dividend policy



Return on capital employed

Bonava should generate good returns on invested capital with retained financial stability. Return on capital employed should be 10–15 per cent.

Equity/assets ratio

To ensure that returns are not achieved as a result of financial risk-taking, the minimum equity/assets ratio should be 30 per cent.

Dividend policy

Bonava's dividend policy is for a minimum of 40 per cent of consolidated profit for the year after tax to be distributed to shareholders. This policy aims to provide a good dividend yield while simultaneously creating potential to invest in the business, generating growth with retained financial stability.

Strategic objectives

Bonava's strategic objective is to be the leading housing developer of affordable homes in northern Europe. A cost-efficient housing developer across its geographical markets, with the most diversified project portfolio in terms of geographical spread, tenure type and housing type.

Values

Bonava's operations are founded on the following values:

- Customer focus
- Passion
- Delivering excellence
- Friendly
- Brave
- Reliable

→ Read more about Bonava's values on page 55.

Sustainability

The company's sustainability agenda and long-term sustainability objectives provide the conditions for the success of our strategy, delivering on our financial goals and living up to Bonava's core values.

Bonava has overall sustainability targets, linked to four focus areas:

- Happy neighbourhoods for the many
- Protecting our planet
- Passionate workplace
- Reliable business

→ Read more about Bonava's sustainability work on page 22.

Strategic initiatives

To fulfil its vision and mission, Bonava implements several strategic initiatives. With our strategic initiatives, we aim to:

- Develop a differentiated brand and offering based on survey-driven customer insights.
- Increase Bonava's returns by consolidating markets and growth in Germany.
- Improve efficiency by controlling and digitalising the design and production process.
- Reduce costs by increasing economies of scale from group-wide procurement.

To fulfil the strategic objectives as efficiently as possible, Bonava is using an appropriate operating model, shared processes and systems, as well as emphasising company culture and employees.

Strategic objectives

Bonava's strategic objective is to be the leading housing developer of affordable homes in northern Europe.

The leading developer of affordable homes

Bonava generates competitive advantages by learning from experience on different geographical markets and optimising operations accordingly. Bonava is a cost leader, which means that it is also the market leader in the affordable segment on some markets. The aim is to establish group-wide processes and platforms for cost leadership so that Bonava can become the market leader on all markets where it operates.

The four main housing market segments are Affordable, Core, High-end and Exclusive. Bonava operates in the first three product segments with a particular focus on affordable homes.

The affordable segment is attractive and is consistent with Bonava's mission to create better homes and lives for the many. There is considerable demand for housing on the markets where Bonava is active, and projects in the affordable segment tend to be more capital-efficient because the planning process is shorter. Bonava's objective for the strategy period 2020 is that 50 per cent of homes in production should be categorised as affordable. This allows Bonava to contribute to a sustainable housing market. Of all production starts in 2018, 61 per cent (40) were classified as affordable.

Stand-out brand

The residential development market has limited differentiation and low brand loyalty. This is particularly evident in the affordable and core segments. As a relatively new brand, Bonava's objective is to increase brand awareness to build confidence and preference. Our ambition is to create unique value throughout the customer experience, from communication to delivery. This contributes to increased differentiation and facilitates becoming the leading residential developer in northern Europe.

Cost leadership in northern Europe

The housing development market is fragmented and the opportunity for broad-based cost leadership has historically been limited. Bonava chooses to operate on markets in northern Europe where similarities enable economies of scale in areas such as branding and procurement.

Bonava is the cost leader on the German market, which enables us to acquire and develop land that competitors struggle to make profitable. This has made Bonava the market leader in the affordable segment, where high capital turnover in the affordable segment in Germany and short lead times benefit the company.

Bonava's German building system is based on internal, centralized design and production. The company continuously improves this method, which is the foundation for Bonava's strong position on the German market. Knowledge transfer from Germany has contributed to positive progress in Estonia and Latvia, where Bonava is now the cost leader.

Bonava was previously part of the NCC Group, and the company's Nordic operations have historically been entirely dependent on NCC as a contractor. In recent years, Bonava has established internal resources for production, design and procurement with the objective of independently controlling the entire value chain from land acquisition to hand-over of properties. In Sweden, Bonava has created an in-house design studio over the past year, ensuring internal control of the design process. Production is increasingly based on shared contracting, which improves cost efficiency.

Diversified project portfolio

Bonava strives for a diversified project portfolio in terms of geographical spread, tenure and product type. Our geographical spread over 23 regions in eight countries means that we can meet local variations in demand by investing in the markets that generate the best returns. Bonava continuously monitors and evaluates markets to ensure that it is active on the markets that are most attractive to the company's long-term business prospects.

The German housing market is large, stable and has qualities that are attractive to Bonava. The fairly short building permit process, and potential for part-payments during the production phase are the foundation of a capital-efficient delivery model. Bonava's objective is to grow on the German market, and accordingly, Bonava has continuously increased the number of building rights in

Germany. Focusing on growth on specific markets may imply that the company's presence on other markets is deprioritised or phased out completely.

Offering to consumers and investors

Bonava has a diversified and balanced portfolio that generates a low risk profile. The core business is to sell and deliver homes and neighbourhoods to consumers. Meanwhile, projects targeting investors are an interesting and attractive complement, as this improves the overall risk and cash flow profile.

Bonava's objective is for investor transactions to constitute a third of business over time. In 2018, Bonava completed deals on its largest markets and investor transactions represented 35 per cent of the number of homes sold. Bonava also completed its first investor deal in the Baltics and has now signed investor deals on all its markets.

Product mix

Bonava's offering covers multi-family housing projects as well as single-family homes. Our available land reserves often determine the type of products we decide to focus on. A good product mix in a project creates the opportunity to generate unique customer value by building vibrant and happy neighbourhoods, but also improves the financial risk profile as margins and sales rates vary. A broad product mix ensures access to more investment targets, while the company also improves its prospects of becoming a long-term credible partner for municipalities.

Bonava's single-family home projects in Sweden have been efficiently managed and are attractive on the market. Accordingly, Bonava plans to increase its production of Swedish single-family homes during the strategy period. During the year, Bonava has continued to improve the production system for single-family homes in the Swedish organisation, and is now able to offer solutions in the affordable segment.

A MODULARIZED KITCHEN OFFERING

The kitchen is the heart of the home, and in 2017–2018 the Bonava Happy Neighbourhood Tool has collected and charted insights into what our customers value in terms of kitchen design and features. On the basis of these customer insights, we have developed an entirely new kitchen concept. We have gone from presenting customers with a kitchen catalogue with thousands of items to choose from, to a modularized kitchen offer-

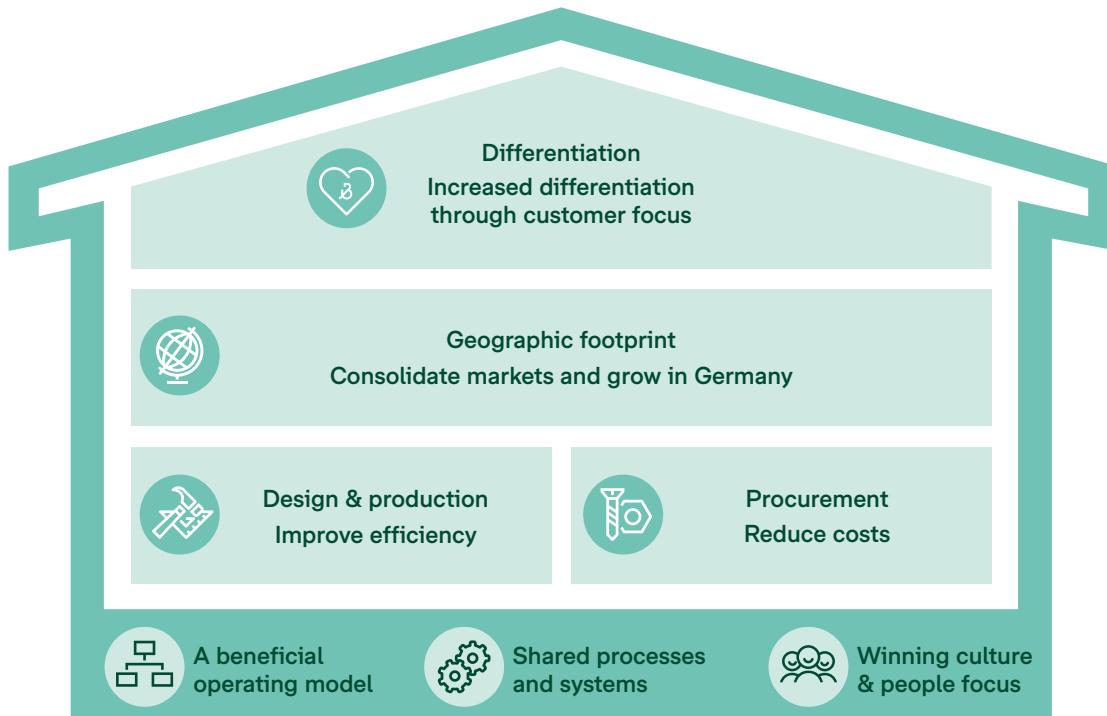
ing. On the basis of the customer preferences collated, we have produced kitchen modules with a range of possible add-on packages. The new concept means that we can offer affordable homes that give customers what they want, without compromising on quality. This makes the decision-making process simpler and more enjoyable for our customers, while we are able to streamline the entire process of kitchen procurement, handling and fitting.

We started offering these kitchens in Sweden and Finland in 2018, and we have also introduced the approach on other markets. In Germany, we are carrying out a unique pilot project where we offer modularized kitchen solutions to customers who usually choose their own kitchen supplier after moving in. The objective is to ultimately offer the same kitchen design process across all Bonava's markets.

"With our new concept, we can offer affordable homes that give customers what they want, without compromising on quality."



Strategic initiatives



Differentiation – Develop a differentiated brand and offering based on survey-driven customer insights

We strive to ensure that customers with Bonava brand awareness also consider buying a Bonava home. The aim is to create a consistent and proactive customer journey, and build brand equity through innovative products and clear segmentation. Customer awareness of the Bonava brand increased in the first few years as a new brand, which is

measured in our annual brand awareness survey on all markets.

Customer insights and data are crucial to distinguishing Bonava on the market in a way that is relevant to our customers. Our Happy Quest survey is a unique tool that charts what makes people happy and feel they belong in a neighbourhood. The survey and Bonava's long experience and expertise within housing development has formed the foundation of Bonava's Happy Neighbourhood tool. By charting what our target

groups value, we are able to conceptualise our offering, which ensures a simpler and more pleasant decision-making process for our customers, while also streamlining the process of procurement, handling and fitting. In 2018, we implemented this method for our kitchens, and we are currently in the process of conceptualising our bathroom offering. This type of modularisation allows us to offer affordable homes without compromising quality.



Geographic footprint – Increase efficiency by consolidating markets and grow in Germany

Historically, Bonava's earnings and capital efficiency have varied between regions and projects on our eight markets. These differences are partly due to varying market dynamics and structures, and partly to our strategic positioning on local markets.

The focus is on growing the German market and concentrating operations on fewer regions in the Nordics. Bonava is monitoring progress on regional markets and progressively adjusting its local geographical presence.

In line with our strategy, Bonava continued to increase the number of building rights in Germany. From 2013 to the end of 2018 we

increased the number of building rights in Germany by 118 per cent compared to a decrease in Sweden by 34 per cent. The number of residential units in production also increased in Germany, reaching 4,636 at the end of 2018 compared to 3,584 at the end of 2017.



Design & production – Increase efficiency by controlling and digitalising the design – and production process

The organisational structure of Bonava's design and production resources differs between countries. In Germany, Bonava uses vertically integrated design functions and production staff, while the Nordic operations have historically had limited in-house capacity. The objective is to establish in-house production and design functions on all Bonava's markets, with the aim of optimising the design process for our needs and increasing industrialisation. Using our experiences from the German operations, we create the right conditions for increased productivity and decreased costs and lead

times. In 2018, Bonava focused on improving Sweden's and Finland's design functions. In Stockholm, the number of employees in the design studio increased from 15 to 30. During the year, sales started for Bonava's first project in Sweden where control of the entire project was kept in-house, from design to planning and production. More than half of Bonava's future projects in Sweden currently in the early phase are under Bonava's internal control.

An important part of implementing an efficient design and production process is related to digitalising information flows. By using VDC (Virtual Design and Construction) Bonava creates the right conditions for high efficiency gains as this reduces the manual work required and improves the

information models that connect suppliers, architects and customers. VDC also optimises Bonava's production process by supporting circular production and reduced environmental impact. During 2018, we have focused on developing and establishing digital capabilities. A number of new support systems have been established, from planning and projections to procurement and production. This includes the ability to convert 3D-models to cost calculations in a highly automated process. We have reduced the time required for project design from weeks to hours. Furthermore, we have set up a knowledge hub for digital visualisation in Latvia, which facilitated the visualisation of a local blueprint in half the time previously required.



Procurement – Reduce costs by increased economies of scale from group-wide procurement

Bonava's procurement resources vary between markets in terms of competence and capacity. There's significant potential to coordinate procurement activities within Bonava, and we have established a central procurement function with the objective of generating cost savings through economies of scale. Bonava has actively worked with structuring our work into different categories with the aim of finding optimal suppliers in each category. During 2018, Bonava signed new contracts with suppliers of kitchen and home appliances, including with Bosch Siemens (global contract), IKEA (Swedish market only) and Puustelli (Finnish market only).



Expedient operating model

To realise strategic initiatives and achieve full effect, Bonava's markets need to be coordinated through more efficient internal organisational structures. To realise synergies, we have created a range of forums for our strategic initiatives that ensure coordination and efficiency across our various markets.



Shared processes and systems

Creating an independent Bonava required substantial investments in new systems and processes in our core and support functions. These are now in place and ensure that Bonava can implement an expedient system landscape that will improve the efficiency of our overall strategic initiatives.



Winning culture and people focus

People are the focus of everything Bonava does, and the foundation of the company's external and internal strategy. To achieve sustainable success, it is important to recruit, retain and develop our people. Bonava takes a structured approach to continuously strengthening its corporate culture and sharpening its people focus.

Sustainability agenda

About the sustainability agenda

The world is facing major challenges. Bonava's sustainability agenda outlines how we can become part of the solution and participate in the transition that is needed to achieve socially, environmentally and economically sustainable development.

Bonava's sustainability agenda provides the foundation for the long-term success of our strategic focus, and our ability to live up to our values, by contributing to the global sustainable development goals and applying the precautionary principle.

Our sustainability work focuses on four key areas:

- Happy neighbourhoods for the many
- Protecting our planet
- Passionate workplace
- Reliable business

The sustainability agenda also supports a number of external commitments: Bonava should deliver on the principles for human rights, labour conditions, the environment and anti-corruption under UN Global Compact, contribute to the UN's global sustainable development goals, follow OECD

guidelines for multinational companies and publish reports in accordance with the Global Reporting Initiative (GRI).

Bonava's sustainability agenda has been formulated on the basis of extensive mapping of the company's key sustainability aspects.

→ Read more about the mapping process on page 131–133.



Bonava's sustainability agenda

Supporting framework



Focus areas and UN's global Sustainable Development Goals

Happy neighbourhoods for the many	Protecting our planet
<ul style="list-style-type: none"> • Affordable housing units • Happy neighbourhoods • Community development for a sense of belonging 	<ul style="list-style-type: none"> • Circular production model • Sustainable use of land • Efficient buildings • Sustainable and non-hazardous materials
 <p>11 Sustainable cities and communities</p>	  <p>12 13 Responsible consumption and production Climate action</p>
 <p>8 Decent work and economic growth</p>	 <p>17 Partnerships for the goals</p>

Happy neighbourhoods for the many



Group objective: Happy neighbourhoods for the many

By 2020, 50 per cent of Bonava's production starts of housing units shall be in the affordable segment.

Significant events in 2018

- Increased share of affordable housing units in production
- Space-efficient terraced townhouses in Germany
- Happy neighbourhood tool

Society and demographic conditions are continuously changing, which impacts the types of homes and neighbourhoods that need to be developed. Historically, there has been an undersupply of new housing on Bonava's geographical markets, which increases the demand for affordable housing units at a pace with growing urbanisation. Bonava takes responsibility for developing well-functioning residential areas, cities and societies. The opportunity to contribute to this progress is a major business opportunity for Bonava, and forms the foundation of our strategy and sustainability work.

Affordable housing units

To make a long-term contribution to well-functioning societies, it is critical that more affordable homes are developed. This means that Bonava has adopted a target of 50 per cent affordable housing units of all production starts by the end of the strategic period 2020.

According to Bonava's definition, affordable homes are those that people with disposable income in the median bracket,

on each respective geographical market, can afford to buy and live in. Examples of Bonava's affordable housing units include extremely space-efficient terraced houses in Germany, that offer a very cost-efficient opportunity to live in a house over only 80 m².

Of the production starts during the year, 61 per cent belonged to the affordable segment, a positive change on previous years. Bonava's target of 50 per cent production starts in the affordable housing segment by 2020 stands.

Affordable housing units	2018	2017
Production starts in the affordable housing segment, %	61	40

→ See page 134 for more information.

Areas for happy neighbourhoods

Bonava develops residential areas with the right conditions for creating happy neighbourhoods. The location and design of an area impacts people's behaviour, which has



Examples of Bonava's affordable housing units include extremely space-efficient terraced houses in Germany, that offer a very cost-efficient opportunity to own and live in a 80 m² house.

sustainability effects, both socially and environmentally. Bonava's Happy Quest survey charts what makes people feel happy where they live and provides us with important customer insights, such as the optimal design of neighbourhoods. For example, lush and green areas, sustainable transport and opportunities for an active lifestyle are important factors for the well-being of residents.

Community development for a sense of belonging

A sense of belonging in a neighbourhood has long-term implications for society, not least for social sustainability and well-being.

Bonava's Happy Quest survey measures factors such as the impact of having an input on the development of a neighbourhood on the residents' sense of belonging. We can conclude that the impact varies for different categories of people depending on lifestyle. We adjust our processes on the basis of our dialogue with residents to optimize the engagement of future residents and neighbours on the basis of these insights.

A factor of major significance for creating a sense of belonging is to provide opportunities for interaction between the members of the community. To achieve this, we arrange events that contribute to future neighbours getting to know each other, and provide platforms for building communities before neighbourhoods have been completed.

Our customer service organisation has an important role to play in this, in addition to supporting customers through the purchase process and after moving in. It is important to us that we care for our customers throughout the entire purchasing process. Customer services also closes the circle for our quality work by collating customer feedback that can be reported to the design and production phase in order to ensure continuous improvement so that we can develop ever-better homes and neighbourhoods.

During the year, Bonava developed the Happy Neighbourhood Tool, a structured method for ensuring social sustainability in all our projects.

→ Read more about the Happy Neighbourhood Tool and our customer satisfaction surveys under Customer and offering on page 34.

→ Read more about Bonava's key measures and results in Happy neighbourhoods for the many on page 134.



A factor of major significance for creating a sense of belonging is to provide spaces for interaction between the members of the community. To achieve this, we arrange events that contribute to future neighbours getting to know each other, and provide platforms for building communities before neighbourhoods have been completed.

Protecting our planet



Group objective: Protecting our planet
By 2020 Bonava shall fight climate change through Science Based Targets Initiative.

By 2020, 50 per cent of Bonava's production starts of housing units on markets with Nordic Swan eco-labelling or Green Zoom certification shall be subject to environmental certification or labelling.

Significant events in 2018

- Improved grade in the Carbon Disclosure Project
- Mapping process for Science Based Targets Initiative
- New basic license for Nordic Swan eco-labelling for all projects in Sweden

Our natural resources are limited and we are already seeing the effects of global climate change caused by human activity. At a pace with an ageing population, population growth and increased urbanisation, cities and societies need to become more sustainable. For us as housing developers, this largely relates to the use of resources, land and emissions. To achieve long-term success as housing developers, we need to be part of the solution in order to minimize the environmental impact.

Circular production model

Property construction has a significant environmental impact, particularly through the use of construction materials. A circular production model requires optimised material streams, and we seek to minimise the use of new raw materials in our production with the ultimate aim of achieving a closed-loop solution.

Converging on the vision of a circular model is critical not only for reducing Bonava's environmental impact, but also to its ability to develop housing in the affordable segment. Our forecast shows that the cost of materials, especially where supply is limited will increase over time, as well as costs of emissions and waste management. Bonava's ongoing digitalisation is the key to future success, including achieving a circular production model by providing a platform for improved control and opportunities to optimise the use of materials and resources.

→ Read more about Bonava's digitalisation process on page 21.

At the end of the period, year 2020, Bonava's agreed objectives for reducing climate change should be approved under the international Science Based Targets Initiative. The initiative helps companies formulate comprehensive objectives and take full responsibility for their share of the world's need to reduce greenhouse gas emissions to keep global warming below two degrees. In 2018, we have extensively charted Bonava's direct and indirect climate impact, which will form the basis for a framework for goal setting and follow-up. Our objectives will include both direct and indirect climate impact. Bonava's climate impact is largely indirect and mainly relates to production-related purchasing and the future energy supply for the housing units we develop.

An important step in this progress includes Bonava's reporting of its ongoing climate work through the Carbon Disclosure Project (CDP). Bonava's CDP score increased by a full point, to a C, in 2018.

Sustainable use of land

Using land more sustainably is becoming increasingly important due to its significance for climate change resilience, and supporting biodiversity locally. Where needed, Bonava will decontaminate land and render it suitable for building homes. Where Bonava acquires unexploited land, we design the projects to protect biological diversity and other ecological values.



Collaboration with wildlife management association in Langen, Germany for the relocation of hedgehogs to new habitats in a more protected environment.

"Hedgehogs are classified as an endangered species for multiple reasons. We are delighted that the city of Langen and residential property developer Bonava supported our initiative to relocate the hedgehogs to new habitats to protect this endangered species," commented Tanja Schäfer. Tanja is the founder of a local wildlife management association and the organiser of the project relating to relocating all hedgehogs in an area covering 280,000 m² to three new habitats where they can continue to live undisturbed.

Efficient buildings

Bonava focuses on developing optimally resource-efficient housing units with good energy performance and low water consumption. We seek to provide homes with better energy performance than the construction norm on each national market, as this creates the right conditions for reducing the energy requirement throughout the lifespan of the buildings, which has important implications for our customers' finances and environmental impact.

The energy standards on Bonava's markets have gradually become more stringent. It is becoming increasingly important to base calculations on the entire lifespan of buildings and not overlook impact from materials used and production when optimising energy performance from a climate perspective. The definitions and energy performance standards vary between national markets, which complicates comparisons of energy intensity between buildings located in different countries. Therefore Bonava has set separate targets for each national market. Adapting Bonava's building systems to national environmental standards and accreditation, also creates potential for more efficient utilisation of water resources.

Sustainable and non-hazardous materials

Bonava defines sustainable and non-hazardous materials as materials that do the least harm to the external environment, are non-hazardous to the health of the people that handle them, and do not have a negative impact on the indoor environment. New variations of materials and components

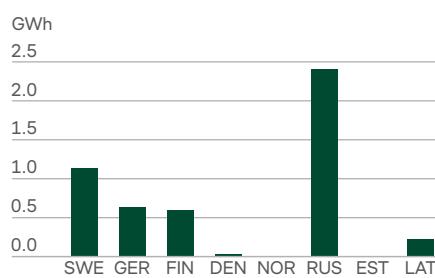
are continuously being developed, and legislation does not always keep up. Environmental certification and labelling of buildings is an effective tool for ensuring that the precautionary principle is applied and that sustainable and non-hazardous materials are used. Bonava adopts environmental labelling and certification either directly, or as a benchmark for internal processes and requirements.

Nordic Swan eco-labelling is Bonava's first choice. Nordic Swan eco-labelling is only applicable to buildings in the Nordics. Bonava applies Nordic Swan eco-labelling requirements in all tendering at Group level and adds further suitable local certifications where relevant.

Bonava applies Nordic Swan eco-labelling to all new production in Sweden, and is gradually transitioning away from Sweden Green Building certification. In 2018, Bonava verified that its manufacture of single-family and multi-family houses complies with the latest Nordic Swan requirements for sustainable housing, and was awarded a new basic license that covers Bonava's entire operations. The Denmark-Norway business area also includes Nordic Swan eco-labelled housing units. On this market, project-specific licenses provide Nordic Swan eco-labelling for the relevant buildings. In St. Petersburg, all new projects are covered by Russian Green Zoom certification. Green Zoom is not applicable outside Russia.

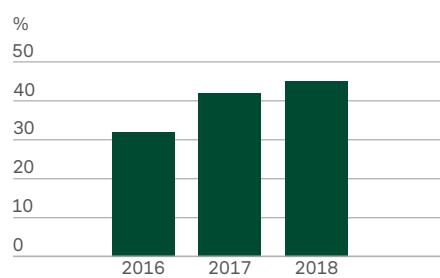
→ Read more about Bonava's key measures and results under [Protecting our planet](#) on page 135-137.

Energy intensity, reduced energy requirement per country, 2018



Reduced energy requirement per operational year for production starts in the year, compared to applicable requirements for new production.

Proportion of eco-labelled housing units, 2016-2018



Proportion of eco-labelled production starts in the Nordics and St. Petersburg.



Nordic Swan eco-labelling

Homes with Nordic Swan eco-labelling are cosy, economical and climate smart.

Nordic Swan eco-labelling considers the environment throughout the production process – from raw materials to finished home. The production process for Bonava's Nordic Swan eco-labelled properties is closely monitored to ensure no usage or presence of environmentally hazardous, carcinogenic or toxic substances. Wooden materials used in homes are checked to ensure they are not derived from protected forests or genetically modified plants.

Nordic Swan eco-labelling ensures energy-efficient solutions, as well as soundproofed homes and good ventilation for a happy and peaceful indoor environment. Nordic Swan eco-labelling was introduced in 1989, with the possibility of applying the standard to residential properties in the Nordics from 2009. The criteria were updated and became more stringent in 2017.

Nordic Swan eco-labelling is the Nordics' official environmental certification and a non-profit organisation. The objective is to provide Nordic consumers with a tool for choosing products that fulfil stringent environmental requirements.

Passionate workplace



Group objective: Passionate workplace

The long term goal of Zero-Harm means that no person, whether an employee, subcontractor, member of the public or customer should be harmed or become ill because of Bonava's workplaces.

Significant events in 2018

- Extended Passionate workplace-survey
- Implementation of group-wide HSEQ regulations across all construction sites
- Awarded "Good workplace 2018" in Estonia



Non-physical HSEQ risks, such as stress and other psychosocial risks, was the theme of Bonava's 2018 Awareness Day. The Awareness Day is the result of Bonava's focus on improving health and safety. Alongside employees and contractors, Bonava identified improvements that strengthen the health and safety culture in the company's workplaces.

Bonava actively seeks to improve its employees' well-being and corporate culture. Bonava creates opportunities for excellent performance and results, and potential for training and improvements. We take preventative measures to ensure that no injuries or illnesses are caused by Bonava's workplaces. It is important to Bonava to provide a welcoming and inclusive working environment.

Labour conditions that support our values

Because Bonava operates on eight different markets it is particularly important to actively contribute to strengthening our employees and corporate culture. In order for every individual at Bonava to have the opportunity to grow, an environment that encourages positive performance and achievements is needed, as well as opportunities to learn and develop under great leadership. The annual Passionate workplace employee survey follows this up throughout the Group.

This year, the extensive Passionate workplace survey was supplemented with a six-month follow-up that further consolidated our insights into our employee's well-being and shared goals. The 2018 survey indicates that efforts made to reduce stress and excessive workloads have started to pay off.

The 2018 engagement index outperformed the benchmark by more than last year.

→ Read more about our work to ensure working conditions that support our values on page 54, Working at Bonava.

Health and safety

Construction work is connected with risks and requires preventative action and a strong corporate culture in order to reduce these. Bonava has embraced a long-term objective for health and safety: Zero Harm. Zero Harm means that no one, neither customers, contractors or members of the public should be injured or fall ill because of Bonava's workplaces. The work to date has started to yield results, but we won't be satisfied until Zero Harm is fully achieved. To succeed, over the years Bonava has gradually expanded its organisation and HSEQ processes, provided risk assessment training to staff, investigated incidents, carried out crisis management exercises, introduced communication tools and encouraged a proactive safety culture.

Personnel turnover¹⁾

	Headcount, 2018	Proportion of total headcount, 2018
New employees	351	16.9%
Terminations	176	8.5%

¹⁾ Does not include defined-period temporary employment. Read more about our definitions on page 139.

Health and safety

	Employees			Total, employees and contractors ⁴⁾		
	2018	2017	2016	2018	2017	2016
Sickness absenteeism, % ¹⁾	4.6	4.0	5.0	N/A	N/A	N/A
Work-related injuries ²⁾	15	11	19	52	49	N/A
Work-related injuries, frequency ³⁾	4.6	4.0	7.0	6.3	6.8	N/A
Fatalities, work-related	0	0	0	0	0	0

¹⁾ Number of sickness absenteeism hours in relation to total working hours.

²⁾ Work-related injuries resulting in sickness absenteeism.

³⁾ Number of work-related injuries per million hours worked.

⁴⁾ Contractor employees subject to Bonava site management.

N/A = not available



Awarded "Good workplace 2018" in Estonia. Bonava's HSEQ manager is awarded "Good workplace 2018" by the Minister of Health and Labour.

During the year, we have focused on the implementation and follow-up of our clearly communicated health and safety regulations, which apply to all those present on our building sites.

Bonava applies a group-wide Zero Harm operational plan. The plan spans the period until 2020 and includes targets, key indicators, measures and activities aimed at achieving Zero Harm. The detailed goals include HSEQ factors such as:

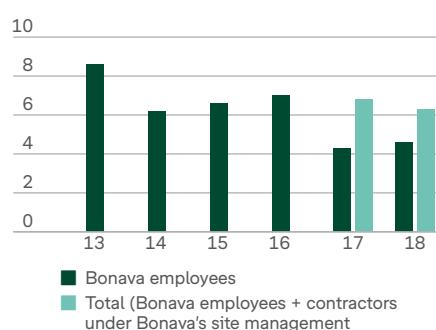
- leadership and corporate culture that create business value
- well-being and a positive work-life balance
- streamlined processes and systems
- involving construction subcontractors.

Each business unit breaks down the detailed goals into activities and partial goals to be achieved during the year. In 2018, 99 per cent (83) of the objectives were reached. Outstanding activities will be implemented in 2019. The Board and management team evaluate progress on a quarterly basis, thereby complying with the aggregate Zero Harm plan and evaluating identifiable risks. Serious incidents and accidents are followed up at each Board meeting. Initially, the work aimed at improving health and safety means that reporting will capture more risk observations and minor incidents compared to the customary reporting on Bonava's markets. However, this is crucial for achieving change and developing a strong safety culture. Hazards should be dealt with before a potential injury occurs.

The Good Workplace prize is awarded to organisations for outstanding HSEQ work. The Labour Inspectorate assessed the safety of Bonava's workplaces, how we involve our

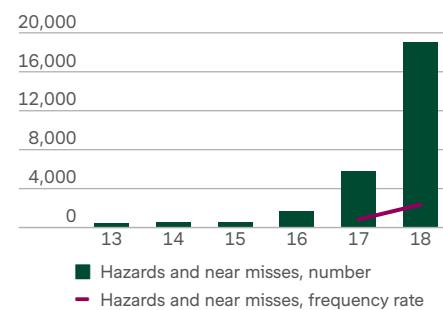
employees in the HSEQ work and the measures we take to encourage a healthy lifestyle. The prize was awarded by the Minister of Health and Labour in Estonia, who emphasized Bonava's systematic HSEQ work in our workplaces and commended Bonava for its innovative methods and solutions.

Work-related injuries frequency



Bonava's intensive work aimed at decreasing the number of accidents in the workplaces continues to yield results. Bonava's overall injury rate, including contractors under Bonava's site management on all eight markets, is well below the average for the construction industry in Sweden, despite the fact that Sweden's low injury rates usually stand out in an international comparison. The industry average work injury frequency for the construction industry in Sweden is 10.2 work injuries leading to sick leave per million hours worked, or 11.3 work injuries/1,000 people (source: Bl and Luleå University of Technology, 2017). The occupational injury rate for Bonava's employees is well below the industry average. For a company in the construction industry, Bonava has a large share of office employees, which partly explains the low occupational injury rate for its employees.

Risks and near-misses



The systematic task of identifying and investigating risks and near-misses (incidents that could have caused an accident) in order to improve routines and working practices to avoid accidents is key to creating safer workplaces. The fact that many risks and near misses are reported is therefore mainly positive, and completely in line with Bonava's plan for improving health and safety. To normalize the figures, as the business grows, frequency per million hours worked has been included from 2017.

Diversity

Bonava endeavours to be a welcoming workplace that features diversity with a focus on collaboration. To walk our talk, it is critical that the actions of all Bonava staff reflect the company's values. This includes mutual respect. The aim is to ensure Bonava's access to a broad recruitment base, and the employee base should reflect the general population. This makes Bonava's mission simpler – it is about creating better homes and lives for the many. Bonava's initiatives to increase diversity include placements for students and recent immigrants, cooperating with organisations to increase these contacts and conscious competence-based recruitment.

Bonava's Code of Conduct and HR-policy underline that we stand for equal opportu-

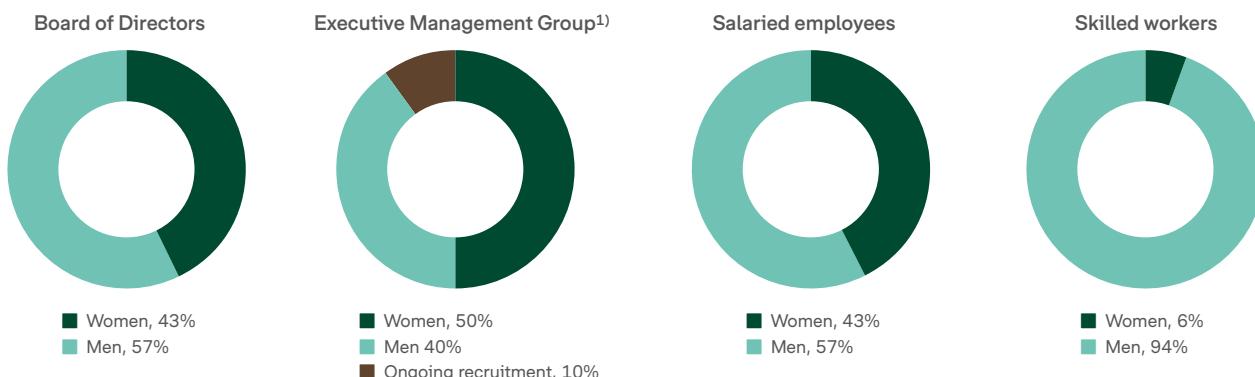
nities regardless of gender, transgender identity or expression, ethnic origin, religion or other beliefs, disability, sexual orientation and age. During the year, Bonava intensified its activities aimed at raising awareness of inclusiveness in the workplace, and that all forms of harassment and discrimination are unacceptable. This was partly due to the results of last year's Passionate workplace survey, which indicated that not all employees felt that Bonava provides equal opportunities and obligations. The employee survey for 2018 confirmed that our efforts have paid off, with a bigger majority of Bonava staff now indicating that Bonava provides equal opportunities and obligations. However, 5 per cent of employees responded that they still don't feel that this is the case. The main measures

requested included actively pursuing increased diversity, particularly with regard to gender distribution for skilled workers and in management. None of the responses indicated that discrimination or harassment had taken place. In 2018, Bonava prepared the restructuring of the Group's management team, and there was an equal distribution of women and men at the start of 2019.

→ Read more about Bonava's initiatives aimed at increased diversity in Working at Bonava on page 54.

→ Read more about Bonava's key measures and results under Passionate workplace on page 138–140.

Distribution, women and men



Number of employees per professional category, year end

Period	Total		Salaried employees				Skilled workers			
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Permanent	1,807	1,622	660	581	915	793	4	6	226	242
Temporary	201	119	41	33	64	47	15	7	81	32
Line consultants	69	47	45	36	24	11	0	0	0	0
Total	2,075	1,788	746	650	1,003	851	19	13	307	274

Long-term absent employees not included. For more information on definitions of number of employees in sustainability reporting, see page 138.

Reliable business



Group objective: Reliable business

Bonava shall publish annual Sustainability Reports in accordance with GRI's guidelines and report progress to UN Global Compact.

Significant events in 2018

- Communication drives regarding Bonava's Code of Conduct
- Adaptation of internal processes and systems ahead of GDPR
- Development of processes governing supplier demands and follow-up

Developing homes and neighbourhoods involves contact with a range of stakeholders such as customers and employees, but also public authorities, suppliers as well as shareholders and banks, who are particularly important. Bonava is dependent on the confidence of its stakeholders to operate on the market. Bonava's values are the starting point for all our interactions. Bonava openly declares its initiatives and results in sustainable business.

Compliance

Bonava's initiatives aimed at strengthening the corporate culture ensure that the right things are done in the right way. This includes compliance with legislation, regulations and principles. Bonava's internal regulations and processes are defined in the Code of Conduct, and in the company's policies and business management system. Bonava's Code of Conduct has been updated to clarify responsibilities in relation to Bonava's sustainability agenda and principles for human rights, fair labour conditions, environment and anti-corruption. Our Foundation is a program developed by Bonava to support compliance with the Code of Conduct. It contains guidelines that supports good decision-making in difficult situations, and each business unit has access to an advisor. Our Foundation is very important for Bonava's anti-corruption work, for example. Every member of staff needs to know what is expected of them while working at Bonava, and where advice can be found. Each business unit has ethical advisors with legal expertise and access to a forum that provides continuous support for employees, where questions regarding the behaviour required to live up to Bonava's Code of Conduct can be answered at all times. All Bonava's employees have completed online training regarding Our Foundation, which is included as a compulsory part of Bonava's onboarding process. During the year, selected groups of employees have received further training in Our Foundation by ethical advisors from each business unit and at Group level, in order to enable discussion and practical experience of handling ethical dilemmas.

We have also intensified our communication internally and to our suppliers with the aim of increasing awareness of Bonava's Code of Conduct, our whistleblower function and to encourage ethical discussion throughout Bonava. Bonava's Speak Up System, a whistleblower function, enables employees and individuals outside the company to report suspected breaches anonymously via the internet or by phone. We encourage all staff, external collaboration partners and suppliers to use the whistleblower function if something does not appear to be right. Raising the alarm about potential irregularities should be viewed as a way of helping the company, and anyone who does so has the express support of Bonava's top management. Our Foundation is being continuously developed.

Bonava's processes for internal control of risks and compliance are important for ensuring that precautionary and continuous improvement principles are followed. Bonava manages its financial and non-financial risks in an integrated process through a Risk Committee led by Bonava's Group Head of Risk and Compliance Control, which includes the CFO, Group Head of Finance and Business Control, General Counsel and Head of Sustainability. The Risk Committee repeats an annual cycle that involves all business units and central group functions to chart all materiality risks and subsequently evaluates Bonava's control functions with the aim of minimising risk. The General Data Protection Regulation (GDPR) came into force during the year, and governs Bonava's operations in the EU. Bonava started preparing for the introduction of GDPR in early 2017. Involving all business units and relevant Group functions ensured the smooth implementation of all the required measures.

→ Information about Bonava's most substantial risks and how they are managed is presented on page 67–69.

Responsible supply chain management

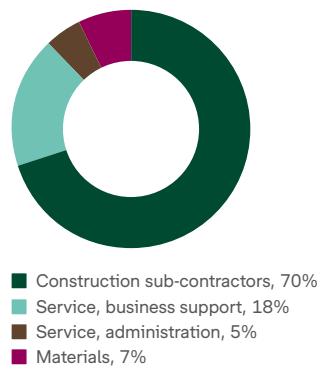
Bonava collaborates with some 14,000 suppliers. Bonava seeks to ensure long-term relationships and mutual learning in its relationships with suppliers.

Bonava applies group-wide requirements that all suppliers must meet to qualify as Bonava suppliers. To qualify, suppliers are required to carry out systematic environmental and HSEQ work and comply with the UN's Global Compact, as well as specific Bonava requirements regarding acceptable salary levels, working hours and paid holiday, responsibility for anti-corruption and tax payments, and meeting Bonava's demands regarding documentation and inspection. We are continuously developing our procurement processes and tools to sharpen our evaluation of our suppliers. Bonava's supplier requirements also encourage suppliers to raise the alarm directly with the company or through our whistleblower system SpeakUp if Bonava or any of its employees are thought to contravene the Code of Conduct.

Our suppliers can be divided into three overarching categories: construction sub-contractors, service providers and materials suppliers. The selection process for construction firms involves carefully reviewing potential partners' ability to understand and comply with our building systems and working methods on site, not in the least our HSEQ routines and requirements. We divide service providers into administrative services, such as suppliers of business travel or office services, and business support such

as marketing or sales-related services. Key factors for the selection of service providers includes the ability to live up to our fundamental supplier requirements and provide us with supporting documentation for evaluating and minimising our indirect sustainability impact. Service providers that will represent Bonava in their work, e.g. consultants, are of particular importance. The third supplier category refers to suppliers of materials. In addition to evaluating these operators at supplier level, in the same way that we review all Bonava suppliers, we also evaluate the quality and sustainability impact of products, because these ultimately form part of the buildings that comprise Bonava's housing units.

Distribution of Bonava's suppliers



Tax

Bonava contributes to society by paying taxes such as corporation tax, property tax/charges and transaction tax, VAT and employer's contributions. These tax revenues are crucial for social progress on the markets where Bonava operates, and ultimately facilitates the creation of happy neighbourhoods where people can live with the highest quality of life. This is why we view tax from a sustainability perspective.

These undertakings mean that Bonava:

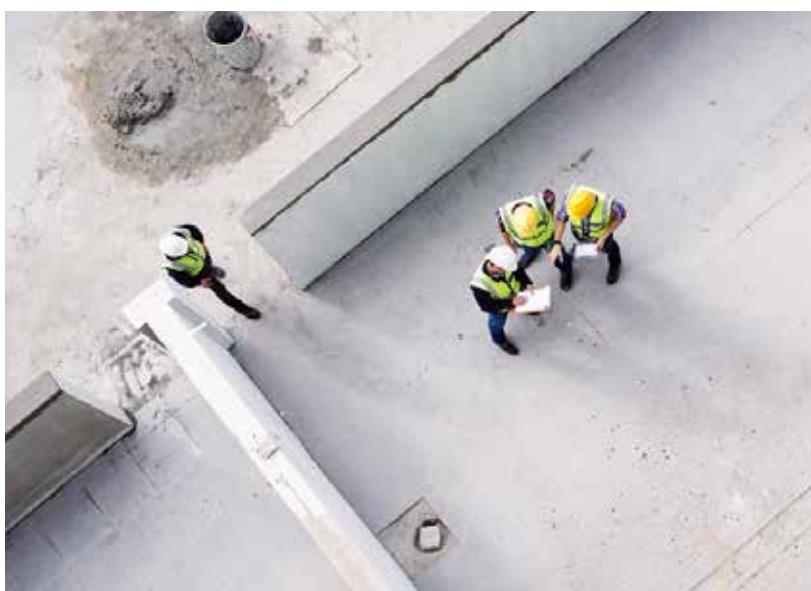
- Complies with applicable tax legislation in all countries where it operates
- Conducts itself in accordance with the OECD's transfer pricing guidelines
- Maintains open relationships with tax agencies in all countries where it operates
- Does not avoid taxation through artificial and aggressive tax schemes

→ We report both tax paid directly by Bonava and collected tax, see page 141.

Transparency

Bonava presents an annual Sustainability Report in accordance with the Global Reporting Initiative standard. During 2018, Bonava reported actions and results to the UN's Global Compact and to CDP. The GRI and UN Global Compact index on page 142 indicates where in the Annual Report the sustainability information can be found.

→ For reporting of Bonava's key measures relating to Reliable Business, see page 141.





Customer and offering

We create homes and neighbourhoods

Our customers are the starting point for everything we do. By working with customer insights, we can ensure that we fulfil our customers' expectations. This is the foundation for creating happy neighbourhoods where people have the highest quality of life.

We create homes and neighbourhoods

We create happy neighbourhoods where people feel they belong, thrive and want to spend their time. A home is so much more than the house you live in, it is also about the people and places that surround it. By continuously interacting with our customers and target groups, we learn what is important in people's homes and neighbourhoods, and what we can do to become more relevant and attractive. Creating safe and vibrant neighbourhoods that succeed in the long term is the most important thing to us.

We provide multi-family housing and single-family housing

Bonava produces multi-family homes, semi-detached houses and detached single-family homes. The development process is conducted in close partnership with consumers, investors, municipalities, regional authorities and other stakeholders. The offering is diversified in terms of customer and product categories, which enhances the potential for value creation and reduces risk.

Consumer focus

A majority of Bonava's homes and neighbourhoods are created for direct sale to consumers in the form of rental apartments, terraced houses and detached single-family homes. The homes are sold as tenant-owner homes and condominiums, or as housing

companies which is the Finnish equivalent. Around 70 per cent of the homes Bonava sold in 2018 were sold to consumers. Bonava initiates the marketing and sales of the homes and neighbourhoods in parallel with project development. Consumers are given the opportunity to view their future home through digital visualisation software and other tools. This ensures Bonava attracts substantial interest prior to production start, although the degree of interest required for production to start varies between markets. Bonava's in-house sales function handles sales to consumers to varying extents depending on markets. In St. Petersburg, Estonia and Latvia, sales are solely made in-house, whilst in Sweden, Finland, Denmark and Norway external real estate brokers are also used. Germany uses external real estate brokers in combination with the in-house sales department.

High ambitions for investor business

Investors include pension funds, insurance companies, real estate funds and private or public sector landlords. Bonava usually sells housing units to investors before construction starts. In practice, this means that investors often pay the purchase price in stages as each project phase is completed. This reduces capital tied-up for Bonava compared to sales to consumers. In 2018, investors represented approximately 30 per

cent of the housing units sold. Bonava is responsible for project development, and in some cases also provides rent guarantees to investors. On several markets Bonava collaborates closely with a number of investors. The ambition is that the share of housing transactions with investors will also increase on other markets. We have now completed investor transactions on all our markets.

Continuous quest for new insights

Bonava's vision is to create happy neighbourhoods where people have the highest quality of life. To fulfil this vision, it is crucial to genuinely understand the needs and underlying drivers of its customers and stakeholders, and our products and offering are created on the basis of these insights. By systematically working through the offering step by step from a stakeholder perspective, we ensure that our offering is relevant and continuously improved. The systematic measurement and follow-up of the customer experience of our offering is as important as insight-based production. This forms the foundation for our customer focus and insight-based methods, which influences the design of our projects, and our services, communication and sales.

Continuously identifying similarities between our markets allows us to pinpoint synergies and economies of scale that are



Bonava provides multi-family housing, terraced and semi-detached housing and single-family housing. Our vision is to create happy neighbourhoods where people have the highest quality of life. The offering is diversified in terms of customer and product categories, which enhances the potential for value creation and reduces risk.

crucial to streamlining operations and increasing cost efficiency. This is what ultimately enables us to offer affordable and competitive housing to our customers. In addition to local insights and monitoring the surrounding world, we develop shared measurements and tools that underpin Bonava's insight-based work.

Satisfied customers

Bonava's customer satisfaction surveys are designed to ensure that the customers' opinions are heard and that customers can easily communicate urgent matters relating to their home, neighbourhood or their relationship with Bonava, positive messages as well as concerns. Based on this customer feedback, Bonava identifies focus areas and assesses where the company needs to improve further. This is what insight-driven improvements and customer focus means to Bonava.

Bonava measures customer satisfaction at various points in the customer journey, focusing on the period 4–8 weeks after moving in, which conforms to the sector standard. Although the Net Promoter Score (NPS) is our chief KPI, we also use a Customer Satisfaction Index (CPI) to enable comparisons across all national markets. The possibility of gaining an overview for sector comparisons across all national markets is limited, as the data varies significantly between countries.

→ Read more about Bonava's KPIs on page 134.

Customer insights shape our homes

The homes that we create become an important part of our customers' lives, and the lives of future generations. This implies a responsibility to design homes so that they make a positive and sustainable contribution throughout life. We systematically work with all the parts of a home to ensure that it meets the needs that are important to our customers. To be cost-efficient, it is also important to allocate resources to the things that our customers value and prioritise, although it is also important to be able to exclude aspects that are irrelevant. Local knowledge ensures that the details correspond to local needs and preferences. Global knowledge creates economies of scale that contribute to our ability to offer what our customers want at an attractive price. Historically we have offered a very broad and extensive range of design features on many of our markets, which means that our customers have essentially been able to design their own kitchens. Through intensive and thorough work during 2017–2018, we surveyed our target groups in terms of the design and appearance of our kitchens – all in order to truly understand how we can offer really good and affordable kitchens to our customers. In collaboration with architects, designers, and insight experts, we designed an entirely new kitchen concept. By offering a number of attractive kitchen designs, we have ensured a simpler and more pleasant decision-

making process for our customers. Our initial evaluations indicate that the new way of packaging and selling kitchens makes it easier for customers to focus on the end result and overall design rather than details. At the same time, Bonava is able to rationalise the entire process including procurement, handling and fitting, which contributes to more affordable homes.

Insight-based working methods are critical to distinguishing Bonava on the market in a way that is relevant to our customers. We know that the home is very important to most people, and many people describe the kitchen as the "heart of the home." This is where we cook, eat, do the dishes – but also where we spend time with our families and friends, do homework, work and relax.

Happy Quest identifies what makes us feel that we belong

Bonava carries out its biannual Happy Quest survey on all eight markets. The survey comprises a representative selection of the population, totalling 8,000 individuals age 18 and above. The survey takes the form of an online survey where respondents are guaranteed anonymity and where the company behind the survey is not known. The study has two key objectives:

- To determine what is important for people to be happy in their neighbourhood and which neighbourhoods have room for improvement.

Close to nature and good connections in Bensheim, Germany

At the beginning of 2018, Dorothee and her daughter Caroline moved into a two bedroom apartment in Bensheim in Germany. Dorothee had looked at many properties in her search for a new home. After she visited a Bonava show home with her daughter, the two of them decided to move in. Dorothee liked the idea of involving a property developer so that she didn't have to assume sole responsibility for building a house.

Living close to nature was also important for Dorothee. But she wasn't only set on the green spaces – she loved the environment as a whole. After all, even the most well-planned apartment isn't that great if it doesn't have good transport links, and work and school are now only minutes away.

"While you're not responsible for coordinating the building process, you can still have an input on the end result."



- To measure how happy people are in their neighbourhood and residential area. This is measured in Bonava's Happy Index, which combines and indexes the following three questions: How much do you like your neighbourhood? To what degree do you feel at home in your neighbourhood? To what extent do you feel you belong in your neighbourhood? This reliably measures and compares the degree of happiness in different neighbourhoods or countries, as well as progress over time. The measurements obtained by the Happy Index from this representative sample of the population provides Bonava with reference values that it then strives to exceed in new neighbourhoods.

On the basis of our experience and expertise, and together with new lessons and insights, we develop neighbourhoods and residential areas where people can feel happy and at home. For example, customers should feel safe living and spending time in Bonava's homes and neighbourhoods, which should always be easily accessible by foot and bike.

Happy neighbourhood Tool helps us realise our vision

Bonava has developed a new unique tool for systematic and insight-based processes that ensure that the neighbourhoods we develop correspond to our brand and our vision of creating happy neighbourhoods that make a real difference to neighbours, the area and society at large.

The tool ensures that we use systematic and insight-based methods to develop happy neighbourhoods across all our projects. We know that this is achieved by meeting three main criteria:

- **The home:** Design factors that positively influence the well-being experienced in the home and area.
- **The neighbourhood:** Design factors that positively influence the well-being experienced in the neighbourhood.
- **Society at large:** Overall design factors that contribute to a more sustainable society.

The foundations of the tool were developed in Sweden two years ago with the aim of ensuring that all of Bonava's new neighbourhoods live up to the company's goals of social and environmental sustainability and our customer promise of creating a sense of belonging. Since then, the tool has been used with positive results throughout all of our Swedish projects, and we have now developed it further to suit all our markets, regardless of local conditions. This means we ensure that we deliver in accordance with our vision of happy neighbourhoods in all our developments.

The tool has been developed on the basis of what we have learnt from Happy Quest, our unique survey of what makes people feel they belong in a neighbourhood, alongside our extensive experience and expertise in residential property development.

We can see that the tool and working method create value from several different perspectives:

- **Customer value:** The method ensures that customer insights about what creates happy neighbourhoods result in concrete solutions in our projects. This distinguishes us from other operators in the sector.
- **Business value:** Our methods meet local authority demands on social and environmental sustainability, which increases the likelihood of winning land allocations because we offer relevant solutions.
- **Internal value:** The shared framework ensures that our work has the same goals regardless of market. The shared framework increases cost-efficiency but also improves the conditions for positive exchange of experiences and competencies between departments and markets.

The effectiveness of the tool is followed up in our KPI Happy Index, which is measured in all Bonava's projects.

Sophia Acorda, Account Manager, Gothenburg, Sweden

Sophia works with client relationships in Gothenburg. Sophia is a customer of Bonava herself and is driven by giving others the same positive experience she had when she moved into her new home.

"I can really relate to what it feels like to be a customer. I know the feeling when you're given the key to your new home, walk into your new apartment or house, and the joy this gives you. That is what drives me when meeting customers in my daily work. Helping them get there, being there for them after they've moved in and guiding them through the process."





Value chain

Bonava is active from the idea stage and land acquisition all the way through to the housing unit being handed over to the customer, and follows up that customer satisfaction is maintained after moving in.

Bonava's value chain

BONAVA'S VALUE CHAIN

1. Land acquisitions

Ahead of a potential land acquisition, Bonava analyses what type of neighbourhood could be developed, what kind of housing and for which target group, in order to create the best prospects of developing a neighbourhood where residents will be as happy as possible. By involving the right competences in terms of architecture, project development, the environment and construction management at an early stage, we ensure a time and cost-efficient process. A decision to acquire land is not made until Bonava has ensured that it can develop a happy neighbourhood.



Accessing land

2. Project development

For Bonava, project development means that we assume responsibility for the entire process, from concept and land acquisition to finished project, always proceeding from our customers' needs, wishes and our internal requirements. Our proposal is processed internally and in collaboration with affected authorities to ensure that the project corresponds to customer needs and wishes, and that it makes a positive contribution to society. When the framework for the program, financial parameters, product selection and other important elements have been completed, we make the decision to develop the project and initiate the sales process.



3. Marketing and sales

Marketing of projects is initiated during the project development phase. We initiate and maintain dialogue with potential customers through physical meetings, digital channels and printed media. Digital visualisation software allows customers to view housing units in advance, enabling them to make well-founded decisions about their purchase before the home and neighbourhood have been completed. Once we have attracted sufficient interest from customers, we start production.



Sales start

Production start

1. Land acquisition

2. Project development (design and planning)

3. Marketing and sales

FINANCIAL REPORTING

CONSUMERS

Land acquisitions

Expenditure in the period until the land purchase has been completed is expensed on an ongoing basis as a production expense. Once we have taken possession of land, we recognise the cost as Properties held for future development in the Balance Sheet and Investments in housing projects in the Cash Flow Statement. Once Bonava controls the land, it is reported as a building right, where one building right corresponds to one future housing unit. Land that Bonava controls through option agreements or other contracts, but where possession has not yet been taken, is recognised as Building rights off Balance Sheet.

Expenditure for project development

Expenses for project development, marketing and sales that arise after the land has been included in the Balance Sheet is capitalised as properties held for future development in the Balance Sheet and is charged to Investments in housing projects in the Cash Flow Statement.

Project execution

Once a decision on production start has been made and production begins, the value of land purchases and capitalised development expenses is transferred from Properties held for future development to Ongoing housing projects in the Balance Sheet. Expenditure incurred during production is capitalised as Ongoing housing projects in the Balance Sheet and is charged to Investments in residential projects in the Cash Flow Statement. On production start, the number of building rights transfer to the Number of housing units in production. After production start, all homes are recognised in the Number of sold housing units in the period once a binding agreement has been signed with the customer.

4. Project execution

Bonava is continuously extending its own in-house design and production competencies. This enables projects to be procured through construction contracts, which gives us more control over the production phase. In Sweden and Denmark-Norway, Bonava has well-established site management operations for developing single-family homes. In Germany, Bonava utilises in-house and centralised design and production competences, which include site management and construction workers. Bonava also has design and

production competencies and site management in St. Petersburg, Denmark, Estonia and Latvia. Regardless of Bonava's role in the production phase, all projects have a designated project manager who continuously coordinates and monitors activities, schedules and budgets. The project manager also co-ordinates and manages contacts with the authorities, suppliers and contractors, as well as auditing subcontractors. Project execution concludes with Bonava ensuring a professional handover to the customer.

5. Customer service

Bonava's responsibility doesn't end when customers move into their new homes. It is important that Bonava's customers feel secure throughout the process, including after moving in. To contribute to this, we arrange a number of activities to build a sense of community amongst the new neighbours, both before and after moving in. Customer service plays an important role in systematically capturing, addressing and communicating information about potential shortcomings or improvements to production. This means that we are in continuous contact with customers until all inspections and warranty periods have been completed and dealt with.



4. Project execution

5. Customer service

Completion and handover of homes

Once production has been completed, and customers take possession of their homes, the sales value is recognised as Net sales in the Income Statement. The capitalised expenditure for these homes is transferred from Ongoing housing projects in the Balance Sheet to Production costs in the Income Statement. The book value of housing units that have been completed but where the customer has not taken possession transfers from Ongoing housing projects to Completed housing units in the Balance Sheet.

In cash flow, the result from sales of housing units is recognised under Profit after financial items, while the book value of homes recognised for profit is reported under Sales of housing projects. Homes that the customer has taken possession of are recognised as the Number of profit-recognised housing units in the period. Other completed homes are recognised as Completed housing units, not recognised for profit, including sold housing units that the customer has not yet taken possession of.

FINANCIAL REPORTING

INVESTORS

The reporting of housing transactions for investors is essentially the same as for consumers. Reporting of consumer transactions recognises housing units for profit one at a time, while profit recognition for investors usually involves an entire housing project or a substantial number of housing units.

SUSTAINABILITY REPORT

→ Read about where in the value chain Bonava has the biggest sustainability impact on page 132.



Bonava's geographical markets

With a geographical spread across 23 regions in eight countries, Bonava has a unique position as a residential developer. Through continuous knowledge exchange between our markets, we create affordable homes for more people.

Sweden

Market

The Swedish housing market remained cautious during 2018 and average house prices decreased slightly nationwide. However, demand for housing remains strong and underlying macroeconomic conditions are favorable to the housing market. The National Board of Housing, Building and Planning (Boverket) estimates the average number of new homes needed at 66,900 annually between 2018 and 2025.

Our offering

In Sweden, Bonava's offering addresses both consumers and investors. Our consumer markets are located in Stockholm, Gothenburg, Linköping, Uppsala and Umeå.

In the single-family home business, we base our offering on a number of house types which allow us to increase the industrialisation of our construction process. For multi-family homes, we use a tried-and-tested construction system, that is continuously improved on the basis of our strategic priorities.

In our investor business, where we develop rental apartments for well-established housing companies with stable management organisations in a number of locations around Sweden, we are a

complete and strong housing developer. All Bonava projects in Sweden are developed with environmental certification, and we have gradually transferred to the pan-Nordic certification Nordic Swan eco-label. Nordic Swan is the environmental certification that is best suited to our focus on more industrialised processes, and which is most stringent in terms of the requirements for sustainable and non-hazardous materials.

→ Read more about Nordic Swan eco-labelling on page 27.

Competitors

The market for housing development in Sweden is competitive. At a pace with rising house prices in recent years, competition has also intensified. On the Swedish market, Bonava's competitors include major operators such as JM, Skanska, Peab and Veidekke, but also businesses such as Besqab and Magnolia. In the single-family housing market, competitors include Älvsbyhus and Myresjöhus.

Strategic priorities

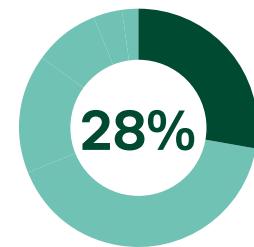
Bonava is carrying out a strategic initiative in VDC (Virtual Design and Construction), read more about VDC on page 21.

During the autumn, we specified a number of projects that will fully pursue the VDC strategy, and are operating pilot projects aimed at identifying future digital working methods, including at the production stage. We have implemented the digital tools in the planning and production process and are seeing the results in the form of increased efficiency and quality. There is considerable potential in this area. In recent years, we have established an in-house design studio which allows us to assume full responsibility for, and benefit fully from, our digital tools and the changes to working methods they generate.

During the year, we launched the Aronia project, which is the first project developed in Bonava's design studio alongside our own in-house architects, HVAC engineers and construction planning managers. This increases our efficiency, reduces costs and means that we can now control the entire value chain from land acquisition to handing over new homes to our customers. We are also prioritising our work with the project portfolio on selected geographical markets, and growing the investor business for rental apartments, which comprises some 30 per cent of our business.

	2018	2017	2016
Key performance indicators			
Net sales, SEK M	3,976	5,699	5,040
Operating profit, SEK M	761	1,230	920
Operating margin, %	19.1	21.6	18.3
Capital employed at period end, SEK M	5,164	4,986	4,350
Return on capital employed, %	14.8	24.7	19.3
Number of employees	189	167	141
Building rights			
Number of building rights at period end	7,400	7,500	7,200
of which off-balance sheet building rights	5,100	4,900	3,300
Housing development for consumers			
Number of housing units sold in the period	233	621	1,123
Number of housing starts in the period	269	965	1,108
Number of housing units recognised for profit in the period	775	1,245	1,013
Number of housing units in production at period end	1,342	2,009	2,304
Sales rate for ongoing production, %	39	55	75
Housing development for investors			
Number of housing units sold in the period	423	90	579
Number of housing starts in the period	423	90	448
Number of housing units recognised for profit in the period	322	158	132
Number of housing units in production at period end	639	538	606
Sales rate for ongoing production, %	100	100	100

Net sales per segment 2018



- Sweden, 28%
- Germany, 41%
- Finland, 16%
- Denmark-Norway, 9%
- St. Petersburg, 4%
- Baltics, 2%

Housing units in production
at the end of the year

1,981

Number of housing units
sold in 2018

656

Production starts
in 2018

692



Märtas Berså

Area: Sollentuna, Sweden

Housing category: Multi-family housing,
104 homes

Status: Moving in from 2020

In September, the spade hit the ground in the final stage of Märtas Berså in Sollentuna. Since 2009, we have developed five quarters with a total of 387 housing units along the road Sollentunavägen. We have involved the residents of Märtas Berså in the design of the neighbourhood, which has resulted in houses being built around what will be the greenest courtyard in the area. The courtyard will include BBQ areas and green rooms, where neighbours can socialise. Residents also asked for a fully furnished overnight apartment that offers visitors a comfortable home away from home when they come to visit.



Significant events

In 2018, we continued to offer affordable homes. In three projects where sales started, we have been able to offer terraced housing in the Greater Stockholm region for under SEK 3 million. An important milestone that shows that our work with developing processes and working methods can result in affordable homes. We have also continued to digitalise our building system. In concrete terms, this means that the planning phase is significantly shorter and with fewer errors compared to traditional building projects. This makes us faster and more cost-efficient. We can move quickly from acquisition to project start. There are multiple advantages to a standardised and digitalised building platform. In addition to increased speed, this approach rationalises strategic purchasing and other processes. This enables us to reach new customers quickly and increases cost efficiency.

Financial results

Net sales were down on the previous year due to fewer housing units for consumers recognized for profit and decreased sales. Operating profit was down due to fewer housing units for consumers recognized for profit and lower profit from land sales.

Secure Homes – for better or for worse since 2009

Buying a new home is one of the biggest decisions you make in your life. With a Bonava Secure Home™, everyone who purchases a home from Bonava can access some of the markets best insurances and warranties. Bonava Secure Home™ includes cancellation insurance, mortgage payment protection and negative equity protection. Additionally, Bonava undertakes to always compensate tenants' associations for any unsold housing units, including all deposits paid, transfer charges and annual fees for unsold properties. In hesitant market conditions like the present, these insurance policies and guarantees add extra security before and after the purchase has been made.

Germany

Markets

The housing market in Germany remained strong in 2018, with increasing house prices and good demand from consumers and investors. Calculations show good future demand for housing. An estimated 230,000–290,000 new homes will need to be developed annually over the next years. However, it will be challenging for the market operators to produce the requested volumes due to limited assets.

Our offering

Bonava operates in the regions of Berlin, Hamburg, the Baltic coast, Saxony, Rhine-Ruhr, Cologne/Bonn, Rhine-Main and Rhine-Neckar/Stuttgart. The offering encompasses single-family and multi-family housing and is aimed at both consumers and investors. In Germany, Bonava has developed a system that enables efficient production through acquisition, planning and construction all the way to handover. This building system has been applied for over 25 years, and is improved continuously.

Competitors

In Germany, Bonava meets competition from larger developers and smaller local operators in the market's eight regions. According to a property development survey carried out by bulwiengesa, the main competitors on this market are Instone (formerly Formart), BPD and Pandion. The German market is regionally and locally fragmented with numerous operators, which creates positive growth potential for a larger company as Bonava which is active throughout Germany.

Strategic priorities

Germany is now our largest market. One of our key strategic goals is to grow in Germany. Since 2013, we have increased the number of building rights in Germany by 118 per cent, to 7,400 at the end of 2018. The number of housing units in production increased by 29 per cent, and totalled 4,636 at the end of the year. Based on the positive profitability and the scale of the German market, Bonava sees further potential for organic growth through recruitment and purchasing land for future projects.

In order to meet the needs of our customers, standardisation in the affordable segment is crucial. In Germany, we have been using our most important construction material, blocks of lime sandstones, since 1994. Prefabricated sandstone blocks that are free from dust and waste are delivered directly to the construction site. We have continuously developed our block-by-block production method, which now comprises the foundation of Bonava's German building system. Today, standardisation is widespread and includes the development and design phase as well as production.

Significant events

With 1,563 housing units sold to consumers, 2018 was the German consumer operations' strongest year to date.

For the sixth consecutive year, Bonava was ranked as the most active residential developer in German urban areas by market research company bulwiengesa.

The company continued to construct housing units in the affordable segment, for example, Bonava acquired land in Märkische Allee in east Berlin for the creation of a residential area of 500 new apartments.

We started work on Parkstadt Karlshorst during the year, where the construction of 1,000 new homes makes this our biggest project at present. The sale of 470 rental apartments to an individual investor represented a strong start to this promising urban development where Bonava is creating a new district.

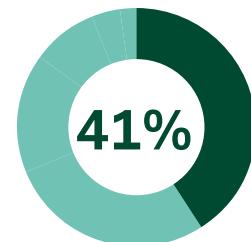
In Bonn, we started construction of an integration project over 28,000 m², where residents with and without disabilities, families with children and older people can interact and share their lives in an area close to nature.

Financial results

Net sales increased due to more housing units for consumers and investors being recognised for profit, and positive exchange rate effects. Operating profit increased as more housing units for consumers and investors were recognised for profit in year-on-year terms. 648 housing units for investors were recognised for profit in the year, against 611 housing units in the previous year.

	2018	2017	2016
Key performance indicators			
Net sales, SEK M	5,736	5,049	3,907
Operating profit, SEK M	796	668	477
Operating margin, %	13.9	13.2	12.2
Capital employed at period end, SEK M	3,985	3,037	2,163
Return on capital employed, %	21.8	23.0	25.4
Number of employees	914	886	809
Building rights			
Number of building rights at period end	7,400	8,300	6,400
of which off-balance sheet building rights	2,700	3,700	2,700
Housing development for consumers			
Number of housing units sold in the period	1,563	1,506	1,288
Number of housing starts in the period	2,061	1,455	1,455
Number of housing units recognised for profit in the period	1,246	1,135	1,057
Number of housing units in production at period end	2,932	2,105	1,785
Sales rate for ongoing production, %	59	68	59
Housing development for investors			
Number of housing units sold in the period	873	906	645
Number of housing starts in the period	873	906	645
Number of housing units recognised for profit in the period	648	611	201
Number of housing units in production at period end	1,704	1,479	1,184
Sales rate for ongoing production, %	100	100	100

Net sales per segment 2018



- Sweden, 28%
- Germany, 41%
- Finland, 16%
- Denmark-Norway, 9%
- St. Petersburg, 4%
- Baltics, 2%

Housing units in production
at the end of the year

4,636

Number of housing units
sold in 2018

2,436

Production starts
in 2018

2,934

Regions in Germany:

Hamburg region
Hamburg

Rhine-Ruhr region
Düsseldorf

Cologne/Bonn region
Cologne

Rhine-Main region
Neu-Isenburg

Rhine-Neckar/Stuttgart region
Mannheim/Ludwigsburg



Baltic region
Rostock/Stralsund

Berlin region
Berlin

Saxony region
Leipzig/Dresden



EXPO REAL

In October, Bonava attended EXPO REAL, one of Europe's most important real estate and investor fairs. EXPO REAL is one of Bonava's best opportunities in the year to develop its relationships with local authorities, connect with landowners, survey potential locations, meet with investors, discuss trends and market Bonava as an employer.

Am Entenfang

Area: Cologne/Bonn

Housing category: 142 terraced houses

Status: First residents moving in towards the end of 2019

Despite the location close to the motorway and an industrial estate, Bonava saw great potential in the 44,000 m² plot in Wesseling in the Cologne/Bonn region. With around 15 km to the city centres of both Cologne and Bonn, good train and road links, large green spaces directly adjacent to the neighbourhood, good public transport and schools and shops nearby, Bonava decided to build 142 terraced and semi-detached housing in the area, creating affordable homes for the many.

"Our customers appreciate the new neighbourhood, which mixes nature with an urban feel," commented Development Manager Simon Thônes, who noted strong interest even before launch.



Finland

Market

The housing market in Finland remained good throughout the year with stable house prices and positive demand.

Our offering

Bonava offers multi-family housing for consumers and investors in Helsinki, Espoo, Vantaa, Turku, Tampere and Oulu.

Competitors

The main competitors in Finland are construction companies also active in residential development, such as YIT, SRV and Skanska, but also fast-growing small and medium-sized operators such as Lehto, Pohjola-Rakennus and Lapti. At the beginning of 2018, the Finnish company YIT merged with Lemminkäinen.

Strategic priorities

In 2018, we continued to expand our design and production competencies through active recruiting. At the end of the year, Bonava managed some 20 ongoing projects with our own proprietary site management. Our building system solutions were developed according to plan, and will reduce production costs and improve quality.

During the year, we developed the standardisation of our bathroom and kitchen solutions. The design packages for the kitchens simplify the process and enable Bonava to avoid variations between different projects. Customers are able to choose between different design concepts and benefit from high quality materials and equipment. Prefabricated bathrooms are designed using technical expertise from several sources, and our innovative technical solutions ensure increased cost-efficiency and shorter lead times. Our customers appreciate the high quality, functionality, modern design and the opportunity to choose from a range of concepts.

Significant events

2018 was an active year for Bonava Finland. In January, Bonava Finland arranged a well-received meeting of private investors in Helsinki, where more than 150 private investors participated. The event was co-hosted with Suomen Vuokranantajat ry (the Finnish Landlord Association). Bonava also arranged similar events in Tampere and OULU. In July, Bonava participated in a public debate on the opportunities and challenges of affordable housing in Suomi Areena in Pori.

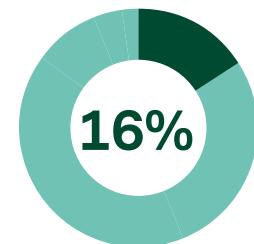
Bonava Finland also participated in a design competition for design and art students, where we made a keynote speech on "What design means to Bonava" where we explained how design can be used in the residential neighbourhoods of the future. In November, Bonava hosted the third Bo&Nav round table talks, where we gathered a large number of housing market decision-makers and politicians to discuss and share our views on the limitations and opportunities applying to affordable housing in Finland.

Financial results

Net sales in Finland increased due to more housing units for consumers and investors being recognized for profit. Operating profit in Finland improved in the year, but was burdened by low margins in three projects recognised for profit in the first quarter.

	2018	2017	2016
Key performance indicators			
Net sales, SEK M	2,257	1,290	1,516
Operating profit, SEK M	65	1	92
Operating margin, %	2.9	0.0	6.1
Capital employed at period end, SEK M	1,708	1,284	1,092
Return on capital employed, %	4.1	-0.2	7.1
Number of employees	230	146	104
Building rights			
Number of building rights at period end	7,300	7,100	7,300
of which off-balance sheet building rights	4,800	4,300	4,200
Housing development for consumers			
Number of housing units sold in the period	627	579	637
Number of housing starts in the period	908	702	522
Number of housing units recognised for profit in the period	595	398	658
Number of housing units in production at period end	1,142	865	567
Sales rate for ongoing production, %	44	54	50
Housing development for investors			
Number of housing units sold in the period	466	628	624
Number of housing starts in the period	466	628	624
Number of housing units recognised for profit in the period	716	327	
Number of housing units in production at period end	675	925	1,091
Sales rate for ongoing production, %	100	100	100

Net sales per segment 2018



- Sweden, 28%
- Germany, 41%
- Finland, 16%
- Denmark-Norway, 9%
- St. Petersburg, 4%
- Baltics, 2%

Housing units in production
at the end of the year

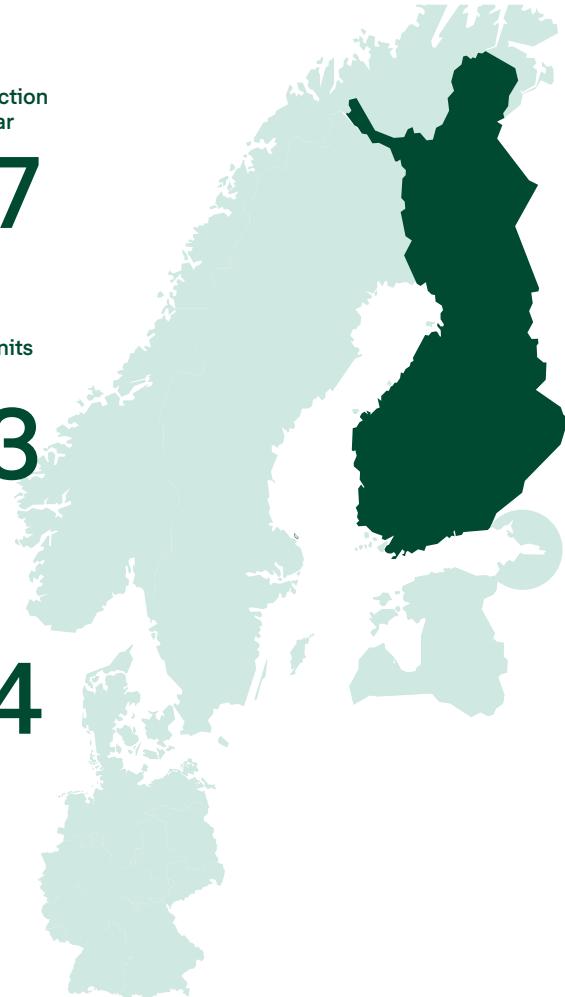
1,817

Number of housing units
sold in 2018

1,093

Production starts
in 2018

1,374



Tapiolan Steniuksenkumpu

Area: Espoo
Housing category: 38 apartments
Status: Moving in from 2019

Bonava is building 38 new homes in Espoo-Tapiola. Fortum's SmartLiving Plus is one of the special services in the project offering intelligent lightning as well as monitoring electricity and water consumption.

Investor transactions

Area: Tampere
Housing category: Rental apartments
Status: Moving in from 2019

In June 2018, Bonava completed an investor transaction in Tampere. The buyer was Tampere Student Housing Association (TOAS) and involved 112 rental apartments.



Denmark–Norway

Market

The market in Denmark was stable in 2018 with minor changes in house prices in the Copenhagen region where Bonava is active. In Bergen in Norway, the market was positive with stable house prices.

Our offering

Bonava is active in Copenhagen in Denmark and Bergen in Norway. The offering includes multi-family and single-family housing targeting consumers and investors.

Competitors

The Danish market is fragmented with many residential developers such as Arkitektgruppen, ELF Development, NPV and the FB Group. During the year, Ikano Bolig joined the housing market.

In Norway, Bonava meets competition from larger construction companies such as Skanska and Veidekke, as well as specialised residential developers such as Obos, Selvaag Bolig and JM.

Strategic priorities

The strategic priorities in Denmark and Norway focus on developing production capacity and managing construction costs. As part of this strategy, many projects are subject to divided contracts, with the focus on controlling and tools. Bonava also prioritizes differentiating its products and services in order to focus on strategic segments, which increases relevance and efficiency. For example, Bonava produces affordable apartments on an identical and repeatable construction platform, which provides flexibility that meets customer needs.

Significant events

In January, Bonava Denmark–Norway launched Bonava Construction Campus, a 2.5-year program. The campus provides a unique tailor-made training program for production and design staff in Norway and Denmark. In September, Bonava completed an investor transaction comprising 137 apart-

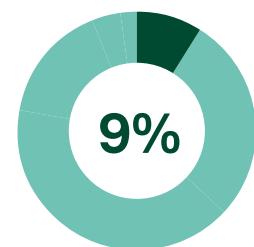
ments in Køge Kyst. The buyer was PFA Ejendomme, the PFA pension fund's property company. During the year, Torben Modvig resigned as Business Unit President of Bonava Denmark–Norway and Head of Sales and Marketing Kristina Olsen and Head of Finance Morten Jacobsen share the role since October 8th.

Financial results

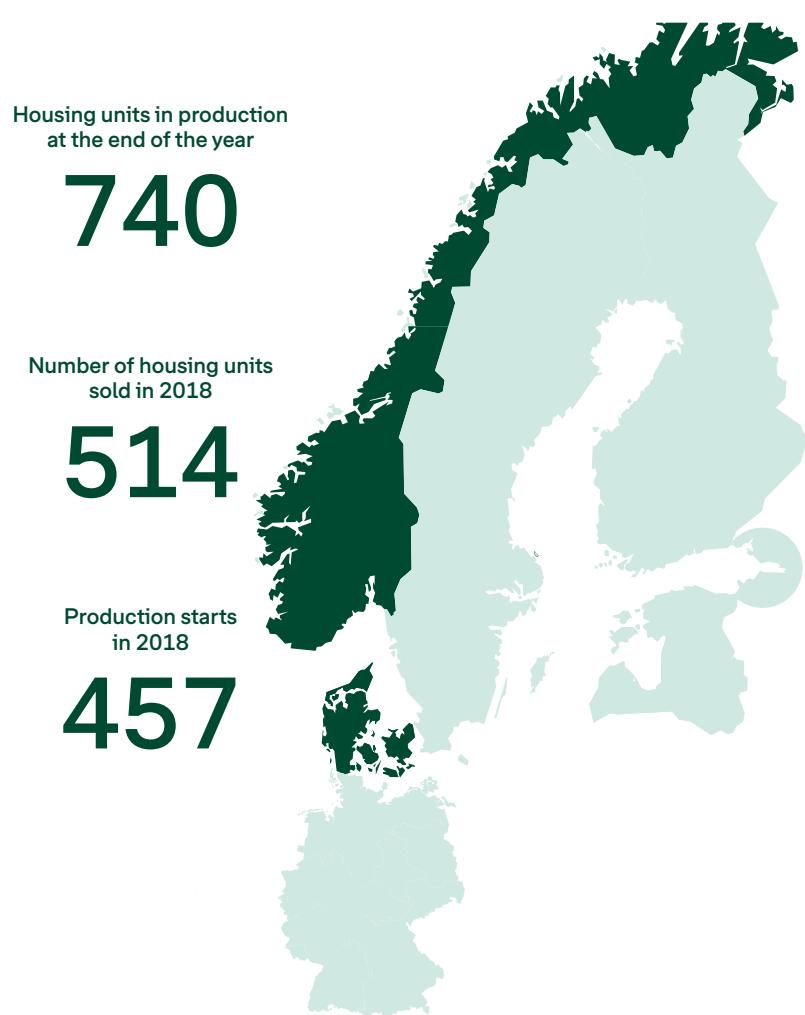
Net sales in Denmark–Norway decreased year-on-year due to fewer housing units recognized for profit. Operating profit for Denmark–Norway decreased year-on-year as no projects for investors were recognized for profit in the year.

	2018	2017	2016
Key performance indicators			
Net sales, SEK M	1,232	1,454	1,931
Operating profit, SEK M	131	141	194
Operating margin, %	10.7	9.7	10.0
Capital employed at period end, SEK M	1,278	857	736
Return on capital employed, %	10.8	15.3	16.0
Number of employees	108	79	53
Building rights			
Number of building rights at period end	2,700	2,000	900
of which off-balance sheet building rights	1,800	800	300
Housing development for consumers			
Number of housing units sold in the period	257	362	299
Number of housing starts in the period	200	507	249
Number of housing units recognised for profit in the period	292	312	396
Number of housing units in production at period end	389	517	316
Sales rate for ongoing production, %	51	46	58
Housing development for investors			
Number of housing units sold in the period	257	94	74
Number of housing starts in the period	257	94	74
Number of housing units recognised for profit in the period		74	
Number of housing units in production at period end	351	94	74
Sales rate for ongoing production, %	100	100	100

Net sales per segment 2018



- Sweden, 28%
- Germany, 41%
- Finland, 16%
- Denmark–Norway, 9%
- St. Petersburg, 4%
- Baltics, 2%



Nordic Swan eco-labelled terraced housing
The 100 Nordic Swan eco-labelled terraced houses in Filmhusene in Værløse have bike sheds and one of the former hangars on the airfield has been converted to a community facility for all residents in the area. In Denmark, Bonava has almost 650 eco-labelled homes at the hand-over stage, in production or in the pre-sales phase.

Final project in LonaParken

Bonava handed over apartments in the final phase of the project LonaParken. The neighbourhood north of Bergen consists of 364 homes and includes Norway's first Nordic Swan eco-labelled apartments.

"LonaParken is an excellent example of a neighbourhood that is been developed for diversity, where young families and older residents can enjoy a car-free environment together," commented Jørgen Madsen, Development Manager.



St. Petersburg

Market

The housing market in St. Petersburg remained positive, with slightly higher house prices and stable demand from consumers.

Our offering

In Russia, Bonava is only active in St. Petersburg and focuses on multi-family housing for consumers and investors.

Competitors

The housing market in St. Petersburg is competitive, with operators such as YIT, Setl City and LSR.

Strategic priorities

Bonava is continuing to develop its customer offering focusing on industrialisation and repetition in its solutions and operations. This allows Bonava to reduce costs and rationalise procurement.

Significant events

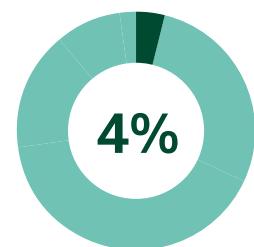
In the year, Bonava launched new phases of Magnifika Lifestyle and Gröna Lund, and entered the final phase of Skandi Klubb. The redevelopment of the riverside neighbourhood Magnifika has started, and attracted attention from journalists as an innovative example of collaboration between property developers and public authorities. Two projects – Magnifika Lifestyle and Skandi Klubb – received the prestigious Urban Awards prize for best project in the main segment in St. Petersburg.

Financial results

In St. Petersburg, net sales decreased year-on-year as fewer housing units for consumers were handed over. Operating profit was down on the previous year due to fewer housing units handed over to consumers. Higher average prices resulted in increased margins.

	2018	2017	2016
Key performance indicators			
Net sales, SEK M	578	727	915
Operating profit, SEK M	95	104	178
Operating margin, %	16.4	14.3	19.4
Capital employed at period end, SEK M	696	1,108	1,277
Return on capital employed, %	10.4	8.4	16.5
Number of employees	270	266	276
Building rights			
Number of building rights at period end	2,600	3,500	4,400
Housing development for consumers			
Number of housing units sold in the period	756	516	653
Number of housing starts in the period	634	813	363
Number of housing units recognised for profit in the period	383	833	1,026
Number of housing units in production at period end	1,010	813	800
Sales rate for ongoing production, %	56	33	61
Housing development for investors			
Number of housing units sold in the period			
Number of housing starts in the period			
Number of housing units recognised for profit in the period		74	
Number of housing units in production at period end			
Sales rate for ongoing production, %			

Net sales per segment 2018



- Sweden, 28%
- Germany, 41%
- Finland, 16%
- Denmark-Norway, 9%
- St. Petersburg, 4%
- Baltics, 2%

Housing units in production
at the end of the year

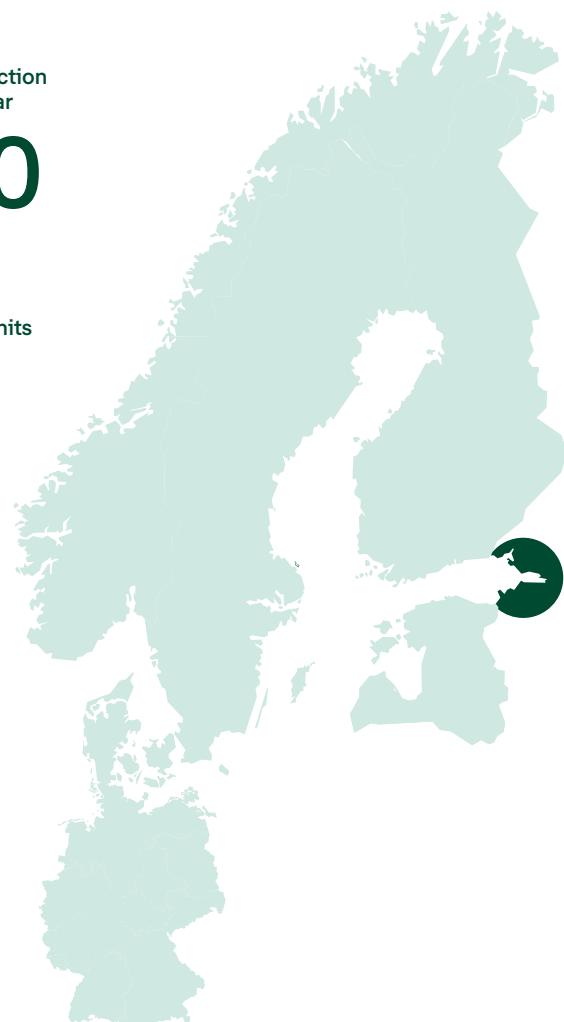
1,010

Number of housing units
sold in 2018

756

Production starts
in 2018

634



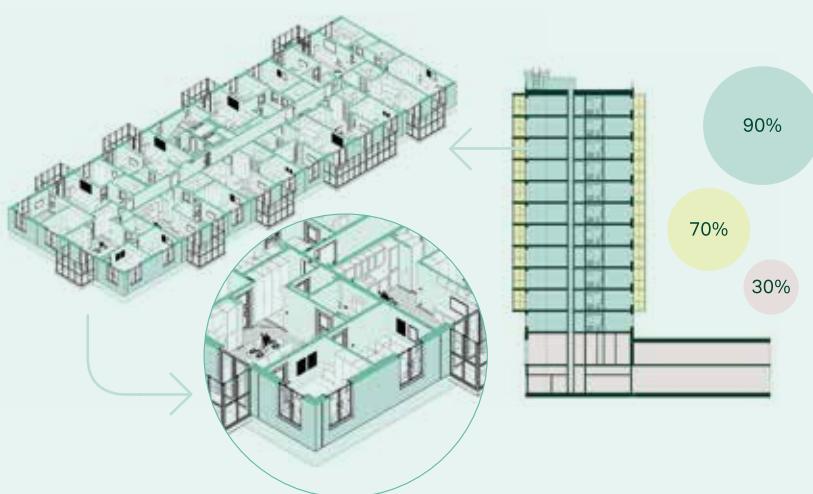
The first phase of the Magnifika milestone project in St. Petersburg, consisting of 2,500 apartments, has almost been completed.

"We are pleased that the first phase of the project with 376 housing units was completed very quickly from land acquisition to handover. We have sold more than 95 per cent of the apartments in the first phase before completion" commented Michael Björklund, Business Unit President in St. Petersburg.

Sharp focus on industrialisation and repetition

Bonava's modern industrialised construction system has been continuously developed towards a high degree of repetition, including 90 per cent of all blueprints, 70 per cent of façades and balconies and 30 per cent of basements and garages. Our focus on industrialisation and repetition allows us to work faster and more efficiently, which in turn makes us more capital-efficient.

Because we repeat well-established solutions, we are able to guarantee high quality in our housing units to consumers. Our solutions are based on tried-and-tested successes, which makes us an attractive partner for public authorities, both at the planning and commissioning phase.



Working at Bonava

Group-wide winning culture based on our values

Bonava is a place where you can have an exciting work-life and be part of a journey: Bonava's journey, your individual career journey and the journey our projects take from land acquisition through to blueprints and all the way to homes and neighbourhoods where our customers can be happy and feel at home.

Our vision is to create happy neighbourhoods where people have the highest quality of life. The vision sits right at the heart of all we do. It is our passion, it is what drives us and guides us every day on our journey.

We have shared values and goals, but each one of us has our own journey through which we grow and develop as individuals and professionals. We are always moving forward – aiming a little higher, a little further, while striving towards a sustainable work-life balance. Together, we have come very far. We are not saying that our journey is always easy, but we are confident that we will make it together. On this journey, we explore and seek out new opportunities for personal development, and strive to create homes and neighbourhoods where people feel they belong, are happy and want to spend their time. That is why we get up in the morning. This is what we believe in. We challenge ourselves every day to change the housing game, creating better homes and lives for the many.

A passionate workplace

Bonava's cultural journey started in 2012, and provides the foundation for our current position. The starting point was to develop a winning culture, underpinned by our values. Because Bonava operates on eight different markets it is important to actively contribute to strengthening our employees and corporate culture.

With clear growth targets and the need to attract competence on most of our markets, mainly in design and production, we actively seek to attract, recruit and retain employees. It is important that we offer all our employees a welcoming and inclusive workplace and that we create the right conditions for sustainable high performance and great results, as well as opportunities for further learning and development. Strong leadership and clearly defined group-wide HR processes are what drive Bonava in the right direction.

Safe, healthy and secure workplaces are at the core of our Zero Harm vision, and we take preventative measures to ensure that no injuries or illnesses are caused by Bonava's workplaces. Bonava's Our Foundation

program, centred on our Code of Conduct, puts our values into practice and provides advice, processes and training on business integrity and ethics to all staff.

In 2018, 351 new employees joined Bonava. All new employees participate in on-boarding programs that include training and group-wide induction days, both at local Bonava offices and events at Bonava's head office in Stockholm. In 2018, 289 new employees from all Bonava's markets participated in Bonava's Global On-boarding Day on three different occasions.

Bonava has a structured process for follow-up dialogue and evaluating employee performance and progress. Each employee participates in quarterly meetings with line managers to receive extensive feedback on expectations, goals and progress. Additionally, each employee participates in monthly catch-up meetings with line managers. At Bonava, we believe that learning is most effective when it is an integral part of our daily work. This means that we set and follow up development activities that are linked to our employees' goals, and provide regular feedback.

Our values



Customer focus

We always start from understanding our customers' needs and expectations so that we can keep our promises.



Passion

We are passionate about what we do. We love our job and to challenge ways of doing things, while maintaining a good work-life balance.



Delivering excellence

We optimise our deliveries by prioritising, cooperating and learning from mistakes and good examples.



Friendly

We treat everyone in a friendly way with empathy and warmth.



Brave

We courageously challenge ourselves to create better homes and lives.



Reliable

We take responsibility for our actions, products and the environment.

Bonava has worked intensively to improve the working environment and ensure sustainable great performance and a healthy work-life balance. It is clear that the measures implemented have paid off, and the stress caused by factors including unsatisfactory planning and prioritisation, as expressed by a number of employees in 2017, decreased slightly in the 2018 survey. However, we are not yet where we want to be. Examples of initiatives introduced in the year include training programs and monthly reviews where priorities are set and feedback given, as well as training and support for managers and staff relating to stress management and self-leadership.

In 2017, we established the function Bonava Change with the aim of developing Bonava's ability to manage and handle change, and the function expanded to include more change managers in 2018. These managers actively support change projects throughout the group, such as Bonava Virtual Design and Construction (VDC) and Bonava Investment Management System (BIMS). During the year, Bonava Change also provided various training programs in change management for managers and staff, focusing on practical tools for enhancing the ability to manage and lead change.

In May 2018, Bonava launched its group-wide "I am a Bonava Leader" profile, with the aim of clarifying and describing what it means to be a leader at Bonava. We have also completed one and started up two new global leadership development programs, L.E.A.D., aimed at leaders across all markets.

Bonava Academy is the Group's competence development hub. This is where we integrate mandatory training packages on health and safety, environmental responsi-

bility and training in Bonava's program Our Foundation. Bonava Academy also develops and runs strategic improvement programs, such as L.E.A.D., and networks for leaders and other key executives.

In January, we opened the doors to Bonava Construction Campus in Denmark–Norway. The Campus includes a 2.5-year program developed in partnership with the Danish Construction Association. The Campus is a unique training program for the 50 or so staff employed in production and design in Denmark–Norway. Similar programs are planned on some of our other markets.

All Bonava's markets provide internships and apprenticeships as well as various mentoring programs. In Germany, we have presented a program that supports the integration, development and training of young refugees since 2016, with the aim of offering employment at Bonava. In Sweden, we invite our employees to serve as mentors in the "Mitt Livs Chans" program, a mentoring program aimed at building bridges between the Swedish labour market and skilled immigrants.

In the second quarter of 2018, Bonava carried out its annual Passionate workplace survey, where we measure and follow up

team efficiency, leadership, HSEQ, loyalty and engagement in the workplace. The survey had a high response rate of 85 per cent, and indicated a further increase in employee engagement (EI) and loyalty (eNPS), both compared to 2017 and external benchmarks. Managers and teams have focused sharply on their results and action plans during the year. Analyses and focus areas have also been identified at business unit and group level. In September, we carried out an employee pulse survey with selected questions to follow up results and progress. The outcome largely confirmed the annual survey and its action plans. Bonava's engagement is high, above the benchmark, but we need to continue to focus on leadership, communication and measures aimed at ensuring long-term sustainable high performance.

Join our journey

Bonava is still a young company and brand. We have a strong entrepreneurial spirit and drive, at the same time as standing on a strong foundation as a listed company and a history stretching back to the 1930s. We are on an exciting journey towards our vision, and to succeed we need to live our values and challenge the housing game and how we do things in all aspects of our business. Bonava is a large, international company with a strong corporate culture and family feel. We aim high and always keep the customer at the heart of everything we do. We are passionate and dedicated and develop continuously, help each other, have fun together and collaborate across borders. Together, we have access to extensive expertise and competencies, which makes Bonava a great place to work where individuals can make a contribution, grow and develop.

	2018	2017	BM ³⁾
Engagement (EI ¹⁾)	85	84	8
Loyalty (eNPS ²⁾)	39	35	9

¹⁾ Engagement Index.

²⁾ Employee Net Promoter Score (willingness to recommend Bonava as an employer to friends), scale -100 till +100.

³⁾ Benchmark based on some 500,000 responses from more than 200 organisations (Nordic and international) in Brilliant Futures' employee surveys.

Christian Kaiser,
Site Manager, Bonava Germany.

"If you have trust you can be brave, friendly and give great service to the customer. It all work together. Bonava hands over a lot of new homes and you see it in the eyes of the customer if they trust us. The customer's trust gives you more passion to build, more and to build better. Always."



Artūrs Gorenko,
VDC specialist/Design, Bonava Latvia.

"Passion for me is to come to work every day and try to learn something new. It's important to work as a team, to solve all the challenges we have and always keep our customer in mind. I try to bring new ideas and my energy to Bonava. I also understand that I need all the experience and skill that everyone has. So, I learn from everyone, and maybe they can get new ideas from me."



Sofie Bornmar,
Project Manager, Bonava Sweden and
mentor in the "Mitt Livs Chans" program.

"My mentee Nagham came to Sweden with her family in autumn 2014 and lives in Norrköping. Nagham is an architect with more than 10 years' experience of designing housing, hospitals and nurseries in her country of origin. For me, the best thing about mentoring is the chance to contribute and help someone. It is also exciting to get to know many different people from other cultures. All this is also giving me new and better insights into the importance of diversity. I think you should become a mentor because it is fun and rewarding, and being able to help others adds spice to your life."

Mia Ollila,
Customer Service Manager, Bonava Finland
and acting Head of Customer Services.

"There are many opportunities to grow as a leader. There are numerous training programs for new managers, and I personally have been given the chance to participate in L.E.A.D., a group-wide program aimed at developing shared leadership values. I feel that everyone who works at Bonava is incredibly committed to their work, even a little too engaged sometimes maybe. So, for me as a leader, it is important to support and help the team to prioritise their tasks. They need the freedom to make decisions, and as a leader you need to have faith in your team. I also try to give my team the space they need to develop."



Bonava on the capital markets

Capital structure and financing

Bonava's communication with the capital markets aims to increase the understanding of Bonava's business, optimise access to capital.

Residential development is a capital-intensive business, and in Bonava's Balance Sheet there are assets in the form of land and ongoing housing projects that require financing. On several of Bonava's markets, most payments are not received until the homes are handed over to customers. This imposes requirements on how we handle the Group's liquidity, financing and financial risks. Bonava's operations are financed in local currency with internal loans from Bonava's Treasury Department. Bonava's main source of liquidity is operating cash flow and borrowing from external creditors.

The Group's financial risks are regulated by a Finance Policy and are managed centrally, largely by utilising different financial instruments. More information about the financial risk management can be found on pages 67–69 and in Note 24.

Long-term financing

Bonava has a loan agreement with AB Svensk Exportkredit (SEK) regarding two fixed term loans of each EUR 30 M, maturity date 2020 and 2021 respectively. Bonava also has a revolving credit facility (RCF), which was refinanced in 2018 and the credit extended to SEK 3 Bn, from SEK 2.7 Bn previously. In addition, the credit term was extended to 2023 and the number of banks increased from four to six. The facility can be used in SEK, EUR and NOK and acts as

a primary back-up facility for Bonava's commercial paper program. The SEK and RCF loans are subject to floating 3-month Stibor, Euribor or Nibor plus a margin and are subject to covenants relating to equity/assets ratio and interest coverage ratio.

Commercial paper

Since 2017, Bonava has a commercial paper program which was increased from SEK 2 Bn to SEK 3 Bn in 2018. The program is registered with Euroclear and can be utilised in either SEK or EUR. The issuing agents are Danske Bank, SEB, Svenska Handelsbanken and Swedbank. The RCF described above is also used as a back-up facility for the commercial paper program, in the event that the market for commercial paper is unavailable when borrowing is needed.

More information can be found in the "Commercial paper" information brochure and in the presentation for investors in commercial paper at bonava.com.

Construction finance for tenant-owner associations and housing companies

In Sweden and Finland, Bonava sells housing in the form of tenant-owners associations and housing companies respectively, these are established when the housing projects start. The funding of these projects is usually secured in the form of project

finance from banks, where loans are drawn down at a pace with construction. The tenant-owner associations or housing companies act as borrowers. These loans are reported in Bonava's Consolidated Balance sheet.

Working capital financing

Bonava also has credit limits with banks in the form of 364-day overdraft facilities totalling SEK 280 M, and credit limits with banks for daily or weekly borrowing. As of 31 December 2018, SEK 117 M of the credit facility was utilised.

Guarantees

Bonava's customers receive security for the completion of their home, and pay advances at various points of the process and to varying degrees depending on market. Advance payments provide an advantage because some of the construction can be financed with these cash flows. Regulations for customer contracts vary depending on market. Apart from collateral requirements for advance payments, some markets also require collateral for completion, where guarantees may be issued by banks or credit insurers which creates high demand for credit limits for this purpose. Collateral can also take the form of guarantees issued by a Group company.

Financing as of 31 December 2018

Type of borrowing	Currency	Limit	Maturity	Interest	Utilised amount	Unutilised amount
Commercial paper	SEK M	3,000	< 1 year	Floating	956	2,044
Loan	EUR M	30	2020-06-09	Floating	30	0
Loan	EUR M	30	2021-06-09	Floating	30	0
Credit Facility (RCF)	SEK M	3,000	2023-12-12	Floating	0 ¹⁾	2,044

¹⁾ There was no amount drawn down under the RCF. The difference between the framework amount and the unutilised amount corresponds to the outstanding commercial paper, for which the RCF comprises a backup facility.

Project financing	Currency	Average maturity	Interest	Utilised amount
Tenant-owner associations in Sweden and Housing companies in Finland	SEK M	15 mths.	Floating	4,072

Total assets

Total assets were SEK 21,074 M (19,713). The increase was primarily due to a higher volume of ongoing housing projects and higher volumes of properties held for future development.

Seasonal variations affect net debt

Bonava's operations exhibit significant seasonal variations, which is also reflected in its net debt. In the first three quarters of the year, borrowing usually increases as many

projects are started and there are many housing units in production. In the fourth quarter, many housing units are handed over to customers, generating substantial cash flows which are used to reduce debt.

The diagram illustrate how cash flow and net debt progress between quarters, and the proportion of borrowing comprising financing of tenant-owner associations and housing companies. Net debt amounted to SEK 5,542 M (4,165). Swedish housing associations and Finnish housing companies had

net debt of SEK 4,965 M (5,002) in total, whereby SEK 4,072 M (4,411) was financed by banks and SEK 999 M (669) was financed by Parent Company credit facilities directly attributable to Swedish housing associations. Cash flow was SEK 106 M (78). Net debt for the Group relating to other operations was SEK 577 M (-838). Net debt for the Group was higher than last year, mainly as a result of net investments in housing projects and reduced cash flow from customer advances.

Allocation of assets in the Balance Sheet



Cash flow before financing



Net debt



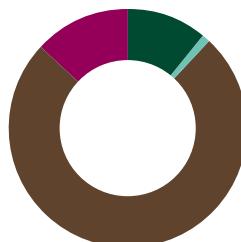
Bonava's owners and the share

The Bonava share is listed on Nasdaq Stockholm, Large Cap since 9 June 2016. Bonava has two share classes, Class A and Class B, which both trade on Nasdaq Stockholm. Each share of Class A in the company entitles the holder to ten votes and each share of Class B in the company entitles the holder to one vote. The total number of shares as of 31 December 2018 was 108,435,822, of which 13,119,715 Class A shares and 95,316,107 Class B shares, corresponding to a total of 226,513,257 votes.

Owners and ownership structure

As of 31 December 2018, Swedish businesses held 86.6 per cent of the share capital. Foreign ownership amounted to 13.4 per cent. The number of shareholders amounted to 30,941 (35,299).

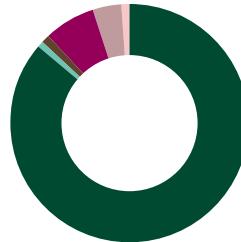
Ownership categories¹⁾



- Private individuals, Sweden, 11%
- Private individuals, Other, <1%
- Companies, Sweden, 75%
- Companies, Other, 13%

¹⁾ Source: Euroclear Sweden as of 31 December 2018.

Ownership by country¹⁾



- Sweden, 87%
- Luxembourg, 1%
- Finland, <1%
- US, 7%
- UK, 4%
- Other, 1%

QUICK FACTS

Marketplace:	Nasdaq Stockholm	Market cap as of 31 December 2018:	SEK 12.3 Bn
Segment/sector:	Financials/Real Estates	ISIN code, Class B share:	SE0008091581
Share Class:	Class A and Class B	ISIN code, Class A share:	SE0008091573
No. of shares:	108,435,822	Ticker symbols	
Of which class A:	13,119,715	Nasdaq:	BONAV B
Of which Class B:	95,316,107	Bloomberg:	BONAVA:SS
		Reuters:	BONAVb.ST

Largest shareholders	No. of Class A shares	No. of Class B shares	Holding, %	Votes, %
Nordstjernan AB	10,000,000	10,323,759	18.7	48.7
AMF – Försäkring och Fonder	0	14,000,638	12.9	6.2
Swedbank Robur fonder	128,119	8,125,945	7.6	4.2
SEB Investment Management	0	7,145,711	6.6	3.2
Lannebo Fonder	0	6,964,301	6.4	3.1
The Fourth Swedish National Pension Fund (Fjärde AP-fonden)	3,343	4,226,944	3.9	1.9
Länsförsäkringar fondförvaltning	0	3,753,345	3.5	1.7
Carnegie fonder	0	2,500,000	2.3	1.1
State Street Bank and Trust CO, W9	5,435	2,405,701	2.2	1.1
Afa försäkring	0	2,129,519	2.0	0.9
Subtotal, 10 largest shareholders	10,136,897	61,575,863	66.1	71.9
Other	2,982,818	33,740,244	33.9	28.1
Total no. of shares	13,119,715	95,316,107	100.0	100.0

Source: Euroclear Sweden as of 31 December 2018.

Share capital performance

Date	Event	Change in share capital, SEK	Change in no. of shares	Share capital after change, SEK	No. of shares after change
8 Apr. 2013	New formation	N/A	N/A	50,000	1,000
3 Feb. 2016	New issue	+ 450,000	+ 9,000	500,000	10,000
	Merger of shares (10000:1)	N/A	-9,999	500,000	1
	Share split (1:108435822)	N/A	+ 108,435,821	500,000	108,435,822
26 Apr. 2016	Bonus issue	+ 409,500,000	N/A	410,000,000	108,435,822
18 May. 2016	Bonus issue	+ 23,743,288	N/A	433,743,288	108,435,822

Progress in the year

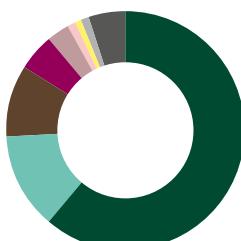
During the year, Bonava's Class B share decreased by 1.7 per cent compared to OMXSPI, which decreased by 7.8 per cent in the same period. From the date of the IPO on 9 June 2016, Bonava's Class B share increased by 7.2 per cent compared to OMXSPI, which rose by 9.1 per cent in the same period. The closing price on 28 December 2018 was SEK 109.0 per class A share and SEK 114.2 per class B share, corresponding to market capitalisation of SEK 12.3 Bn.

Share turnover and trading

Average daily turnover for the class B share was 230,242 in the year. During the year Bonava's Class B shares were traded on more than eight different market places, of which Nasdaq Stockholm represented 62 per cent of turnover.

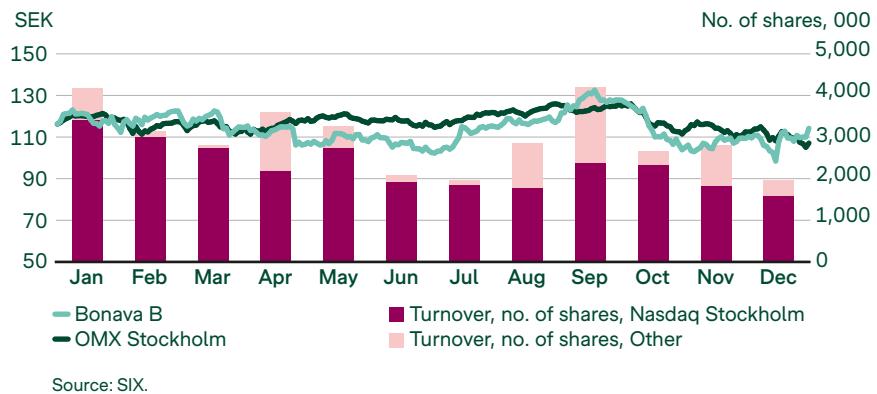
Return

Total return in the year was 3.1 per cent. From the date of the IPO, Bonava has delivered a total return of 15.9 per cent. As of 31 December, the dividend yield was 4.6 per cent based on proposed dividend of SEK 5.20 per share for 2018. The highest closing price for Class B shares during the year was SEK 132.5 on 17 September, and the lowest closing price for Class B shares was SEK 98.5 on 10 December.

Market share (trading)

- Nasdaq, 62%
- Cboe APA, 13%
- Cboe BXE, 10%
- Cboe CXE, 5%
- LSE, 3%
- Turquoise, 1%
- Posit, 1%
- UBS, 1%
- Other, 5%

Source: Fidessa as of 31 December 2018.

Share price performance**Average daily turnover (no. of shares)**

	2018
Class A shares	2,935
Class B shares	230,242

Trading in Class B shares

	2018
Share turnover, million	57.5
Value of share turnover, as of 31 December	SEK 6.6 Bn
Average daily turnover	SEK 26.3 M

Dividend and dividend policy

Bonava's dividend policy is to distribute a minimum of 40 per cent of profit after tax for the year. The Board of Directors proposes a dividend of SEK 5.20 per share, divided into two payments and totaling 44 per cent of profit for the year after tax. The first payment of SEK 2.60 per share is proposed for disbursement on 17 April 2019 and the second payment of SEK 2.60 per share on 16 October 2019.

Buy-back of treasury shares

The Annual General Meeting on 25 April 2018 authorised the Board of Directors' proposal to buy back Class B treasury shares on the basis of the share-based incentive program LTIP 2018. In 2018 265,861 Class B shares were repurchased, corresponding to 0.2 per cent of the number of registered shares with a total value of approximately SEK 29.0 million. In total, Bonava has repurchased 815,061 shares.

Conversion of shares

According to Bonava's Articles of Association, owners of Class A shares are entitled to conversion to Class B shares. In 2018, a total of 20,843 Class A shares were converted to 20,843 Class B shares.

Analysts who cover the Bonava share¹⁾

ABG Sundal Collier	Tobias Kaj	tobias.kaj@abgsc.se
Carnegie Investment	Erik Granström	erik.granstrom@carnegie.se
DNB Markets	Mattias Montgomery	mattias.montgomery@dnb.se
Handelsbanken Capital Markets	David Flemmich	dafl06@handelsbanken.se
Nordea Markets	Niclas Höglund	niclas.hoglund@nordea.com
SEB Equities	Stefan Andersson	stefan.e.andersson@seb.se
Kepler Cheuvreux	Jan Ihrfelt	jihrfelt@keplercheuvreux.com

¹⁾ For updated information visit bonava.com/investor-relations/analytiker.

Per share data ¹⁾	2018	2017
Share price, Class A, SEK	109.00	113.50
Share price, Class B, SEK	114.20	114.60
High, Class B, SEK	132.50	159.00
Low, Class B, SEK	98.50	111.50
Share price performance, %	-0.3	-18.8
Equity per share, SEK	68.36	61.48
Dividend, SEK	5,20 ²⁾	5,20
Total return, %	3.1	-15.0
Dividend yield, %	4.6 ³⁾	4.5
Earnings per share ⁴⁾ , SEK	11.74	12.99
Cash flow, SEK per share	-5.84	0.79
P/E ratio	9.7	8.8
No. of shares	108,435,822	108,435,822
No. of shareholders	30,941	35,299

LTIP 2018

Bonava has two existing share-based incentive programs encompassing 25 people and 50 people respectively. The Annual General Meeting on 25 April 2018 authorised the introduction of an additional share-based incentive program consisting of Group management and certain key executives, a total of some 50 persons.

For more information, see Note 4.

¹⁾ At year end 31 December 2018.

²⁾ Proposed by the Board.

³⁾ Based on proposed dividend.

⁴⁾ Before and after dilution.

Investor Relations

Bonava's communication with the capital markets aims to increase the understanding of Bonava's business and sustainability impact, optimise access to capital and reduce share price volatility. Bonava's Investor Relations department aims to provide the capital markets with transparent, timely and relevant information as far as possible.

Bonava's information flow should be relevant to the target group, communicated within a reasonable time frame and reach the company's stakeholders simultaneously to ensure continuous access to up-to-date information. Investor Relations events are

held throughout the year by presentations in conjunction with Interim Reports, Capital Market Days, roadshows, investor and analyst meetings and Annual General Meetings and General Meetings.

For more information

Ann-Sofi Danielsson, CFO
Ann-sofi.danielsson@bonava.com
Tel: +46 (0)8 409 544 00
Tel: +46 (0)706 740 720

Key dates for Bonava's shareholders

	2019
Annual General Meeting	April 10
Interim Report Jan-Mar	April 25
Interim Report Jan-Jun	July 16
Interim Report Jan-Sep	October 23



Interview with Bonava's CFO



ANN-SOFI DANIELSSON, CFO

"Our geographical diversification creates good opportunities as we are able to allocate capital to those markets that generate the best returns."

Are you satisfied with the full year 2018 and is there anything specific you would like to emphasise?

Our strategic initiatives are providing results and in 2018 we have taken important steps. We have continued to grow in Germany, which is now our largest segment. Our project portfolio is stable and at year-end we had more than 10,000 units in production, of which 68 per cent are sold. During 2018, we continued to grow with good returns, a 35 per cent equity ratio, while return on capital employed was well in line with our long-term goal, with an outcome of 12.8 per cent (target 10–15 per cent). Furthermore, we have good cost control in the company, and we are entering 2019 with financial strength that gives us good opportunities to continue to be active in the market and develop our projects.

Why should I invest in Bonava?

We have extensive experience in residential housing development and, with our broad geographical spread over eight countries, we have a low risk profile due to not being dependent on one single housing market. Our geographical diversification creates good opportunities as we are able to allocate capital to those markets that generate the best returns. In Germany, demand for affordable housing is expected to increase rapidly in the next few years. Consequently, Bonava lately increased the number of building rights in Germany. We also have a diversified business model which means that we sell homes to both consumers and investors. The investor business is strong on most of our markets. Price growth on our markets has created demand for affordable housing which is in line with our strategy of offering affordable homes for the many.

Could you describe your sustainability work from a financial perspective?

We start with the sustainability agenda, which has been produced to ensure that we deliver on our financial targets long term. One of our Group objectives is to publish an annual Sustainability Report in accordance with GRI standards, and report progress to UN Global Compact.

Unlike other residential developers Bonava doesn't report profit from sales until a home has been handed over to the customer. Why?

All residential development projects include multiple risk factors such as delays to production, legal disputes or sales results that are lower than expected. Due to our business model we use this profit recognition method.

Risks and risk management

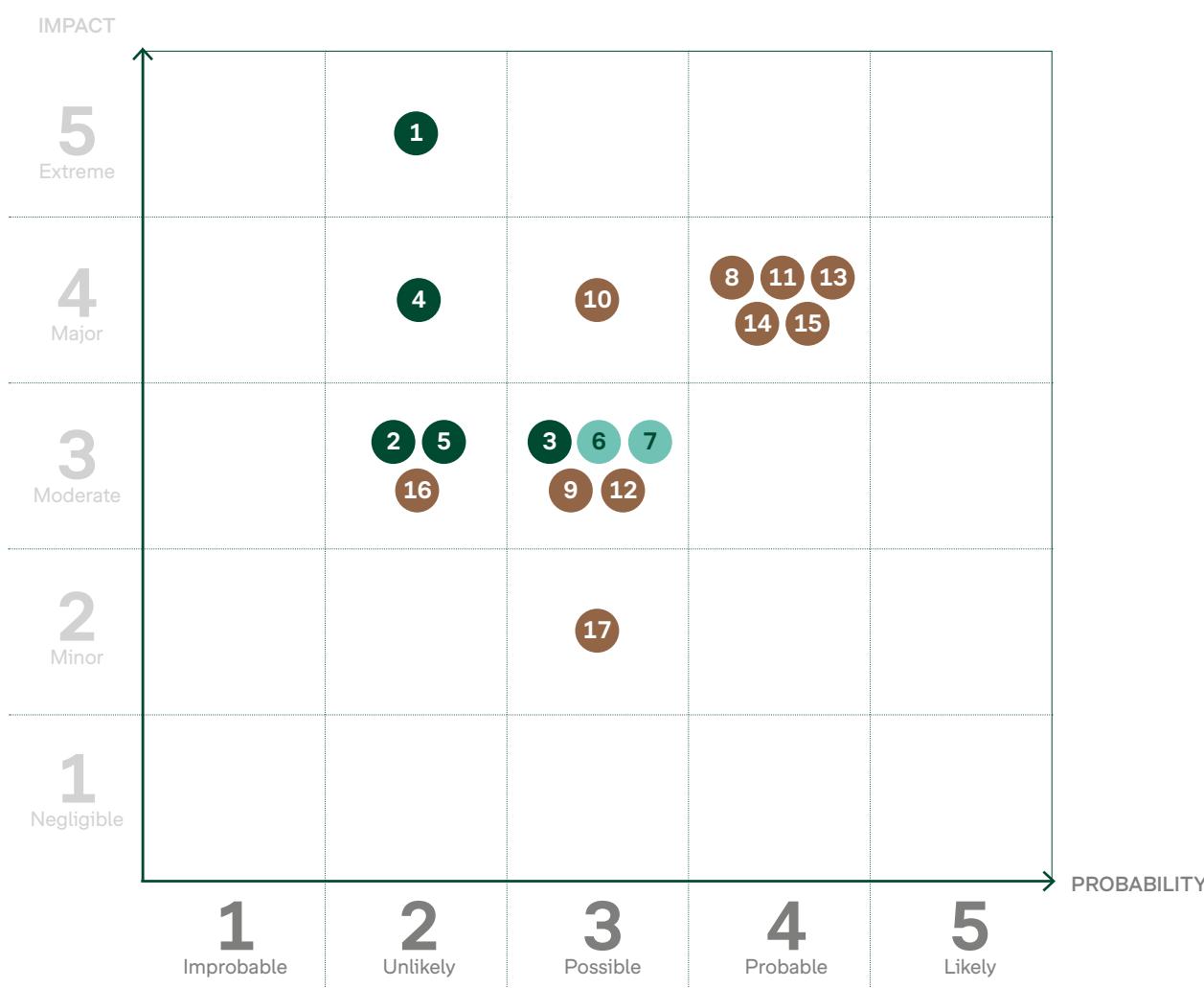
Risks and risk management

Bonava is exposed to risks with varying degrees of impact on the company. The risks can be attributable to events or decisions beyond Bonava's control, but may also be the result of decisions by the company. Through structured and proactive risk management, Bonava's ambition is to ensure that the risks, as far as possible, are minimised or remain potential risks. The Audit Committee is also tasked with monitoring and evaluating Bonava's risk management, including the internal control environment.

In the risk management process, a number of risks have been identified and assessed based on the probability that they occur and what impact they would have on operations. An analysis of the risks is presented in the illustration and table below. An evaluation of probability and impact illustrates Bonava's analysis of inherent risk without considering mitigating factors. For more information on how Bonava's operations affect the environment and what efforts are being made to minimise the negative effects, see page 22-32.

The Risk Committee comprises the CFO, General Counsel, Group Head of Finance & Business Control, Group Head of Sustainability and Group Head of Risk and Compliance. The Risk Committee is responsible for centrally organising, coordinating, and driving Bonava's risk management work. The Risk Committee regularly reports to the Audit Committee and Executive Management.

Risk matrix



		PROBABILITY THAT THE RISK IS REALISED (See illustration on page 67 for summary)		IMPACT IF THE RISK IS REALISED (See illustration on page 67 for summary)	
FINANCIAL RISK					
	RISK AREA	DESCRIPTION		MITIGATING FACTORS	
1	Liquidity risks	Liquidity risk is the risk of the company being unable to meet its payment obligations on the due date without incurring significantly increased funding costs.	2	5	Bonava has stipulated a specific level relating to its payment capacity. The company also has a structured process for continuously monitoring and forecasting Group liquidity in order to ensure optimal financing and liquidity at all times.
2	Guarantees	Bonava's business depends on guarantees. Guarantors could decide against providing additional guarantees to Bonava if the company exceeds its guarantee facilities.	2	3	Bonava closely monitors its volume of guarantees and obtains sureties from a centrally selected group of guarantors. The company also focuses on the reclamation process of outstanding guarantees.
3	Errors in reporting	Financial reporting of the housing market is complex and implies both complex calculations and valuations. Incorrect calculations and insufficient monitoring and analysis of reported figures can lead to significant errors in financial reporting.	3	3	Bonava applies the completed contract method, which implies that revenues and costs are known at the time of profit recognition. The company also has a structured process for budgeting outstanding costs at the time of profit recognition.
4	Valuation	The valuation of Bonava's assets in properties held for future development and ongoing and completed housing projects are dependent on estimates of the housing units' future sales value and estimates of future costs for development and production. Inaccurate estimates can lead to incorrect reporting of the value of these assets.	2	4	Bonava undertakes a thorough valuation process where the future sales value and cost is regularly reviewed. Potential impairment of assets is reported in the Interim Reports.
5	Fluctuations in interest rates and currencies	Bonava is exposed to interest rate and currency risks insofar as interest rate and exchange rate fluctuations could impact profit and cash flow or the fair value of financial assets and liabilities negatively.	2	3	Bonava's Finance policy stipulates a specific level for the average interest-fixing period in the debt portfolio and that interest roll-over structure should be diversified over time. Bonava's exchange rate risk is limited because the business units' payments are mainly denominated in local currency. Exchange rate risk in the form of currency fluctuations is managed centrally by the Treasury function and is widely hedged in accordance with the Finance Policy.
MACROECONOMIC RISK					
	RISK AREA	DESCRIPTION		MITIGATING FACTORS	
6	Demography/economic growth	A downturn in the economy could affect consumer purchasing power and hence negatively affect sales and profitability.	3	3	Bonava constantly analyses the market situation in each area of operations. A diversified portfolio in eight countries provides the opportunity to flexibly take advantage of changing market conditions.
7	Rules and regulations	Changes to planning regulations and construction guidelines can generate cost increases or delay construction projects. Legislative changes relating to tax and borrowing can influence housing demand and property prices. Sustainability-related regulatory progress can imply risks as well as opportunities.	3	3	Bonava is in ongoing dialogue with stakeholders that are able to influence the political agenda. This is complemented by external analysis focused on identifying causes, trends and ongoing changes to laws, regulations and other rules. When significant changes occur, Bonava adjusts continuous processes and decisions, and whenever necessary, the strategy.

		PROBABILITY THAT THE RISK IS REALISED (See illustration on page 67 for summary)		IMPACT IF THE RISK IS REALISED (See illustration on page 67 for summary)	
OPERATIONAL RISK					
	RISK AREA	DESCRIPTION		MITIGATING FACTORS	
8	Portfolio Management	Inopportune or poorly made portfolio management decisions could lead to unfavourable use of capital and decreased profitability.	4	4	Investment and divestment of land is controlled through a multi-layer control environment that includes approval requirements of the Board of Directors regarding larger deals and a well-developed due diligence process.
9	Project development	Price changes in purchasing, increased project engineering costs and delays caused by lack of or delayed permits from public authorities could occur in the project development process. Misjudging the constitution of acquired land or infrastructure costs could increase the costs of a project.	3	3	Operational risks are managed by a structured internal corporate governance process. Bonava evaluates and manages risks through operational systems and developed processes and routines, such as preliminary project and detailed project planning processes, and centralised procurement.
10	Procurement	Bonava is moving from general contracts to divided contracts and assumes direct control of its production activities. The failure of procurement activities could lead to significant financial and operational disadvantages for the company. If Bonava fails to control its supply chain for compliance with the universal principles of human rights, labour conditions, environment and anti-corruption there is a risk of significant reputational damages arising.	3	4	Bonava has established a centralised procurement organisation and created a framework for the selection and review of its suppliers in order to increase control over and improve the coordination of procurement. Bonava has identified the requirements that each supplier must fulfil in order to qualify as a supplier of Bonava, with principles of the UN Global Compact and Bonava's Code of Conduct as a starting point.
11	Design and production	Shortcomings in the planning and implementation of the production of housing units could lead to increased costs and/or unsatisfactory quality, resulting in increased guarantee costs and damage to the company's reputation.	4	4	Bonava seeks to increase the industrialisation of its production. Increased repetition and knowledge exchange within the Group reduces the risk of repeating mistakes.
12	Environment and climate	Property operations and utilisation of properties have an impact on the environment and are regulated by extensive environmental legislation. Claims could be raised against Bonava for soil remediation and protection of ecological values in accordance with the provisions of applicable environmental legislation. Suitability of land for development may change due to altered climate.	3	3	Bonava's internal corporate governance on each market ensures compliance with national and local directives. Bonava has internal local resources and/or employs external experts to plan and carry out environmental measures and planning in close dialogue with local authorities. Bonava has Group-wide procedures and systems for alert and communication of accidents and serious incidents, as well as a professional sustainability network throughout the Group.
13	Personnel	Bonava's operations could be adversely affected if the company fails to recruit and retain employees, particularly in areas such as design, production and procurement.	4	4	Bonava has a structured recruitment process and strongly emphasises employer branding. The company offers competitive employment terms.
14	Health and safety	The health and safety of Bonava's employees and contractors relies on Bonava ensuring safe working conditions. The highest risks arise on construction sites and in the context of transport. A high proportion of the work on Bonava's construction sites is carried out by contractors and an increased risk of injury may arise if procedures are not followed.	4	4	Bonava makes no distinction between its employees and sub-contractors' staff at sites managed by Bonava and adheres to a vision of "Zero Harm" with the ultimate objective of eliminating all injuries and occupational illnesses. Bonava has established organisational structures and procedures to utilize synergies, govern operations and follow-up on the health and safety work across the Group. Bonava has implemented crisis management plans, group-wide routines and systems for Hazard and Incident handling which include notification and alerts for severe incidents (accidents and/or near misses). A group-wide health and safety network has also been established.
15	IT	A non-efficient setup of Bonava's IT architecture and IT operations would lead to decreased profitability and would impose security risks on the company.	4	4	Bonava has implemented a centralised IT organisation that continuously monitors and evaluates the company's business needs.
16	Breach of internal and external regulations	Bonava's operations are guided by a system of internal rules and principles that are based on its values and legislative requirements on the company's various markets, for example to prevent anti-corruption. Breaches of those internal and external rules could lead to significant reputational and financial damages.	2	3	Bonava runs a comprehensive compliance program ("Our Foundation") to manage these risks. Key elements of the program include direct and online training programs, extensive advisory services, a whistle-blower function and regular internal reporting and communication.
17	Housing market & competition	A downturn in the housing market could lead to adverse financial results for Bonava. Increased competition can have a negative effect on the availability of land, personnel, and supply.	3	2	The housing market is continuously monitored by internal and external experts in order to foresee changing market conditions as soon as possible. The company carries out structured customer surveys and constantly optimises production costs to always offer customers the products they demand.



Corporate Governance Report

Bonava is a Swedish public limited company listed on Nasdaq Stockholm. Bonava complies with the Swedish Corporate Governance Code. Bonava's corporate governance aims to ensure an efficient and value-creating decision-making process through the clear distribution of roles and responsibilities between owners, the Board of Directors and Group management. This transparency is a pre-requisite for quick and appropriate responses to new business opportunities.

Comments from the Chairman



CARL ENGSTRÖM, CHAIRMAN

Bonava remains on track

I am happy with the year that has passed and Bonava's achievements. The company has reached its financial goals and the share outperformed the index by almost ten percentage points. The work of streamlining our processes to meet the customers with an even more competitive offering has continued.

In 2018, Germany overtook Sweden as Bonava's biggest market in terms of sales and operating profit. Bonava was ranked as Germany's most active residential property developer for the sixth year running. During the spring, we were ranked as Latvia's largest residential property developer. Our customer focus and cost efficiency are what drive this progress.

Changes to the Board of Directors

The AGM in 2018 elected Frank Roseen as a new member of Bonava's Board of Directors. Frank's long international career in the property sector and good insight into the German market made him a welcome addition to the Board during the year. Two years ago, Mikael Norman was elected Board member and he has also served as Chairman of the Audit Committee since that date. Mikael is passionate about Bonava and has extensive knowledge of the industry and strategic business expertise. Accordingly, the Nomination Committee has nominated Mikael Norman for the position of Chairman ahead of the AGM 2019. I am convinced that this is

positive for Bonava, and after four years as Chairman, during which I have participated in bringing Bonava to the stock market, I am delighted to pass the baton to Mikael after the AGM, and look forward to working together on the Board of Directors.

The Board of Directors held a total of nine Board meetings in 2018. The Board also visited Bonava's local operations and ongoing projects in Copenhagen and Gothenburg. I can state that succession planning in the organization works well and during the year we have internally recruited a new Head of the German market.

Given the cautious developments on the Swedish market, the Board has allocated considerable time to discussing market progress and Bonava's position, including sales and investment strategies. In 2018, Bonava's sustainability work focused on charting Bonava's climate impact and preparing Bonava's climate goals in accordance with the Science Based Targets Initiative.

A safe and sustainable Bonava

Creating a safe and secure Bonava in every respect is at the top of the Board's agenda. The work associated with preventing accidents and incidents intensified on all markets. There should be no doubt whatsoever that everyone working at Bonava, employees and subcontractors alike, works together to create a workplace free from accidents. We carry out continuous exercises, repetitions and

reviews to create joint awareness of existing risks and how these can be managed to achieve our vision of "Zero Harm".

Our sustainability work indicates the way forward for Bonava as a long-term, responsible operator in sustainable development. Starting from UN Global Compact and the global Sustainable Development Goals, we are adjusting our operations to ensure sustainability. For us, this is not just a social responsibility, but sustainability is also a tool that supports our business and strengthens our customer offering.

Strong corporate culture drives Bonava

The Board's work in 2018 showed that Bonava is in a strong position to meet the challenges and opportunities that lie ahead. We have a broad geographical spread, a strong project portfolio and a stable financial position, but more importantly we have a strong corporate culture and employees that are passionate about driving Bonava's progress. As Chairman, I would like to express my gratitude and pride in the daily work carried out by Bonava's employees. Together, we are bringing our sector into the future and are creating a platform that benefits our shareholders, customers and employees.

Corporate Governance Report

Bonava is a Swedish public limited company listed on Nasdaq Stockholm on 9 June 2016. Bonava's Corporate Governance is based on Swedish Law, the Articles of Association, Nasdaq Stockholm's Rules for Issuers and regulations and recommendations issued by relevant organisations. In the countries where Bonava conducts operations, the company complies with local legislation and other regulations. Bonava also complies with accepted securities market practice, which includes the application of the Swedish Corporate Governance Code, "the Code". Bonava has not departed from the Code. There have been no instances of non-compliance with Nasdaq Stockholm's Rules for Issuers or accepted securities market practice. This Corporate Governance Report has been prepared by the Board of Directors and is presented in compliance with the Annual Accounts Act and the Code, presenting Bonava's Corporate Governance in 2018.

General meeting

Pursuant to the Swedish Companies Act, General Meetings are the company's highest decision-making body, where the shareholders make decisions relating to the company.

Notices convening General Meetings are made available on the company's website and through announcements in the Swedish Official Gazette (Post- och Inrikes Tidningar). Confirmation that the notice has been issued is published simultaneously in Swedish daily broadsheets Dagens Nyheter and Svenska Dagbladet.

General meetings in 2018

The Annual General Meeting (AGM) on 25 April 2018 was the only General meeting held in the year. In addition to electing the Board of Directors and other customary matters, the AGM authorised a new share-based incentive program for management and specified key executives.

Annual General Meeting 2019

Bonava's Annual General Meeting 2019 will be held on 10 April 2019 in Stockholm, Sweden. Shareholders are entitled to raise matters at the AGM subject to submitting a written request by no later than 20 February 2019. This information was published on the company's website in connection with the Interim Report for the third quarter 2018. The request should be addressed to the Board of Directors. Bonava seeks to ensure that the Board of Directors, management, the Nomination Committee and the Auditor are present at General Meetings. For more information about the AGM, see page 148 or Bonava's website, bonava.com.

Shares and shareholders

Bonava's share was listed on Nasdaq Stockholm on 9 June 2016. At year end, the number of shares in the company was 108,435,822. On the same date, the share capital totalled SEK 434 M with a quotient value per share of SEK 4.00.

At year end, Bonava had 30,941 shareholders. The company's five largest shareholders at year end were Nordstjernan AB, AMF Insurance and Funds, Swedbank Robur Funds, SEB Investment Management and Lannebo Funds.

→ Read more about Bonava's shares and shareholder on pages 61–63.

Articles of Association

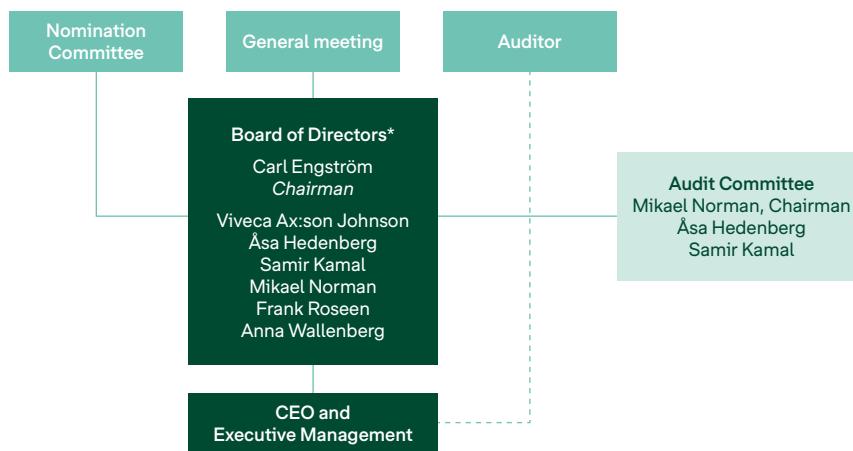
Bonava's Articles of Association were adopted by the AGM 2017 and are available in full at bonava.com. The Articles of Association stipulate that the company, directly or through subsidiaries, develops and invests in residential properties and engages in real estate trading operations, and conducts other operations related to the above. The company also undertakes certain group-wide activities, such as the provision of employees services. The registered office is in Stockholm, Sweden. The company is prohibited from making any decisions that contravene the Articles of Association without first referring such matters to the General Meeting for a decision and potentially amending the Articles of Association.

The Articles of Association do not contain any special stipulations regarding the appointment and discharge of Board members or amendments to the Articles of Association.

Nomination Committee

The AGM 2018 appointed the following Nomination Committee ahead of the 2019 AGM: Tomas Billing, Nordstjernan AB, Tomas Risbecker, AMF – Insurance and Funds, Mats Gustafsson, Lannebo Funds and the Chairman as co-opted member. Tomas Billing was elected Chairman of the Nomination Committee. The AGM also adopted instructions for the Nomination Committee's work.

Bonava's Corporate Governance



* In 2018, the Audit and Remuneration Committees' tasks were carried out by Bonava's Board of Directors.

Contact the Board of Directors at
ir@bonava.com

The work of the Nomination Committee

According to the instructions, the Nomination Committee's task is to propose to the AGM the number of Board members and the composition of the Board, including the Chairman as well as proposals relating to remuneration to the Board, including any special fees for committee work. The Nomination Committee also proposes the Chairman of the AGM and, where applicable, Auditors and their remuneration. Where required, the Nomination Committee also proposes any changes to the applicable regulations governing the Nomination Committee.

Diversity policy

Bonava's diversity policy stipulates that, with regard to the needs of the company's operations, stage of development and other conditions, the Board shall have a suitable composition characterised by diversity and breadth with regard to the members appointed by the AGM in terms of skill, experience and background, and that an even gender distribution shall be pursued. The objective of the diversity policy is to meet the requirement for satisfactory diversity in the Board in terms of gender, age and nationality as well as experience, professional background and other qualities. For more information about the company's diversity initiatives, see page 28 for the section Passionate workplace. Ahead of the AGM 2019, the Nomination Committee held two meetings where minutes were taken, and also communicated by phone and email between meetings. The Chairman of the Board of Directors reported to the Nomination Committee on the Board's work during the year, and the Nomination Committee also met with and interviewed all Board members. The Chairman of the Board has also shared the

results of the Board's self-evaluation with the Nomination Committee. The Nomination Committee has noted that the Board is well functioning. The Nomination Committee has further stated that the Board has a satisfactory composition in terms of diversity and gender distribution. The Nomination Committee has subsequently evaluated the company's needs and an appropriate Board composition in relation to the current Board members' background and expertise. The Nomination Committee also evaluated Directors' fees and addressed the matter of remuneration for committee work. All decisions taken by the Nomination Committee were unanimous.

Nomination Committee proposals

Shareholders are invited to submit their proposals and views to the Nomination Committee. Shareholders wishing to present a proposal to the Nomination Committee should do so via ir@bonava.com. No special remuneration was paid to the Chairman, or any other member of the Nomination Committee.

The Nomination Committee's proposals for Board members, Board remuneration and Auditors are published in the Notice convening the AGM and at bonava.com.

Board of Directors

According to the Articles of Association, Bonava's Board of Directors shall have a minimum of three and a maximum of eight members. The AGM on 25 April 2018 resolved to re-elect Carl Engström, Viveca Ax:son Johnson, Åsa Hedenberg, Samir Kamal, Mikael Norman and Anna Wallenberg as Board members and elect Frank Roseen as a new member of the board. For information on Board members and their assignments outside the Group, and their share-

holdings in Bonava, see the section "The Board". The Board of Directors safeguards the shareholders' long-term interests and has the ultimate responsibility for the company's organisation and administration. The Board of Directors also adopts the Rules of Procedure for the Board and instructions for the CEO. The Board of Directors has also decided on a number of policies, guidelines and instructions relating to the company's operations, see page 78. These internal governing documents are reviewed at least once a year and are also updated continuously to comply with legislation as and when required.

The Board of Directors and non-affiliation

Bonava's Board of Directors was deemed to satisfy the Code's requirements of non-affiliation as all seven of the members elected by the AGM are non-affiliated to the company and management.

All Board members, with the exception of Carl Engström and Viveca Ax:son Johnson, are deemed to satisfy the requirement for non-affiliation with regard to major shareholders (in both cases this relates to Nordstjernan AB).

Chairman

The Chairman of the Board is elected by Bonava's AGM and leads the Board's work. The AGM on 25 April 2018 elected Carl Engström as Chairman. The Chairman ensures that the Board carries out its work efficiently and fulfils its obligations, and that Board resolutions are implemented by the company and management. The Chairman ensures that the Board of Directors receives the information and supporting documentation required to make well-informed decisions.

Nomination Committee ahead of AGM 2019

Board members ¹⁾	Appointed by	Non-affiliated ²⁾
Tomas Billing, Chairman of the Nomination Committee	Nordstjernan AB	Yes/No
Tomas Risbecker	AMF – Försäkring och fonder	Yes/Yes
Mats Gustafsson	Lannebo Fonder	Yes/Yes

¹⁾ And Chairman as co-opted Board member.

²⁾ Non-affiliated to the company and management/in relation to the largest shareholder in terms of votes.

Board work in 2018

In 2018, the Board held nine meetings, including the inaugural meeting following election. The agenda for every regular Board meeting includes a number of standing items: the CEO's summary of operations, divestments and investments, financial reporting, a summary of major exposure and reports on any potential health and safety and Code of Conduct incidents. In 2018, the Board discussed and decided on adjustments of Bonava's strategy, the status on Bonava's different markets as well as a number of major sales and investments. The Board also decided to retain the formulation of the company's long-term sustainability targets and its sustainability agenda. In 2018, the sustainability agenda has focused on charting Bonava's climate impact and preparing Bonava's climate goals in accordance with the Science Based Targets Initiative.

Committees

The Board currently has two Committees: The Audit Committee and the Remuneration Committee. In 2018, the Remuneration Committee's assignments were carried out by Bonava's Board of Directors, while a dedicated Audit Committee operated separately. The committees' assignments are regulated more closely in the annually revised committee instructions.

Audit Committee

The Audit Committee works according to an agenda which is set annually. Its task is to monitor the company's financial reporting and the efficiency of the company's internal control and risk management. The Audit Committee also keeps itself continuously informed about the auditing of the Annual Report and Consolidated Financial Statements. The Committee's role includes to review and monitor the Auditor's independence and impartiality, and especially to follow up any services provided by the Auditor other than those included under the auditing assignment. The Committee also recommends the choice of Auditor to the Nomination Committee. During 2018, the Audit Committee consisted of Board members Mikael Norman, Chairman, Samir Kamal and Åsa Hedenberg, none of whom is employed by the company.

In 2018, the Audit Committee held five meetings. Bonava's Auditor was present at all the meetings. The meetings addressed matters such as the company's interim Reports, the focus of its external auditing and the company's internal control of its financial reporting.

Remuneration Committee

The task of the Remuneration Committee is to address matters relating to the principles governing remuneration to the CEO and senior executives, as well as individual remuneration to the CEO in accordance with the remuneration principles. The principles include the relationship between fixed and variable remuneration, and the correlation between performance and remuneration, mainly the terms applying to potential bonuses and incentive programs, and the primary terms of non-monetary benefits, pension, termination of employment and severance pay. The whole Board determines the CEO's remuneration and other employment terms. Share-based incentive programs to Group management and other senior executives are decided by the AGM.

The Committee also assists the Board of Directors in monitoring the system for compliance with legislation, stock market regulations and the Code governing disclosure of information relating to remuneration to the CEO and other senior executives. The Committee also assists in producing, monitoring and evaluating ongoing programs, and programs terminated during the year, relating to variable remuneration to the CEO and other senior executives, application of the guidelines for remuneration to the CEO and other senior executives where an AGM resolution is a legislative requirement, and remuneration structures and remuneration levels.

Board meetings 2018

4 December

- Budget 2019
- Review of internal control and risk assessment systems
- Sustainability agenda – status
- Annual evaluation of the Board of Directors' and CEO's work during the year
- Remuneration Committee
- Business plan (Decision)

23 October

- Interim Report Q3
- Audit Report
- Report Audit Committee
- Strategy, business plan and review of land bank

5 September

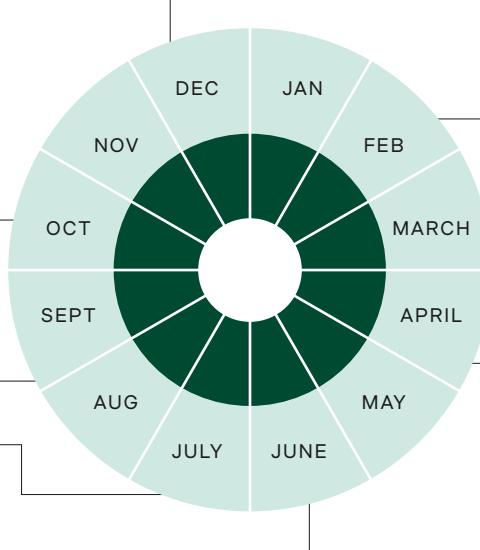
- Financial update

16 July

- Interim Report Q2

28 June

- Financial update incl. financing
- Strategy workshop and discussion
- Passionate workplace & review
- Confirmation of LTIP participants



1 February

- Year-end Report Q4
- Review of preliminary Financial Statements and draft Annual Report
- Financial objectives
- Audit Report (PwC)
- Results sustainability targets
- Result STI
- Proposed dividend
- Review of LTIP 2018
- Health & Safety update
- Strategic procurement presentation
- Report Audit Committee

14 March

- LTIP 2018 (Decision)
- Notice and documentation AGM (Decision)
- Annual Report (Decision)

24 April

- Interim Report Q1 (Decision)
- Report Audit Committee

25 April (Inaugural meeting)

- The Board of Directors' Rules of Procedure, CEO instructions and other Group policies
- Decision on Committees
- Decision on repurchase of LTIP shares

The Remuneration Committee held two meetings (Board meetings) in 2018, one regular meeting and one extraordinary meeting. All members were present at both meetings, with the exception of Board member Viveca Ax:son Johnson, who was not present at the regular meeting in December 2018. The meeting addressed matters such as Bonava's remuneration guidelines for senior executives and remuneration to the CEO and other senior management, and the proposed basis for a potential share-based incentive program for Group management and certain key executives for decision in 2019.

Remuneration

The AGM on 25 April 2018 resolved to pay, in the period until the next AGM is held, annual fees of SEK 630,000 to the Chairman and SEK 285,000 to each of the other Board members, none of whom are employed by the company. Additionally, the AGM resolved to pay, in the period until the next AGM is held, annual fees of SEK 150,000 to the Chairman and SEK 75,000 to each of the other Board members, none of whom are employed by the company. No special remuneration was paid for any other committee work.

Bonava further decided, in accordance with the current interpretation of regulations governing taxation of Directors' fees that were introduced in 2017, to no longer allow Board members to invoice Directors' fees through a wholly-owned company from the AGM on 25 April 2018 onwards.

Evaluating the Board of Directors and the CEO

In accordance with the Board of Directors' Rules of Procedure, the Chairman of the Board evaluates the Board's work annually. The evaluation for 2018 took the form of Board member Mikael Norman, on instruction from the Chairman, interviewing and discussing with each Board member and subsequently compiling the results of the discussions. The purpose of the evaluation was to gather information about the views of Board members on the Board's work and what measures can be implemented to improve its efficiency.

The intention was also to get an idea of the issues the Board of Directors considers should be given more prominence, and in which areas the Board may be in need of additional experience and competence. The results of the evaluation were presented to the Board of Directors, and the Chairman shared the results with the Nomination Committee. In brief, the Board considered that the Board's composition was appropriate, that it generally works well and that it should focus on clarifying the correlations between the company's strategy, business model and operations.

The CEO and senior management

The CEO is appointed by the Board of Directors and is responsible for the daily management of the company and the Group's activities in accordance with the Board of Directors' instructions and regulations. The division of responsibilities

between the CEO and the Board of Directors is defined in the Board's Rules of Procedure, and the instruction to the CEO is prepared by the Board of Directors. The CEO serves as the head of the Executive Management Group and makes decisions in consultation with other members of the EMG.

The EMG meets regularly and as and when required. In 2018, the EMG met on ten occasions.

Guidelines for remuneration to senior executives

In accordance with the guidelines adopted by the AGM on 25 April 2018, Bonava offers remuneration on market terms that enable the company to recruit and retain individuals with the highest possible competence levels. The total remuneration package supports the company's long-term strategy. Remuneration to management comprises fixed and variable remuneration, long-term performance-based incentive programs, pensions and other benefits. When determining fixed salaries, individual employees' area of responsibility, experience and achieved results shall be considered. Fixed salaries are reviewed either annually or biannually. All variable remuneration is related to a maximised fixed salary, and rewards the fulfilment of pre-determined targets, primarily of a financial nature. All variable remuneration at Bonava is designed to motivate and reward value-creating activities that support the company's long-term operational and financial objectives.

Remuneration and attendance at Board meetings 2018

Members appointed by General Meeting	Elected year	Board of Directors	Audit Committee	Remuneration Committee ³⁾	Non-affiliated, shareholders	Non-affiliated, company and management	Total annual fees, SEK
Total number of meetings		9	5	2			
Chairman Carl Engström	2015	9	2	2	No	Yes	630,000
Viveca Ax:son Johnson	2015	9		1	No	Yes	285,000
Åsa Hedenberg	2015	9	5	2	Yes	Yes	360,000
Samir Kamal	2015	9	5	2	Yes	Yes	360,000
Mikael Norman	2017	8	5	2	Yes	Yes	435,000
Magnus Rosén ¹⁾	2015	3			Yes	Yes	71,250
Anna Wallenberg	2015	9		2	Yes	Yes	280,000
Frank Roseen ²⁾	2018	5		2	Yes	Yes	213,750

¹⁾ Left the Board at the AGM 25 April 2018.

²⁾ Elected Board member at the AGM 25 April 2018.

³⁾ In 2018, the Remuneration Committee's tasks were carried out by the Board of Directors.

With regards to pension, Bonava is offering defined contribution solutions, which means that Bonava pays premiums comprising a specific portion of the employee's salary. In this context, senior manager means the CEO, CFO and other members of Group Management. For more information on remuneration to senior executives, see Note 4 on page 104. The Board of Directors is entitled to depart from the above guidelines of remuneration to senior managers if there are special reasons in an individual case.

Share-based incentive program

Bonava has two existing share-based incentive programs encompassing approx. 50 people in total. The AGM on 25 April 2018 approved the Board of Directors' proposal to introduce an additional share-based incentive program for Group management and certain key individuals, totalling some 50 people. Similarly to previous programs, participation in the program requires an independent shareholding in Bonava. The aim of the long-term incentive programs is to link the interests of shareholders and those of the EMG and specified key executives in order to ensure maximum long-term value creation. The AGM also resolved to authorise the Board of Directors to repurchase Class B shares to ensure the implementation of the incentive program. The Board of Directors has decided to utilise this authorisation and has carried out a share buyback program. To Bonava's future AGMs,

Audit fees in 2018

	SEK M
Audit fees to PwC	6
Fees to other auditors	1
Fees for audit-related consulting services	0
Fees for tax consulting services	0
Other fees	0

Share-based long-term incentive program

	LTIP 2018	LTIP 2017	LTIP 2016
No. of employees invited to participate	50	51	25
No. of employees opting to participate	41	50	25

the Board of Directors intends to propose long-term incentive programs based on similar principles to the program implemented in 2018.

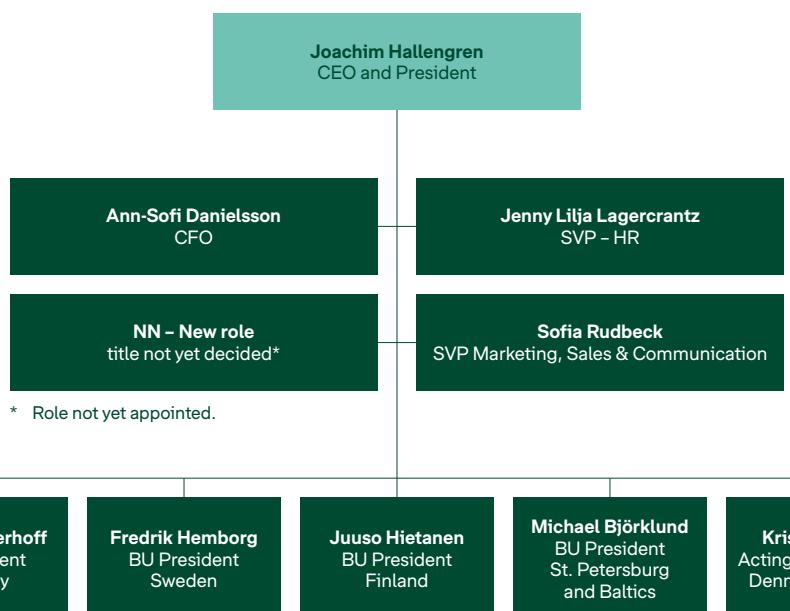
Auditor

The company's financial accounts and accounting, as well as the management by the EMG and the Board of Directors, are reviewed and audited by the company's auditor. At the Annual General Meeting on 25 April 2018, registered audit firm PwC (Öhrlings PricewaterhouseCoopers AB) was elected Auditor for the period until the Annual General Meeting in 2019. The election took place on the Nomination Committee's recommendation which conformed to the Audit Committee's recommendation, both based on a tendering process. The Chartered Accountant, Patrik Adolfson,

has been appointed Auditor. For more information about Patrik Adolfson's experience, see page 81.

The Auditor shall report any material accounting errors and suspected irregularities to the Audit Committee. At least once a year, usually in connection with the closing of the Financial Statements, the Auditor shall report any observations from the audit and its assessment of the company's internal control to the Board of Directors. The Auditor also participates at the AGM to present its Audit Report and outline the audit work carried out and observations made. Bonava's Sustainability Report was audited and complies with statutory requirements on sustainability reporting and the Global Reporting Initiative standards according to PwC. Fredrik Ljungdahl was Auditor in Charge for the Sustainability Report.

Organisational structure



The Board of Directors' report on internal control

Internal control of financial reporting and risk management

Bonava's internal control regarding financial reporting is designed to manage risk and ensure a high degree of reliability in the processes surrounding the preparation of the Financial Statements, and to ensure compliance with applicable accounting standards and other requirements placed on Bonava as a listed company. Bonava complies with the Committee of Sponsoring Organisations of the Treadway Commission's ("COSO") framework for evaluating a company's internal control over its financial reporting, "Internal Control—Integrated Framework." The Framework includes the following five components: control environment, risk assessment, control activities, information and communication, and follow-up. The process has been designed to ensure appropriate risk management, including reliable financial reporting in accordance with IFRS, applicable legislation and regulations as well as other stipulations with which companies listed on Nasdaq Stockholm are required to comply. This work involves the Board of Directors, Group management and other employees.

Process for risk assessment and internal control

In 2017, Bonava established a central Risk Committee and introduced a new annual process for systematic risk assessment and internal control for financial and non-financial risks. The Risk Committee comprises the company's CFO, General Counsel, Group Head of Finance and Business Control, Group Head of Sustainability and the Group Head of Risk and Compliance. This process was developed further in 2018. At the beginning of the year, each of Bonava's operational business unit evaluates the key risks the segment encounters in its operations. These are then discussed and analysed in more detail during the spring in an interactive process that includes the Risk Committee. Subsequently, in the summer, each respective business unit and Group function evaluates internal control for a number of risk classes, where the business units focused on the primary risks identified in the risk assessment process. The risk assessment was performed in close interaction with both the Risk Committee and Bonava's Auditors. Once these have been discussed and analysed by the Risk Committee, Bonava's annual report on risk and compliance is compiled on the basis of the above process. The report for 2018 has been approved by

the CEO and Audit Committee, authorised by the Board and presented to the EMG.

Control environment

The division and delegation of responsibilities has been documented and communicated in company policies that govern the Board of Directors and the company.

The Board of Directors reviews and approves the following policies annually:

- The Board of Directors' Rules of Procedure
- Instruction to the CEO
- Decision-making procedure
- Finance policy
- Code of Conduct
- Corporate Governance policy
- Insider policy
- Communication policy
- IT-policy
- Sustainability policy
- HSEQ policy
- HR policy
- Procurement policy
- Information security policy

All policies are decided by the Board of Directors. In addition to these policies, Bonava also uses other types of binding governing documents, among them a Group Procedure Data Privacy which was decided by the CEO as part of the GDPR-project implemented in the year. All internal governing documents are updated regularly in connection with changes to legislation, accounting standards or listing requirements, and as and when necessary. All the Group's policies and other governing documents are available to all employees on the company's intranet. The Board of Directors monitors and ensures the quality of the company's internal control in accordance with the Board's Rules of Procedure and instructions to the Audit Committee.

The Board of Directors has also adopted a number of fundamental guidelines that govern risk management efforts and internal control activities. These guidelines include risk assessment, demands for control activities to manage the most material risks, in accordance with the aforementioned new risk assessment and internal control process, and reporting. Bonava's control environment is comprised of responsibilities, powers and governing documents, alongside laws and regulations. For management, relevant named document owners have primary responsibility for ensuring compliance with the relevant governing documents.

In addition, the company considers that all employees have a responsibility to ensure compliance with all governing regulations and processes. The company facilitates for employees to assume this responsibility by means of various information and training initiatives.

Risk assessment

In accordance with the Board's Rules of Procedure, the Board of Directors and the Audit Committee review the company's internal control annually. This review is based on the above described new risk assessment and internal control process. Group management performs the overarching risk analysis, which identifies risks in the following areas:

- Bonava's surrounding world
- Strategic
- Operational
- Health and safety
- Climate and environment
- Customer-related
- Financial
- Legal

The risks identified in each area are evaluated on the basis of the estimated probability and impact. The outcome of the risk analysis is part of the aforementioned risk assessment and internal control process and is included in the annual risk and compliance report. For more information about the Group's risks and risk management, see pages 67–69 and Note 24.

Control activities

Bonava's risk management is based on a number of control activities taking place at different levels throughout the business operations, in Shared Service Centres (SSC) and within different functions. The control activities are intended to ensure that Bonava's processes are efficient and that the risks identified are managed effectively. For the business operations, ERP systems form the basis of the control structure, focusing on key stages of business operations such as investment decisions, production start and sales. Bonava places considerable emphasis on following up its projects. Bonava has established several SSCs, including Bonava Business Services, which handles most of the Nordic operations' transactions, and Human Resources Operations (HRO) which handles pay roll for the Nordic countries. Additionally, Group IT assumes central responsibility for all of Bonava's IT-systems. All these functions stipulate that processes must include control activities that manage

identified risks efficiently. In addition to the risk assessment and internal control processes described above, other control activities mainly include quarterly Board meetings in each business unit, which are all incorporated as separate legal entities. These meetings focus on reporting and discussion of financial forecasts and results, the business units' structured risk assessment and other factors. Bonava has also implemented a comprehensive compliance program ("Our Foundation"). The program aims to minimise risk relating to regulatory compliance and business ethics, and includes written guidelines on anti-corruption and competition legislation, central and local advisors on these issues, compulsory training in business ethics and a whistle-blower function. For more information, see page 31.

Information and communication

Bonava has established an organisation to ensure correct and efficient financial reporting. The internal control documents specify the division of responsibilities, and the daily interaction between the affected individuals means that relevant information and communication reaches all the relevant parties. Guidelines, instructions and manuals of significance to financial reporting are communicated to the relevant employees through Bonava's intranet. The Board of Directors regularly receives financial reports regarding Bonava's financial position and earnings performance. The EMG receives weekly and monthly financial information about the progress of Bonava's sales, profit, review and follow-up of ongoing and future investments, and liquidity planning.

The company's communication policy ensures that all external and internal information is accurate and is presented in a timely manner. Bonava's employees are invited to participate, directly or indirectly, in the preparation of internal policies and guidelines, and have thus been part of preparing these internal governing documents.

Follow-up and improvements

Follow-up continuously takes place at all levels of Bonava. The Board of Directors regularly evaluates the information provided by management and the Auditors. The company's Auditor also personally reports observations based on their review, as well as an assessment of internal control, directly to the Board of Directors. The Board of Directors assesses the information provided by Group management on a continuous basis.

Bonava's financial position, investments and its ongoing operations are discussed at each Board meeting. The Board of Directors is also responsible for monitoring and improving the internal control, and ensuring that measures are taken to address any weaknesses that emerge. This work includes ensuring that measures will be taken to handle any shortcomings, as well as following up on suggested measures arising from the external audit. The main basis for this board monitoring consists of the previously described risk assessment and internal control process.

Evaluation of the need for a dedicated internal audit function

Bonava does not currently have an internal audit function, apart from the recently established Risk Committee whose operations have some characteristics of an internal audit. The Board of Directors has reviewed the matter and considers that existing structures for follow-up and evaluation are satisfactory. In conclusion, this means that it is currently not justified to establish an internal audit function. The matter is reviewed annually.

Sustainability

The Board of Directors has determined Bonava's sustainability agenda and overarching Group sustainability targets, and presents the Sustainability Report. The Sustainability Report forms part of Bonava's Annual Report and has been prepared in accordance with the Global Reporting Initiative standards. The Sustainability Report has been assured by external experts on sustainability reporting, PwC. The period of the Report is the full year 2018 and the reporting cycle is annual. Read more about Bonava's sustainability work on pages 23–32, and 131–143 respectively. The location of sustainability-related information in the Annual Report can be found in the index on page 142.

Sustainability organisation

The Board has ultimate responsibility for Bonava's sustainability agenda and its ongoing sustainability work. Bonava's CEO delegates operational responsibility to Bonava's Head of Sustainability, who up until October 2018 reported to the company's Head of Strategy and Business Development, and coordinates sustainability work with other Heads of operations. Post EMG reconstructions, Bonava's Head of Sustainability reports to the CFO, who alongside Bonava's CEO monitors sustainability on behalf of the

EMG. At the start of 2019, changes were made to the Group's strategy and business development function, that mean it is now a strategy function and no longer represented in the EMG. Simultaneously, a new Group function was set up which is represented in the EMG, and Bonava is currently recruiting a Head of this new function, with Bonava's CFO leading the function in the interim. Some Group functions, sustainability, procurement and health and safety for instance, will report to the Head of this new function from 2019 onwards.

The Head of Sustainability leads two committees in the Group: a steering committee for the sustainability agenda and a council for preparing supporting documentation for management decisions, strategic boards and the steering committee for the sustainability agenda and implementation of such decisions. In addition to the Head of Sustainability, the steering committee includes Bonava's CEO, CFO, General Counsel, Head of HR, Head of Strategy and Business Development (up until 2018) and Head of Marketing and Sales. The Sustainability Council includes representatives from each business unit. The Head of Sustainability is also a member of Bonava's Risk Committee. In addition, Bonava has a Head of Health and Safety with overarching responsibility for developing group-wide processes and driving the development process for sustainability relating to health and safety. The Head of Health and Safety leads Bonava's Council for Health and Safety with the aim of preparing supporting documentation for management and strategic boards, and implementing decisions. The Council for Health and Safety includes representatives from each business unit. Bonava's Head of Risk and Compliance is responsible for developing Bonava's processes for its deliberate and proactive work on risk and compliance management.

The primary development work is pursued within the framework of the sustainability aspect's most relevant strategic initiatives with support from Bonava's two councils: The Sustainability Council and the Health and Safety Council.

Board of Directors



Carl Engström
Chairman since 2015
Born in 1977

Education: M.Sc. (Econ.), Stockholm School of Economics, and M.Sc. (Eng.), Royal Institute of Technology in Stockholm.

Professional status: Senior Investment Manager at Nordstjernan AB.

Previous experience: Management consultant at Bain & Co.

Other ongoing assignments: Chairman of Salcomp Oyj and Salcomp Holding AB.

Shareholding in Bonava AB: 3,000 Class A shares and 4,000 Class B shares.



Viveca Ax:son Johnson
Board member since 2015
Born in 1963

Education: Social science secondary education.

Other ongoing assignments: Chairman of Nordstjernan AB and Axel and Margaret Ax:son Johnson Foundation for Public Benefit. Director of NCC AB, Rosti Group AB, Axel and Margaret Ax:son Johnson Foundation and FPG Media AB.

Shareholding in Bonava AB: 25,000 Class A shares and 123,000 Class B shares.



Åsa Hedenberg
Board member since 2015
Born in 1961

Education: M.Sc. (Eng.), Royal Institute of Technology in Stockholm.

Professional status: CEO Specialfastigheter Sverige AB.

Previous experience: CEO Huge Fastigheter AB, CEO of Uppsalahem AB, Market Area Manager of Stockholm Kommersiellt Innerstad AP Fastigheter.

Other ongoing assignments: Director of Envac AB. Member of the Council, Stockholm Chamber of Commerce.

Shareholding in Bonava AB: 2,910 Class B shares.



Samir Kamal
Board member since 2015
Born in 1965

Education: M.Sc. (Econ.), Stockholm School of Economics. B.Sc. (Eng.), Imperial College London.

Professional status: Senior Director, Novo Holdings A/S (from April 2018).

Previous experience: Partner of EQT Partners, partner of IK Investment Partners, Project Manager at Carnegie Investment Bank and Analyst at SEB.

Shareholding in Bonava AB: 3,000 Class B shares.

The information about shareholdings in Bonava refers to shares owned directly, through related parties and companies as of 31 December 2018.

**Mikael Norman**

Board member since 2017

Born in 1958

Education: Master of Laws (LL.M.), Stockholm University.**Previous experience:** CFO Nobia, Group Controller at Electrolux, tax lawyer at PricewaterhouseCoopers and judge in the Stockholm County Court and Administrative Court of Appeal.**Other ongoing assignments:** Director of Bravida Holding AB, Byggmax Group AB, Cloetta AB and Swedavia AB, and Chairman of the Audit Committees in Bravida Holding AB, Byggmax Group AB, Cloetta AB and Swedavia AB.**Shareholding in Bonava AB:** 3,000 Class B shares.**Frank Roseen**

Board member since 2018

Born in 1962

Education: M.Sc., MBA, Business Administration, Stockholm University**Professional status:** Board member Aroundtown Commercial Properties and Chairman of the Board Star Real Estate Ventures LLC.**Previous experience:** CIO/CFO for WCM AG in Germany (2015–2016), CEO for GE Capital Real Estate in Germany and Central/Eastern Europe (2012–2015), and a number of management positions within GE Capital Real Estate in the Nordics, Europe and Asia (2002–2012).**Shareholding in Bonava AB:** 1,500 Class B shares.**Anna Wallenberg**

Board member since 2015

Born in 1975

Education: M.Sc. (Econ.), Uppsala University.**Professional status:** Sales Director, Kronans Apotek.**Previous experience:** Assortment and Purchasing Manager, Kronans Apotek. Business Area Manager at Oriola AB and Strategy Consultant at Accenture.**Other ongoing assignments:** Board of Directors of United Spaces Network Offices AB**Shareholding in Bonava AB:** 400 Class B shares.

- **Magnus Rosén** has been a member of the Board since 2015 but left the Board in 2018.

Auditor**Patrik Adolfson**PwC Sverige (PricewaterhouseCoopers)
Auditor in Charge since 2018

Born in 1973

Other significant assignments: Other audit assignments include AcadeMedia AB (publ), Attendo AB (publ), Nordstjernan Investment AB, Securitas AB (publ) and Pandox AB (publ). Member of FAR.

Executive Management Group



Joachim Hallengren

President and CEO

Born in 1964

Education: M.Sc. (Eng.), Chalmers University of Technology.

Professional experience: CEO of NCC Housing 2012–2016 and a total of 16 years' experience in a range of positions in the NCC Group, including Business Area Manager of NCC Property Development and member of the senior management of NCC AB.

Other ongoing assignments: Director of Caverion Oy, Forenom Group Oy and Director and owner of Phlebas AB, directorships in other companies in the Phlebas Group and Chairman of Offside Press AB.

Shareholding in Bonava: 12,000 Class A shares and 63,700 Class B shares.



Ann-Sofi Danielsson

CFO

Born in 1959

Education: M.Sc. (Econ.), Uppsala University. Professional experience: CFO, Financial Director and a total of 13 years' experience as a member of NCC AB's senior management.

Other ongoing assignments: Director of Vasakronan AB and Pandox AB.

Shareholding in Bonava: 16,358 Class B shares.



Sofia Rudbeck

SVP Marketing, Sales & Communication

Born in 1974

Education: M.Sc. (Eng.), Lund Technical University.

Professional experience: Product and Brand Director at Fagerhult Retail. Various positions within innovation, brand and marketing at Electrolux as well as Management Consultant at McKinsey & Company.

Other ongoing assignments: Chairman of Centre for the Future of Places (KTH).

Shareholding in Bonava: 4,650 Class B shares.



Jenny Lilja Lagercrantz

SVP HR

Born in 1972

Education: B.Sc. (Phil.), Stockholm University.

Professional experience: A total of 20 years' experience of Human Resources, including from Skandia Nasdaq Stockholm and NCC.

Other ongoing assignments: None

Shareholding in Bonava: 4,422 Class B shares.



Fredrik Hemborg

BU President Sweden

Born in 1972

Education: M.Sc. (Eng.), Royal Institute of Technology in Stockholm.

Professional experience: A total of 19 years of experience from various positions in the NCC Group, including as Regional Manager in NCC Property Development.

Other ongoing assignments: Director of Ursviks exploaterings AB.

Shareholding in Bonava: 8,137 Class B shares.



Sabine Helterhoff¹⁾

BU President Germany

Born in 1962

Education: Law degree, Leipzig University.

Professional experience: General Counsel in Germany since 1999 and responsible for investor transactions in Germany since 2007.

Other ongoing assignments: Board member of German building society Bauindustrieverband Ost.

Shareholding in Bonava: 3,334 Class B shares.

¹⁾ Joined as BU President Germany and the EMG in January 2019.

The information about shareholdings in Bonava refers to shares owned directly, through related parties and companies as of 31 December 2018.

**Juuso Hietanen**

BU President Finland

Born in 1977

Education: M.Sc. (Eng.), Helsinki University of Technology (Aalto University), Real Estate Finance, Hanken School of Economics, Finland. Finance Studies, Budapest University of Technology, Hungary.

Professional experience: A total of 12 years from various positions in NCC in Finland, St. Petersburg, Estonia–Latvia and Lithuania. Responsible for NCC Housing's operations in St. Petersburg between 2008 and 2016 and previously responsible for NCC Housing in Finland.

Other ongoing assignments: None

Shareholding in Bonava: 6,422 Class B shares.

**Kristina Olsen²⁾**

Acting BU President Denmark-Norway

Born in 1967

Education: B.Sc. (Econ.), Copenhagen Business School and certified Real Estate Agent, Niels Brock Copenhagen Business College. Advanced Business Development Program, CIF.

Professional experience: Over 25 years' experience of the property market, including 16 years in various management roles at NCC. Head of Sales and Marketing at Bonava Denmark & Norway since 2016.

Other ongoing assignments: None

Shareholding in Bonava: 2,316 Class B shares.

**Michael Björklund**

BU President St Petersburg and the Baltics.

Born in 1969

Education: M.Sc. (Eng.), Royal Institute of Technology, Stockholm, Bachelor of Economics, Stockholm University.

Professional experience: 16 years' experience of the property sector in leading positions, including IKEA Real Estate Russia, Skanska International, NCC AB and Bonava.

Other ongoing assignments: None

Shareholding in Bonava: 4,328 Class B shares.

- **Joakim Måansson**, General Counsel, was a member of EMG until year end 2018.
- **Olle Boback**, was BU President Germany and a member of EMG until year end 2018.
- **Magnus Ljung Zethelius**, previously Strategy and BU President, was a member of EMG until his resignation in November 2018.
- **Torben Modvig**, was BU President Denmark-Norway and a member of EMG until October 2018, and resigned at year end 2018.

The information about shareholdings in Bonava refers to shares owned directly, through related parties and companies as of 31 December 2018.

Auditor's Report on the Corporate Governance Report

**To the Annual General Meeting of the shareholders of Bonava AB (publ),
corporate identity number 556928-0380**

It is the Board of Directors who is responsible for the Corporate Governance Report for 2018 on pages 71–83 and that it has been prepared in accordance with the Annual Accounts Act.

We have examined the Corporate Governance Report, and based on our review and our knowledge of the company and Group we believe that the examination has provided us with sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

We believe that a Corporate Governance Report has been prepared, and that the statutory information contained therein is consistent with the annual accounts and consolidated accounts.

Stockholm, Sweden, 15 March 2019

Carl Engström
Chairman

Viveca Ax:son Johnson
Director

Åsa Hedenberg
Director

Samir Kamal
Director

Mikael Norman
Director

Frank Roseen
Director

Anna Wallenberg
Director

Joachim Hallengren
CEO

Stockholm, 15 March 2019
Öhrlings PricewaterhouseCoopers AB

Patrik Adolfson
Authorised Public Accountant
Ulrika Ramsvik
Authorised Public Accountant
Lead Partner

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Report of the Board of Directors

The Board of Directors and Chief Executive Officer of Bonava AB (publ.), corporate identity number 556928-0380, with its registered office in Stockholm, Sweden, hereby present the Annual Report and Consolidated Financial Statements for the financial year 2018.

OPERATIONS

Bonava develops and sells homes across 23 regions in eight countries. Bonava's selected geographical markets are Sweden, Germany, Finland, Denmark, Norway, St. Petersburg, Estonia and Latvia. Bonava focuses on major city regions with pronounced growth and with stable local labour markets, which generates demand for new housing over time. Bonava develops land into affordable and sustainable neighbourhoods, where the housing units are adapted to customers' wants and needs, as well as the unique circumstances of each location.

Bonava provides multi-family housing and single-family housing, and develops homes for consumers and investors, such as pension funds, alongside municipalities and other stakeholders. That is how Bonava creates new and vibrant neighbourhoods.

GROUP PERFORMANCE

Market progress

The housing market in Sweden was cautious in 2018. In Germany, the market was strong with stable house prices and positive consumer and investor demand. In Finland, the market remained good with stable house prices and positive demand. The market in Denmark was stable, with minor house price changes in the Copenhagen region where Bonava is active. In Bergen in Norway, the market was good and house prices remained stable. In St. Petersburg, the market was good with a slight increase in house prices and stable demand. The investor market remained positive in Sweden, Germany, Finland and Denmark-Norway. In the fourth quarter, Bonava completed its first investor transaction in the Baltics, and accordingly Bonava has now completed investor transactions on all its markets.

Net sales

Net sales amounted to SEK 14,008 M (14,479). The decrease was due to lower net sales from consumers and a reduction in sales of land. Net sales from consumers totalled SEK 10,709 M (11,221) and 3,539 (4,294) housing units were recognised for profit at an average price per housing unit of SEK 3.0 M (2.6). The increase was attributable to higher average prices cross all markets, partly driven by a weaker SEK. The number of housing units for investors recognised for profit in Sweden, Germany and Finland was 1,686 (1,170), and net sales amounted to SEK 2,766 M (2,119). Sales of land totalled SEK 496 M (1,036), with the decrease mainly due to Sweden. Exchange rate fluctuations had a positive effect of SEK 521 M on consolidated net sales compared to the previous year.

Operating profit

Operating profit for the period was SEK 1,654 M (1,946). The decrease was attributable to lower profit from sales of land, SEK 245 M (492), and guarantee costs previously reported in net financial items. Profit from both consumers and investors improved. Exchange rate fluctuations had a positive profit impact of SEK 53 M.

Net financial items, tax and profit for the year

Net financial items were SEK -141 M (-226). The improvement in net financial items was due to lower debt at a decreased interest rate in roubles, and lower guarantee costs in net financial items. Profit after financial items in the period was SEK 1,513 M (1,721).

Tax on profit for the period was SEK -249 M (-319), corresponding to a tax rate of 16 (19) per cent. The tax rate for the year was affected by recovered loss carry-forwards in Germany of SEK 72 M. Profit for the period after tax amounted to SEK 1,265 M (1,402).

FINANCIAL POSITION

Total assets

Total assets were SEK 21,074 M (19,713). The increase was primarily due to a higher volume of ongoing housing projects.

NET DEBT

Net debt amounted to SEK 5,542 M (4,165). Swedish tenant-owner associations and Finnish housing companies had net debt of SEK 4,965 M (5,002) in total, of which SEK 999 M (669) related to financing via parent company credit facilities directly attributable to Swedish tenant-owner associations. Consolidated net debt relating to other operations was SEK 577 M (-838). Net debt for the Group was higher than in the previous year, mainly as a result of net investments in housing projects and reduced cash flow from customer advances.

CAPITAL EMPLOYED AND RETURN ON CAPITAL EMPLOYED

Return on capital employed was 12.8 per cent (16.6). The lower return was due to increased capital employed, totalling SEK 13,332 M (12,003) at the end of the period, and lower profit. Capital employed increased due to higher volumes of ongoing housing production on all markets except Sweden, and an increase in the value of completed housing units on all markets with the exception of Germany. This was partly offset by a decrease in cash and increased customer advances in Germany.

EQUITY/ASSETS AND DEBT/EQUITY RATIOS

As of 31 December 2018, the equity/assets ratio was 34.9 per cent (33.7). Bonava's equity/assets ratio is affected by seasonal fluctuations as the company's assets and liabilities normally increase in the first three quarters of the year and then decrease in the fourth quarter, when a large number of housing units are handed over to customers and recognised for profit. The debt/equity ratio was 0.8 (0.6).

CASH FLOW

Cash flow before financing for 2018 was SEK -764 M (-26). Cash flow from operating activities before changes in working capital amounted to SEK 1,379 M (1,462) due to a decrease in profit before tax. This was partly offset by lower taxes paid in Sweden. Cash flow from sales of housing projects totalled SEK 11,082 M (11,940) and decreased in Sweden but increased in Finland. Cash flow from investments in housing projects amounted to SEK -13,445 M (-14,210). A reduction in investments in Sweden was partly offset by an increase in Finland. Cash flow from other changes in working capital amounted to SEK 354 M (893). Customer advances increased in the year, although to a lesser extent than in the previous year in Sweden and Finland, which was partly offset by St. Petersburg. Interest-free financing decreased in Denmark-Norway.

SEASONAL EFFECTS

Bonava recognises revenues and earnings from housing sales when sold and completed units are delivered to customers. Bonava's operations are affected by seasonal variations which means that a majority of housing units are delivered to customers in the fourth quarter. Accordingly, earnings and cash flow are usually stronger in the fourth quarter than in other quarters.

HOUSING SALES, HOUSING STARTS AND BUILDING RIGHTS

Housing sales

Bonava recognises revenues and earnings from housing sales when sold and completed units are delivered to customers. Bonava's operations are affected by seasonal variations which means that a majority of housing units are delivered to customers in the fourth quarter. Accordingly, earnings and cash flow are usually stronger in the fourth quarter than in other quarters.

Housing units in ongoing production

At the end of the year, there were 7,259 (6,844) housing units for consumers and 3,453 (3,036) housing units for investors in production. As of 31 December 2018, the sales rate was 52 per cent (54) for housing units for consumers and 100 per cent (100) for housing units for investors. At the same date, the completion rates were 46 per cent (44) for consumers and 30 per cent (32) for investors.

Estimated completions during 2019

Compared to year end 2017, Bonava had more housing units to complete from the first quarter of 2019 onwards, 10,712 (9,880). Of the total number of housing units not yet completed, 53 per cent (56) is expected to be completed in 2019.

Building rights

There were 30,600 (31,400) building rights, of which 15,300 (16,800) were recognised in the Balance Sheet. The number of building rights decreased in Germany and St. Petersburg compared to the previous year.

Unsold, completed housing units at year-end

The number of unsold completed housing units at year end was 379 (284). All these housing units were for consumers, mainly in St. Petersburg, Finland and Sweden.

ORGANISATION AND EMPLOYEES

In 2018, the Group's average number of employees was 1,919 (1,696). Head count was 2,079 (1,807) at the end of the year. The increase was mainly attributable to increased in-house resources and competences in production, design and procurement, and to business growth in Germany.

Legal structure

Effective 9 June 2016, NCC AB distributed all the shares in Bonava AB to shareholders. NCC AB remains a minority owner of Bonava Deutschland GmbH, but Bonava holds the option to acquire NCC AB's participations in 2021. According to a profit-sharing agreement, NCC AB will waive dividend and receive an annual compensation of EUR 1.3 M until the agreement is cancelled, which may occur five years from entering the agreement at the earliest. The agreed profit sharing, representing a debt of SEK 40 M to NCC AB, has been reported at an amount corresponding to the fair value of three years' payments.

Changes the Board of Directors

The Annual General Meeting (AGM) 2018 elected Frank Roseen as a new member of Bonava's Board of Directors. Magnus Rosén, who has been a Board member since 2015, left the Board in 2018.

SHARES AND SHAREHOLDERS

Bonava has two share classes, Class A and Class B. The closing price on 28 December 2018 was SEK 109.00 per Class A share and SEK 114.20 per Class B share, corresponding to market capitalisation of SEK 12.2 Bn. Bonava's share capital was SEK 434 M on the reporting date, divided between 108,435,822 shares and

226,513,257 votes. As of 28 December 2018, Bonava had 13,119,715 Class A shares and 95,316,107 Class B shares. Each Class A share carries ten votes and each Class B share one vote. Bonava had 30,941 shareholders at the end of the year. Bonava's largest shareholder was Nordstjernan AB. As of 28 December 2018, the ten largest shareholders controlled 66.1 per cent of the capital and 71.9 per cent of the votes.

NOMINATION COMMITTEE

Bonava's Nomination Committee for the AGM 2019 has the following members: Tomas Billing, Chairman of the Nomination Committee (Nordstjernan AB), Tomas Risbecker, (AMF Försäkring och Fonder), Mats Gustafsson, (Lannebo Fonder) and Carl Engström (Nordstjernan AB) as co-opted member of the Nomination Committee in his capacity as Chairman of the Board.

SIGNIFICANT EVENTS DURING THE YEAR

Sabine Helterhoff was appointed new BU President of Germany as of 1 January 2019. She supersedes Olle Boback, who is taking on a role as senior advisor to the Bonava Group.

Torben Modvig, BU President for Bonava Denmark–Norway left his position at Bonava in October. The process of finding a replacement has been initiated.

In 2018, Bonava repurchased 265,861 Class B shares for a total of SEK 29 M in order to fulfil the Group's commitment to its long-term incentive program, LTIP 2018.

SIGNIFICANT EVENTS AFTER THE YEAR

After the end of the financial year, Bonava decided to make changes to its segment reporting. The segments Denmark–Norway and Finland have been merged into a new Nordic segment. Operations in Estonia and Latvia have been merged with St. Petersburg to form the new St. Petersburg–Baltics segment. The segments Germany and Sweden remain unchanged. Other and eliminations now include Parent Company and Group adjustments and eliminations. The new segment divisions apply from 1 January 2019 and will be published in the Interim Report for the first quarter 2019.

REMUNERATION

The Board has evaluated the application of its guidelines for determining basic and variable remuneration to the CEO and other members of management (Group Management) approved by the AGM 2018, and the applicable compensation structures and compensation levels of the company. Because of this evaluation of the overall compensation package for the company's Group Management, the Board of Directors is proposing to the AGM 2019 that the applicable guidelines should be retained for 2019. These guidelines cover the Group Management including the CEO, totalling 9 (11) senior executives.

Bonava applies remuneration levels and employment terms that are necessary to enable the recruitment and retention of a management possessing high competence and the ability to achieve the targets set. The principles and structures of compensation should motivate senior managers to do their utmost to safeguard shareholders' interests. Accordingly, compensation should be on market terms and competitive. It should be straightforward, long-term and measurable. Compensation to senior managers should consist of a fixed and a variable portion.

Fixed salary

Fixed salary to senior managers should be on market terms and based on competence, responsibility and performance. Fixed remuneration is reviewed annually.

Short-term variable remuneration

In 2018, short-term variable remuneration to the CEO was maximised at 50 per cent of fixed salary, and for other members of Group Management maximised at 40 or 30 per cent of fixed salary. Short-term variable remuneration is reviewed yearly. At maximum levels, the company's obligations to the affected individuals would cost the company an estimated maximum of SEK 11.8 M excluding social security contributions.

Pension and other benefits

With regards to pension, Bonava is offering defined-contribution solutions, which means that Bonava pays premiums that comprise a specific proportion of the employee's salary. The members of Bonava's management that serve in Sweden and are not covered by pension benefits pursuant to the ITP plan (supplementary pensions for salaried employees) should receive a maximum of 30 per cent of annual basic salary in a yearly defined-contribution pension provision. The members of Bonava's management that serve in other countries have pension solutions that are consistent with local practice. Bonava is endeavouring to harmonise the retirement age of members of Group Management at 65.

Other benefits

Bonava provides other benefits to members of Group Management pursuant to local practice. The aggregate value of these benefits should equate to a limited value in relation to total remuneration, and correspond to what, in principle, is customary on the market.

Notice periods and severance pay

Dismissal pay and severance pay for senior executives should not exceed nine months' salary, or 12 months for the CEO and CFO, on termination by the company, and six months on termination by the senior manager. In this context, senior manager means the CEO, CFO and other members of Group Management. The Board of Directors is entitled to depart from the above guidelines of remuneration to senior managers if there are special reasons in an individual case.

Share-based incentive program

The AGM on 25 April 2018 approved the Board of Directors' proposal to introduce a share-based incentive program for Group Management and certain key individuals, totalling some 50 people. Participation in the program requires an independent shareholding in Bonava. The purpose of the program is to align the interests of shareholders and those of the EMG and specified key executives in order to ensure maximum long-term value creation. The AGM also authorised the Board of Directors to repurchase class B shares to ensure future commitments under the incentive program. The Board has decided to utilise this authorisation and has initiated a repurchase program. The Board of Directors is proposing that the AGM authorises a long-term performance-based incentive program for senior managers and key individuals within the Bonava Group (LTIP 2019). Essentially, this proposal is consistent with the long-term performance-based incentive program previously adopted for 2018, with some suggested changes relating to the performance targets.

It is the view of the Board of Directors that this type of incentive program benefits the company's long-term progress. LTIP 2019 is proposed to address a total of some 50 participants within the Bonava Group. More details on the proposal and previous long-term incentive programs are available at bonava.com. See also Note 4, Number of employees, personnel expenses and remuneration of senior executives.

PARENT COMPANY

Net sales and profit

The Parent Company comprises the operations of Bonava AB (publ). Sales for the period totalled SEK 267 M (212). Profit after financial items amounted to SEK 1,618 M (284). The average number of employees was 78 (62) in the year.

ENVIRONMENTAL IMPACT

Bonava does not conduct any operations subject to permits under the Swedish Environmental Code within the parent company or subsidiaries.

STATUTORY SUSTAINABILITY REPORT

The Sustainability Report forms part of Bonava's Annual Report and has been prepared in accordance with the Global Reporting Initiative (GRI) standards. The report comprises the year 2018 and a key change in the Report is the transition to GRI standards, from GRI G4 core. Reported indicators refer to all Bonava's units and the full year unless otherwise indicated. For more information, see page 131.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report is a separate part of Bonava's Annual Report 2018 and is not part of the formal annual accounts documentation. Please refer to the Corporate Governance section on pages 71–83.

PROSPECTS

The market in Sweden is currently cautious, although underlying demand for housing remains good in Sweden, both from consumers and investors. Demand for housing in Germany remains high. In Finland and Bergen in Norway, demand for housing is good. The market in Denmark is stable with minor house price changes in the Copenhagen region where Bonava is active. In St. Petersburg, the market is good with a slight increase in house prices and stable demand.

PROPOSED DIVIDEND

The Board of Directors is proposing a dividend of SEK 5.20 per share, paid in two disbursements. The first payment of SEK 2.60 per share is proposed for disbursement on 17 April 2019 and the second payment of SEK 2.60 per share on 16 October 2019.

AMOUNTS AND DATES

Unless otherwise stated, amounts are indicated in millions of Swedish kronor (SEK M). The relevant period is 1 January–31 December for Income Statement-related items, and 31 December for Balance Sheet-related items. Rounding differences may occur.

Consolidated Income Statement

	Note	2018	2017
	1, 11, 21		
Net sales	2, 3	14,008	14,479
Production costs	4, 5, 7, 10, 20	-11,452	-11,710
Gross profit		2,557	2,768
Selling and administrative expenses	4, 5, 6, 7, 9, 10, 20	-903	-822
Operating profit	2	1,654	1,946
Financial income		9	11
Financial expenses		-150	-236
Net financial items	8	-141	-226
Profit after financial items		1,513	1,721
Tax on profit for the year	13	-249	-319
Net profit for the year		1,265	1,402
Attributable to:			
Bonava AB's shareholders		1,265	1,402
Non-controlling interest			
Net profit for the year		1,265	1,402
Per share data (before and after dilution)			
Earnings per share, SEK		11.74	12.99
Cash flow from operating activities, SEK		-5.84	0.79
Shareholders' equity, SEK		68.36	61.48
Number of shares at end of the year, million		107.6	107.9

Consolidated Statement of Comprehensive Income

	Note	2018	2017
Net profit for the year		1,265	1,402
<i>Items that have been or may be reclassified to profit for the year</i>			
Translation differences during the year on translation of foreign operations		44	13
Other comprehensive income for the year		44	13
Comprehensive income for the year		1,309	1,415
Attributable to:			
Bonava AB's shareholders		1,309	1,415
Non-controlling interests			
Total comprehensive income for the year		1,309	1,415

Comments on the Consolidated Income Statement

NET SALES

Net sales amounted to SEK 14,008 M (14,479). The decrease was due to fewer housing units recognised for profit from consumers and a reduction in sales of land. Net sales from consumers totalled SEK 10,709 M (11,221) and 3,539 (4,294) housing units for consumers were recognised for profit, at an average price per housing unit of SEK 3.0 M (2.6). The increase was due to a higher average price across all markets, partly driven by a weaker SEK. The number of housing units for investors recognised for profit in Sweden, Germany and Finland was 1,686 (1,170), and net sales amounted to SEK 2,766 M (2,119). Land sales were SEK 496 M (1,036), with the decrease mainly due to Sweden. Exchange rate fluctuations had a positive effect of SEK 521 M on consolidated net sales compared to the previous year.

OPERATING PROFIT

Operating profit for the period was SEK 1,654 M (1,946). The reduction was due to lower profit from sales of land, SEK 245 M (492), and guarantee costs previously reported in net financial items. Profit from both consumers and investors improved. Exchange rate fluctuations had a positive impact of SEK 53 M.

NET FINANCIAL ITEMS

Net financial items were SEK -141 M (-226). The improvement in net financial items was due to lower debt and interest rates in roubles, and lower guarantee costs in net financial items.

TAX

Tax on profit for the period was SEK -249 M (-319), corresponding to a tax rate of 16 per cent (19). The tax rate for the year was impacted by recovered loss carry-forwards in Germany of SEK 72 M, whilst tax-free sales of shares in subsidiaries impacted the previous year's tax rate. See also note 13.

Consolidated Balance Sheet

	Note	2018	2017 ¹⁾
ASSETS	1, 11, 21, 22		
Fixed assets			
Goodwill	9	22	22
Other intangible assets	9	140	169
Real estate used in business operations	10	83	73
Machinery and equipment	10	181	147
Other non-current shareholdings		4	5
Non-current receivables	12	145	145
Deferred tax assets	13	145	144
Total fixed assets	24	720	705
Current assets			
Housing projects			
Properties held for future development	14	5,720	5,734
Ongoing housing projects	14	11,381	9,482
Completed housing units	14	1,510	815
Housing projects		18,611	16,031
Materials and inventories		6	7
Tax receivables			17
Accounts receivable	24	518	440
Pre-paid expenses and accrued income		254	398
Other receivables	12	640	993
Cash and cash equivalents	23	325	1,122
Total current assets	24	20,354	19,008
TOTAL ASSETS		21,074	19,713
SHAREHOLDERS' EQUITY			
Share capital	15	434	434
Other capital contributions		4,569	4,569
Reserves		111	67
Profit/loss brought forward incl. comprehensive income for the year		2,244	1,564
Shareholders' equity		7,357	6,633
Non-controlling interests		4	5
Total shareholders' equity		7,362	6,638
LIABILITIES			
Non-current liabilities			
Non-current interest-bearing liabilities	16	1,625	3,340
Other non-current liabilities	18	221	555
Deferred tax liabilities	13	13	19
Other provisions	17	541	640
Total non-current liabilities	24	2,400	4,553
Current liabilities			
Current interest-bearing liabilities	16	4,345	2,024
Accounts payable		777	807
Tax liabilities		301	132
Accrued expenses and deferred income	19	1,029	1,067
Other current liabilities	18	4,860	4,492
Total current liabilities	24	11,312	8,521
Total liabilities		13,713	13,074
TOTAL EQUITY AND LIABILITIES		21,074	19,713

¹⁾ The transition to IFRS 9 and IFRS 15 as of 1 January 2019 does not require remeasurement of opening balances in the Balance Sheet, hence these are consistent with the Balance Sheet as of 31 December 2017.

Comments on the Consolidated Balance Sheet

FIXED ASSETS

Fixed assets increased compared to the previous year due to investments in new offices and new machinery and equipment in Germany.

CURRENT ASSETS

Ongoing housing projects

The value of ongoing housing projects increased on all markets except from St. Petersburg due to projects being completed in the year.

Completed housing units

The value of completed housing units increased in St. Petersburg, the Baltics and Sweden. The number of completed housing units not yet recognised for profit was 718 (377). The average value of completed housing units was in line with the previous year.

Accounts receivable and other receivables

Accounts receivable increased slightly while other receivables decreased, mainly in Sweden.

NON-CURRENT LIABILITIES

Non-current interest-bearing liabilities

Non-current interest-bearing liabilities for Swedish tenant-owner associations and Finnish housing companies decreased compared to the previous year. This was a result of a lower number of started housing projects, see also Note 15 Interest-bearing liabilities.

Provisions

Provisions decreased compared to the previous year as a result of dissolved provisions in Sweden.

CURRENT LIABILITIES

Current interest-bearing liabilities

Current interest-bearing liabilities relating to Swedish tenant-owner associations and Finnish housing companies increased due to a higher share of ongoing housing projects in the final phase.

Other current liabilities

Other current liabilities were in-line with the previous year.

Consolidated Statement of Changes in Shareholders' Equity

	Shareholders' equity attributable to Bonava					Non-controlling interests	Total Shareholders equity
	Share capital	Other capital contributions	Reserves	Earnings brought forward	Total		
Opening shareholders' equity, 1 January 2017	434	4,569	55	592	5,648	5	5,652
Net profit				1,402	1,402		1,402
Other comprehensive income			13		13		13
Total comprehensive income	0	0	13	1,402	1,415	0	1,415
Performance-based incentive program				11	11		11
Dividend				-410	-410		-410
Purchases of treasury shares				-30	-30		-30
Total transactions with shareholders	0	0	0	-429	-429	0	-429
Closing shareholders' equity, 31 December 2017	434	4,569	67	1,564	6,633	5	6,638
Net profit				1,265	1,265		1,265
Other comprehensive income			44		44		44
Total comprehensive income	0	0	44	1,265	1,309	0	1,309
Performance-based incentive programs				5	5		5
Dividend				-560	-560	-1	-561
Purchases of treasury shares				-29	-29		-29
Total transactions with shareholders	0	0	0	-584	-584	-1	-585
Closing shareholders' equity, 31 December 2018	434	4,569	111	2,244	7,357	4	7,362

Specification of reserves in shareholders' equity

Reserves	2018	2017
Translation reserve		
Opening translation reserve	67	55
Translation differences for the year on translation of foreign operations	44	13
Closing translation reserve	111	67

CHANGE IN SHAREHOLDER'S EQUITY

The change in shareholder's equity mainly consists of comprehensive income for the year, repurchases of treasury shares and effects driven by the long-term performance-based incentive program.

OTHER PAID-UP CAPITAL

Shareholders' equity paid up by shareholders.

RESERVES

Reserves include all exchange rate differences from 1 January 2013 onwards from the translation of financial statements of foreign operations in a currency other than that used in Bonava's financial statements, SEK.

RETAINED EARNINGS INCLUDING COMPREHENSIVE INCOME FOR THE YEAR

This item includes accrued earnings in Bonava and transactions with shareholders such as dividends, repurchases of treasury shares and performance-based incentive programs.

Consolidated Cash Flow Statement

	Note	2018	2017
OPERATING ACTIVITIES			
Profit after financial items		1,513	1,721
Adjustments for items not included in cash flow:			
- Depreciation and amortisation	5	129	58
- Impairment and reversed impairment	9, 14		58
- Exchange rate differences		-56	-49
- Changes in provisions		-106	-147
- Other		-26	28
Total items not included in cash flow		-60	-52
Tax paid		-75	-206
Cash flow from operating activities before changes in working capital		1,379	1,462
Cash flow from changes in working capital			
Sales of housing projects	14	11,082	11,940
Investments in housing projects	14	-13,445	-14,210
Other changes in working capital		354	893
Cash flow from changes in working capital		-2,009	-1,377
CASH FLOW FROM OPERATING ACTIVITIES		-630	85
INVESTING ACTIVITIES			
Acquisitions of buildings and land		-33	-27
Sales of buildings and land		15	22
Acquisitions of property, plant and equipment and intangible assets		-130	-113
Sales of property, plant and equipment and intangible assets		12	8
Cash flow from investing activities		-135	-111
Cash flow before financing		-764	-26
FINANCING ACTIVITIES			
Dividend paid		-561	-410
Purchase of treasury shares		-29	-30
Increase in interest-bearing financial liabilities		3,048	3,247
Decrease in interest-bearing financial liabilities		-2,476	-2,387
Increase (-)/decrease (+) in non-current interest-bearing receivables		2	92
Increase (-)/decrease (+) in current interest-bearing receivables		-27	17
Cash flow from financing activities		-42	528
Cash flow for the year		-806	502
Cash and cash equivalents at beginning of year	23	1,122	619
Exchange rate difference in cash and cash equivalents		10	1
Cash and cash equivalents at end of year	23	325	1,122

Comments on the Consolidated Cash Flow Statement

Cash flow before financing was SEK -764 M (-26).

Cash flow from operating activities before changes in working capital was SEK 1,379 M (1,462) due to a reduction in profit before tax. This was partly offset by a lower amount of tax paid in Sweden.

Cash flow from changes in working capital amounted to SEK -2,009 M (-1,377). A reduction in land investments in Sweden was partly offset by an increase in Finland. Cash flow from sales of housing projects decreased in Sweden but increased in Finland. Cash flow from other working capital decreased compared to the previous year. Customer advances increased in the year, albeit to a lesser extent than in the previous year in Sweden and Finland, which was partly offset by St. Petersburg. Interest-free financing decreased in Denmark-Norway.

Cash flow from investing activities was SEK -135 M (-111).

Cash flow from financing activities decreased and amounted to SEK -42 M (528).

Other changes in working capital	2018	2017
Increase (-)/decrease (+) in inventories	-62	2
Increase (-)/decrease (+) in receivables	514	-285
Increase in liabilities	-98	1,176
Other changes in working capital	354	893

NET DEBT

Net debt amounted to SEK 5,542 M (4,165). Swedish tenant-owner associations and Finnish housing companies had net debt of SEK 4,965 M (5,002) in total, of which SEK 999 M (669) was financed by Parent Company credit facilities directly attributable to Swedish tenant-owner associations. Net debt for the Group relating to other operations was SEK 577 M (-838).

Net debt for the Group was higher than at the end of 2017, mainly as a result of net investments in housing projects and a lower cash flow from customer advances.

	2018	2017
Non-current interest-bearing receivables	8	10
Current interest-bearing receivables	95	68
Cash and cash equivalents	325	1,122
Interest-bearing receivables	428	1,200
Non-current interest-bearing liabilities	1,625	3,340
Current interest-bearing liabilities	4,345	2,024
Interest-bearing liabilities	5,970	5,364
Net debt	5,542	4,165

of which attributable to Swedish tenant-owner associations and Finnish housing companies

Cash and cash equivalents	106	78
Interest-bearing liabilities in external project financing	4,072	4,411
Interest-bearing liabilities in other project financing ¹⁾	999	669
Net debt in tenant-owner associations and housing companies	4,965	5,002
<i>of which other operations</i>		
Cash and cash equivalents	219	1,044
Interest-bearing receivables	103	78
Interest-bearing liabilities	899	284
Net debt, other operations	577	-838²⁾

¹⁾ Relates to financing via Parent Company credit facilities directly attributable to Swedish tenant-owner associations.

²⁾ The figure for 2017 has been adjusted to ensure comparability with 2018. Bonava has chosen to specify the proportion of project financing derived from Parent Company credit facilities in accordance with 1.

Notes for the Group

NOTE 1 Significant accounting policies

Bonava's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations made by the IFRS Interpretations Committee (IFRIC), as adopted by the EU, the Annual Accounts Act (1995:1554), RFR 1 Supplementary Accounting principles for Groups and its associated interpretations, which were published by the Swedish Financial Reporting Board.

The annual accounts and the consolidated accounts were approved for publication by the Board of Directors on 15 March 2019. The Consolidated Income Statement and Balance Sheet and the Parent Company's Income Statement and Balance Sheet will be presented to the Annual General Meeting for adoption on 10 April 2019.

New standards applied by Bonava

For the financial year starting 1 January 2018, Bonava applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time. Bonava has revised its accounting principles but has not made retroactive adjustments in connection with the application of IFRS 9 and IFRS 15.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 replaces IAS 39, which addresses classification and measurement of financial instruments, impairment of financial instruments and hedge accounting. IFRS 9 also implies revised disclosure requirements. IFRS 9 retains a mixed measurement approach, however simplified in certain respects. Bonava applies the three valuation categories for financial assets under IFRS 9: amortised cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument should be classified depends on the company's business model and the characteristics of the instrument. The classification and measurement of financial liabilities do not change, except in cases where a liability is recognised at fair value through the profit or loss statement based on the fair value option. Bonava has carried out an analysis that shows that IFRS 9 only affects disclosure. Therefore, Bonava has not restated opening balances.

IFRS 15, Revenue from Contracts with Customers, regulates revenue recognition. According to IFRS 15, revenue should be recognised when the customer gains control over the good or service sold and can benefit from the good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts, as well as their associated SIC and IFRIC interpretations. Bonava has carried out an analysis that shows that Bonava has continued support to recognise revenues from housing projects to consumers and investors, as well as sale of land, at the time when control is transferred to the buyer, which normally occurs at the time of handover to the customer. Therefore, Bonava has not restated the comparative figures for 2017. The new disclosures applicable to Bonava can be found under Note 3.

New standards and interpretations that have not yet been applied by Bonava

IFRS 16 Leases replaces IAS 17 Leasing and its associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard applies from 1 January 2019. Under the new standard almost all lease contracts are reported in the lessee's Balance Sheet, as no distinction is made between operating and financial leases. The new standard requires reporting of assets (the right-of-use assets) and financial liabilities relating to the obligation to make lease payments. In the Income Statement, the leasing expense is replaced by depreciation and interest expenses. According to IAS 17, only financial leases were reported in this manner.

At the transition to IFRS 16 total assets, capital employed and net debt increases, and the Income Statement is also affected as the cost is normally higher in the first years of a lease contract and decreases subsequently. In addition, the cost is recognised as an interest expense and depreciation rather than as other external expenses. Although this affects operating profit, the effect on Bonava's operating profit is not material. The Cash Flow Statement is also affected as cash flow from operating activities increases because a majority of amortisation of the lease liability is classified as a financing activity. Only the interest portion is included in operating activities looking ahead.

Bonava applies the simplified transition method and has therefore not restated comparative figures. At the transition to IFRS 16, Bonava reports leasing liabilities attributable to lease contracts previously classified as operating leases in accordance with IAS 17. These liabilities have been valued at present value of future minimum lease charges. Bonava uses the implied interest rate as of 1 January 2019 in the calculation of land lease contracts, and for other lease contracts, Bonava has applied the marginal borrowing rate.

Lease liabilities are classified as other liabilities in the Balance Sheet. Right-of-use assets are reported both under current assets and property, plant and equipment and is valued at an amount corresponding to the lease liability (adjusted for any prepaid or accrued lease payments as of 31 December 2018).

During the transition to IFRS 16, Bonava has in all material aspects chosen not to consider extension options as this is not economically beneficial because the assets are not business-critical or specialised, and other suitable alternatives are judged to be available. In addition, the costs associated with not extending contracts, such as costs of negotiation, relocation and identifying other appropriate assets are deemed to be immaterial.

Bonava accounts for the land lease agreements as lease contracts upon decision of a detail plan or the date when the construction permit is non-appealable. Before that Bonava does not have legal control over the land and there are no enforceable rights and obligations. These lease agreements are classified as ongoing housing projects.

With regards to completed unsold housing units, Bonava has certain obligations to Swedish tenant-owner associations, Finnish housing companies and other parties relating to payments of membership fees and rent. The intention is to divest these completed unsold housing units immediately, hence no such obligations are included in the calculation of right-of-use assets and lease liabilities under IFRS 16.

Bonava does not have any financial lease contracts in the capacity of lessor. The effect of the transition to IFRS 16 is shown in Note 25.

No other IFRS or IFRIC interpretations that have not yet come into effect are expected to have any material impact on Bonava.

CONSOLIDATED FINANCIAL STATEMENTS

Acquisition method

Business combinations deriving from parties who are not under joint control are recognised by applying the acquisition method. This method entails that the acquisition of a subsidiary is regarded as a transaction whereby Bonava indirectly acquires the subsidiary's assets and takes over its liabilities. The fair value on the date of acquisition of the acquired identifiable assets and assumed liabilities, as well as any non-controlling interests, is determined in the acquisition analysis.

In the event of a business combination in which transferred compensation, any non-controlling interests and the fair value of previously owned interests (in connection with step-by-step acquisitions) exceed the fair value of the acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. When the difference is negative, i.e. a bargain acquisition, this is recognised directly in profit or loss. Acquired and divested companies are included in Bonava's Income Statement, Balance Sheet and Cash Flow Statement during the holding period. No business combinations were executed during the financial year encompassed by this Annual Report.

Subsidiaries

Companies in which Bonava has a controlling influence, in practice through a direct or indirect holding carrying more than 50 per cent of the voting rights, are consolidated in their entirety. A controlling influence is defined as influence over the company or association, the right to variable returns from its involvement with the company or association and the ability to exercise its influence over the company or association to affect returns. Bonava has a controlling influence over tenant-owner associations and housing companies which are consolidated in full.

NOTE 1 *Significant accounting policies, cont.***Joint arrangements**

Joint arrangements are defined as projects conducted in Bonava in forms similar to those of a consortium, meaning subject to joint control. This could take the form of, for example, jointly owned companies that are governed jointly. Joint arrangements are divided into joint ventures, which are recognised according to the equity method, or joint operations, which are consolidated according to the proportional method. For further information, see Note 11. Bonava has joint ventures, however, these are not of material importance to the periods and are not presented separately in the financial statements.

Non-controlling interest

In companies that are not wholly owned subsidiaries, non-controlling interests are recognised as the share of the subsidiaries' equity held by external shareholders. This item is recognised as part of Bonava's shareholders' equity. Non-controlling interests are recognised for profit or loss. Information about the share of profit attributable to non-controlling interests is disclosed in conjunction with the Income Statement. The effects of transactions with non-controlling interests are recognised in shareholders' equity if they do not give rise to a change in controlling influence.

Foreign subsidiaries and joint arrangements

Foreign subsidiaries are recognised using the functional currency and are translated to the reporting currency. For Bonava, the functional currency is defined as the local currency used in the reporting entity's accounts. The reporting currency is defined as the currency in which the Consolidated Financial Statements are reported, in Bonava's case SEK.

Elimination of intra-Group transactions

Receivables, liabilities, revenue and expenses, as well as unrealised gains and losses that arise when an entity within Bonava sells a good or service to another Group company, are eliminated in their entirety. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no impairment. The same applies to joint arrangements, to the extent this corresponds to Bonava's participating interest.

REVENUE

Bonava's net sales primarily comprise three revenue streams: housing units sold to consumers, housing units sold to investors and to a lesser extent, sales of land. IFRS 15 describes a five-step approach to address the entire revenue chain, from contract type to revenue recognition when control has been transferred to the buyer. For Bonava, the five-step model can be summarised as follows:

1. Identify the contract(s) with a customer

Depending on revenue stream, Bonava identifies a customer contract with, for example, a private individual or an investor.

2. Identify the performance obligations in the contract

For Bonava, the customer contract generates an asset (rights, that is a promise to receive compensation) and a liability (obligations, that is a promise to transfer goods). Bonava's various obligations to its customers are not distinct and are viewed as one performance obligation in the form of transferring a housing unit to the customer.

3. Determine the transaction price

The transaction price is a fixed price stipulated in the contract. Bonava's customers pay advances at various points of the process and to varying extents depending on market. Advance payment is conditional on the completion of Bonava's performance obligation and thus does not affect Bonava's assessment of that the performance obligation is fulfilled only when the buyer takes possession of the housing unit.

4. Allocate the transaction price to the performance obligations in the contract

This is not applicable as Bonava only has a single performance obligation to its customers, that is transfer of a housing unit.

5. Recognise revenue when (or as) the entity satisfies a performance obligation

Bonava recognises revenue in the Income Statement when the performance obligation to the buyer has been fulfilled through the transfer of control of the housing unit to the buyer. For Bonava, this means that the performance obligation is fulfilled at a specific point in time for both the consumer and investor businesses which usually happens when the customer takes possession of the housing unit.

Housing projects for consumers

Bonava's business model for sales of housing units with ownership rights is that Bonava enters into an agreement to build a housing unit with each respective owner. During the construction of the housing unit, accrued costs are recognised in the asset class "Housing projects". Income is recognised when the housing units are completed and the customer has begun occupancy of the home.

In Sweden and Finland, Bonava also develops housing projects by entering into construction contracts with a tenant-owner association as the client in Sweden or a housing company in Finland. In Sweden, the end customer purchases a share in the association corresponding to an individual apartment. In Finland, the customer purchases shares in the company corresponding to an individual apartment. Bonava's business model entails that control is transferred to the customer who acquires the housing unit when the customer takes possession of the housing unit. Since Bonava exercises control over both the tenant-owner association and the housing company during construction up until the sale to the end customer, these entities are consolidated. As a result, there is no contract with any external party until the end customer has signed a contract. Revenue is based on the actual revenues for the housing project sold. Recognised revenue per housing unit is offset by a share of the housing unit's estimated cost when the project is completed.

Housing projects for investors

Sales of housing units to investors are recognised at the time when control is transferred to the buyer. Depending on the wording of the contract and local laws and regulations, this may occur on the signing date, continuously during production, or when the buyer takes possession of the housing unit. Bonava has made the assessment that control was transferred when the buyer took control of the housing unit for all projects during 2017 and 2018.

Sales of land

Sales of land are recognised on the date when control is transferred to the buyer, which normally coincides with the buyer taking possession of the property. Divestment of land that has not undergone project development is normally recognised for profit or loss on the customer's date of taking possession of the land.

For all revenue flows, estimated losses are recognised in their entirety in the Income Statement for the period.

DEPRECIATION/AMORTISATION

Straight-line depreciation according to plan is applied in accordance with the estimated useful life, with due consideration for any residual values at the end of the period, or after confirmed depletion of net asset value in those cases when the asset does not have an indefinite life. Goodwill that has an indefinite life is not amortised but subject to systematic impairment testing. Bonava applies component depreciation, whereby each asset with a considerable value is divided into a number of components that are amortised on the basis of their particular useful life.

NOTE 1 *Significant accounting policies, cont.*

The period of depreciation/amortisation varies in accordance with the table below:

Software	1–5 years
Other intangible assets	3–10 years
Real estate used in business operations	8–25 years
Machinery and equipment	3–20 years

IMPAIRMENT LOSSES

When there is an indication of an impairment requirement, Bonava tests the carrying amount of fixed assets. Impairment requirement arises when the recoverable amount is less than the carrying amount. The term impairment is also used in connection with a reduced valuation of Housing projects. Valuations of these projects are based on the lower of cost or market principle, meaning the lower of cost and net realisable value.

LEASING

In the consolidated financial statements, leasing is classified as either financial or operating leases. Financial leasing exists if the financial risks and benefits associated with ownership are essentially transferred to the lessee. All other cases are recognised as operating leases.

Financial leasing

Assets leased under financial lease agreements are capitalised in Bonava's Balance Sheet as of the date on which the agreement was concluded and the asset delivered. Corresponding obligations are entered as long-term and current liabilities.

Operating leases

Operating leases are recognised in the Income Statement. Leasing fees are allocated straight line over the leasing term, which could differ from the leasing fee paid during the year in question. For Leasing, see Note 20.

TAXES

Income taxes comprise current tax and deferred tax. Tax is recognised for profit or loss, except when the underlying transaction is recognised in other comprehensive income or in equity, in which case the associated tax is recognised in other comprehensive income or in equity. Current tax is tax that is to be paid or received in the relevant year. This also includes adjustments of current tax attributable to prior periods.

Deferred tax is recognised on the basis of temporary differences between recognised and taxable values of assets and liabilities. For information on tax on profit and deferred tax assets and liabilities for the year, refer to Note 13.

Deferred tax assets and liabilities are calculated on the basis of the tax rate determined for the following year in each particular country. When changes occur in tax rates, the change is recognised in profit for the year.

REPORTING OF OPERATING SEGMENTS

An operating segment is a part of Bonava that conducts business operations from which it generates revenues and incurs expenses and for which independent financial information is available. Furthermore, the earnings of an operating segment are continuously monitored by the chief operating decision maker, who in Bonava's case is the CEO, in order to evaluate results and allocate resources to the operating segment. The reporting of operating segments concurs with the reports presented to the CEO, in Bonava's case on the basis of the countries in which Bonava conducts operations. For more information, see Note 2.

INTANGIBLE ASSETS

Intangible assets are recognised at acquisition costs less accumulated impairment losses and amortisation. Goodwill arises from acquisitions of companies and operations. Goodwill is not amortised but is instead impairment tested on an annual basis. For more information, see Note 9.

PROPERTY, PLANT AND EQUIPMENT**Real estate used in business operations**

Real estate used in business operations are held for use in the Company's operations for the purpose of production, the provision of services or administration. These properties are recognised at cost less accumulated depreciation and any impairment losses.

Machinery and equipment

Machinery and equipment is recognised at cost less accumulated depreciation and any impairment losses. See also Note 10.

FINANCIAL FIXED ASSETS

Financial fixed assets are recognised at fair value or amortised cost. Impairment losses are posted if the fair value is less than the acquisition cost. See also "Financial instruments" below.

CURRENT ASSETS**Housing projects**

Bonava's property holdings that are designated as housing projects are measured as current assets as the intention is to sell the properties and transfer them to the customer after completion. Property holdings are measured at the lower of acquisition value (cost) and net realisable value. Housing projects are defined as completed housing units, ongoing housing projects, undeveloped land and land held for future development.

Housing projects in Bonava are divided between:

- Properties held for future development
- Ongoing housing projects
- Completed housing units

For a distribution of amounts, see Note 14. The reclassification from properties held for future development to ongoing projects occurs when construction on a project has started.

Properties held for future development

Properties held for future development are Bonava's holdings of land and building rights for future housing development and capitalised project development properties. Properties with leased buildings are classified as properties held for future development if the intention is to demolish or refurbish the properties.

Properties held for future development are valued taking into consideration whether the properties will be developed or sold. The valuation of land and building rights for future development is based on a capital investment appraisal. This appraisal is updated with regard to the established sales price and cost trend when the market and other circumstances so require. In those cases when a positive contribution margin from the development cannot be obtained taking into consideration normal contract profit, an impairment loss is recognised. Development expenses are capitalised when pertaining to land or properties owned or controlled by Bonava.

Ongoing housing projects

In connection with the production start, the value of land and capitalised development expenses is reclassified to ongoing projects, together with costs incurred after the production start.

Completed housing units

Project costs for completed housing units are reclassified from ongoing housing projects to completed housing units at the date of final inspection. Completed housing units are measured at the lowest of acquisition value and net realisable value.

FINANCIAL INSTRUMENTS

Purchases and sales of financial instruments are recognised on the date of transaction, meaning the date on which the company undertakes to purchase or sell the asset. Financial instruments recognised on the asset side of the Balance Sheet include cash and cash equivalents, loan receivables, accounts receivable, endowment policies, financial investments and derivatives. Accounts payable, loan payables and derivatives are recognised under liabilities. Financial guarantees such as sureties are also included in financial instruments.

NOTE 1 *Significant accounting policies, cont.*

A financial asset or financial liability is recognised in the Balance Sheet when the company becomes a party to the instrument's contractual terms and conditions. Accounts receivable are recognised in the Balance Sheet when invoices have been sent. Accounts payable are recognised when invoices have been received.

A financial asset is derecognised from the Balance Sheet when the contractual rights have been realised or extinguished. The same applies to portions of financial assets. A financial liability is derecognised from the Balance Sheet when the contractual obligation has been fulfilled or otherwise terminated. This also applies to part of financial liabilities.

In 2017, financial instruments were classified in accordance with IAS 39 in the following categories for measurement: financial assets measured at fair value through profit or loss, loan receivables and accounts receivable, financial liabilities measured at fair value through profit or loss (pertains to derivatives) and other financial liabilities. For 2018, financial assets are classified in accordance with IFRS 9 in the following categories: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, and financial assets valued at fair value through profit or loss. The classification of an instrument is dependent on Bonava's classification of the asset in its business models and the characteristics of the instrument. Classification of financial liabilities is unchanged between IAS 39 and IFRS 9. When entered for the first time, a financial instrument is classified on the basis of the purpose for which the instrument was acquired. This classification determines how the financial instrument is measured following the first reporting occasion, as described below.

Cash and cash equivalents comprise cash funds and immediately available balances at banks and equivalent institutions, as well as short-term investments with a maturity of less than three months at the date of acquisition and that are exposed to only a minor risk of value fluctuation.

In 2017, when IAS 39 was applicable, Bonava classified its financial assets as follows:

Financial assets measured at fair value in the Income Statement

This category includes Bonava's derivative instruments with a positive fair value. Changes in fair value are recognised under Net financial items in the Income Statement. All instruments included in this category are intended for trading. Derivative instruments that are identified and effective hedging instruments are not included in this category.

Loan receivables and accounts receivable

Loan receivables and accounts receivable are measured at amortised cost, meaning the amount expected to be received less an amount for doubtful receivables, which is assessed on an individual basis. Since the expected maturity of an account receivable is short, a nominal value without discounting is recognised. Accounts receivable are measured on an ongoing basis. As soon as it is doubtful that an invoice will be paid, a provision is made for the amount. Although each invoice is measured individually, provisions are noted for invoices that are more than 60 days overdue unless special circumstances apply. Provisions are made for all invoices that are more than 150 days overdue if payment is not secured.

In accordance with IFRS 9, which applies from 1 January 2018, Bonava classifies its financial assets as follows:

Financial assets measured at fair value through profit or loss

This category includes Bonava's derivative instruments with a positive fair value. Changes in fair value are recognised under Net financial items in the Income Statement. Most instruments included in this category are intended for trading. Furthermore, Bonava's endowment policies are valued at fair value through profit or loss.

Financial assets measured at amortised cost

The Group has accounts receivable and loan receivables resulting from the collection of contractual cash flows measured at amortised cost, that is the amount at which they are expected to be received less doubtful receivables. Since the expected maturity of accounts receivable is short, Bonava recognises a nominal value without discounting. Bonava applies the simplified approach to making

provisions for accounts receivable. The simplified approach means that Bonava measures provisions for accounts receivable at an amount corresponding to the expected credit losses for the remaining term, regardless of whether the credit has deteriorated or not. This means that for accounts receivable, Bonava proceeds from historical credit losses adjusted for forward-looking estimates.

The Group classifies financial assets at amortised cost only if the asset is part of a business model where the objective is to collect contractual cash flows, and payments from that cash flow are made at specific points in time. This category therefore includes cash and cash equivalents and other receivables that satisfy these criteria.

Bonava has not identified any financial assets valued at fair value through other comprehensive income.

Financial liabilities measured at fair value through profit or loss

This category includes Bonava's derivative instruments with a negative fair value. Changes in fair value are recognised in net financial items.

Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. Liabilities are measured at amortised cost.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currency are revalued at the exchange rate prevailing on the Balance Sheet date. Exchange rate differences arising from the translation of operational receivables and liabilities are recognised in operating profit, while exchange rate differences arising from the translation of financial assets and liabilities are recognised in net financial items.

REMUNERATION TO EMPLOYEES**Share-based remuneration**

The Bonava Group's share-based compensation program consists of shareholders' rights. The fair value of allocated rights at the time of allocation is recognised as a personnel expense with a corresponding increase in shareholders' equity.

At each reporting date, Bonava AB judges the likelihood that performance targets will be achieved. Expenses are measured based on the number of shareholders' rights expected to be settled at the end of the vesting period.

When shareholders' rights are to be settled, social security charges are paid for the value of employee benefits. These vary between the national markets where Bonava operates. In the period when services are rendered, provisions are made for these estimated social security charges based on the fair value of the shareholders' rights at the reporting date.

To fulfil Bonava AB's commitments pursuant to the long-term incentive program, Bonava AB has repurchased class B shares. These shares are recognised in treasury as a reduction in shareholders' equity. For a description of the Bonava Group's share-based payment program, see page 76 and Note 4.

Post-employment remuneration

Bonava differentiates between defined contribution and defined benefit pension plans. Defined contribution plans are defined as pension plans for which the Company pays fixed fees to a separate legal entity and does not assume any obligations for payments of additional fees, even if the legal entity lacks sufficient assets to pay benefits accrued for employment up to and including the Balance Sheet date. Other pension plans are defined benefit plans. Bonava primarily has defined contribution plans. Bonava's payments for defined contribution pension plans are recognised as a cost in the period when the employees perform the service the contribution relates to.

For salaried employees in Sweden, the ITP 2 plan's defined benefit pension obligations for retirement and family pensions are secured through insurance in Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10 Recognition of ITP2 Pension Plan financed through insurance in Alecta, this constitutes a multi-employer defined benefit plan. For the 2018 financial year, the company did not have access to information required for reporting its proportional share of the plan's commitment, plan assets and expenses, which made it impossible to report the plan as a defined

NOTE 1 *Significant accounting policies, cont.*

benefit plan. The ITP 2 Pension Plan that is secured through insurance in Alecta is therefore recognised as a defined contribution plan. The premium for the defined benefit retirement and family pension is calculated on an individual basis and depends on factors such as salary, previously vested pension and anticipated remaining term of employment. Anticipated fees during the next accounting period for ITP 2 insurance taken out with Alecta amount to SEK13 M.

The collective solvency rate consists of the market value of Alecta's assets as a percentage of its insurance obligations, calculated in accordance with Alecta's actuarial accounting methods and assumptions, which do not comply with IAS 19. The collective solvency rate is normally allowed to vary between 125 and 155 per cent. If Alecta's collective solvency rate falls below 125 per cent or exceeds 155 per cent, measures must be taken to create conditions for returning the solvency rate to the normal interval. In the event of low solvency, one measure can be to raise the agreed price for new subscriptions and increase existing benefits. In the event of high solvency, one measure can be to introduce premium reductions. At the end of 2018, Alecta's surplus in the form of its collective solvency rate was 142 per cent (154).

Remuneration on termination of employment

In conjunction with notice of employment termination, a provision is recognised only if the Company is contractually obliged to terminate employment before the normal time, or when payments are made as an offering to encourage voluntary termination. For cases in which the Company implements personnel cutbacks, a detailed plan is prepared that covers at least the workplace concerned, positions, and the approximate number of affected employees and disbursements for every personnel category or position, and the schedule for the plan's implementation. If severance payment requirements arising from personnel cutbacks extend beyond twelve months after financial year-end, such payments are discounted.

PROVISIONS

Provisions differ from other liabilities in that there is a degree of uncertainty concerning when payment will occur or the size of the amount required to settle the provision. Provisions are recognised in the balance sheet when a legal or informal commitment exists due to an event that has occurred, and it is probable that an outflow of economic resources will be required to settle the commitment and the amount can be estimated reliably.

Guarantee commitments

Provisions for future expenditure arising due to Guarantee Commitments are recognised at the estimated amounts required to settle the commitment on the Balance Sheet date. The estimation is based primarily on historical experience of comparable projects and calculations, but also on management's assessment and experience of similar transactions.

BORROWING COSTS

Borrowing costs attributable to qualifying assets are capitalised as a portion of the capitalised asset's acquisition value when the borrowing costs are significant. A qualifying asset is an asset that with necessity takes a substantial period of time to get ready for its intended use, which in Bonava's case is more than a year. Other borrowing costs are expensed on current account in the period in which they are incurred. SEK 0 (0) M was capitalised in the year. Transaction costs for borrowing raised are assigned to periods over the term of the loan according to the effective rate method.

PLEDGED ASSETS

Bonava recognises collateral provided by the company or the Group as pledged assets for liabilities and/or obligations. These may be liabilities, provisions included in the Balance Sheet or obligations not recognised in the Balance Sheet. The collateral may be tied to assets in the balance sheet or mortgages. Assets are recognised at the carrying amount and mortgages at nominal value. For type of collateral, see Note 22.

Deposit guarantees constitute collateral for investments and concession fees paid to tenant-owner associations formed by Bonava. Such guarantees are to be relinquished as soon as one year has passed after the final acquisition cost for the tenant-owner association's building has been established.

CRITICAL ESTIMATES AND JUDGMENTS

The consolidated financial statements include certain assessments and assumptions about the future. These are based in part on historical experience and in part on expectations concerning future events and thus may, at a later date, be changed because of, for example, changes in factors in the business environment. Particular attention must be paid to this at times of economic conditions characterised by major uncertainty in terms of both the construction market and the global financial markets. The assessments that are most critical to Bonava are described below.

Revenue

Bonava assesses that the consumer business has a controlling influence over tenant-owner associations and housing companies which are therefore consolidated in full. This means that there are no contracts with external parties before the end customer has signed a contract. On this basis, revenue recognition occurs in relation to the end customer, that is when housing units have been completed and the customer has taken up occupancy.

Depending on the wording of the contract and local laws and regulations, control of residential properties may be transferred to investors on the signing date, continuously during production, or when the housing unit is handed over to the buyer. Bonava assesses that control is transferred upon taking occupancy of the property, and revenue during 2017 and 2018 is recognised at that date.

Valuation of housing projects

Bonava's housing projects are recognised at the lower of acquisition value and net realisable value. The assessment of net realisable value is based on a series of assumptions such as sales prices, production costs, the price of land, rent levels and yield requirements as well as the possible timing of production start and/or sale. Bonava continuously monitors progress on the market and tests the assumptions made on an ongoing basis.

In some cases, the difference between the carrying amount and the estimated net realisable value is minor. A change in the assumptions made could give rise to an additional impairment requirement

SEK M	Carrying amount at year-end, properties held for future development ¹⁾	Impairment during the year
2018	5,720	
2017	5,734	34

¹⁾ See Note 14.

Guarantee commitments

At year-end, guarantee provisions amounted to SEK 326 M (326), see Note 17. Provisions for future expenditure arising due to Guarantee Commitments are recognised at the estimated amounts required to settle the commitment on the Balance Sheet date. This estimate is based on calculations, assessments by company management and experience gained from past transactions.

Surety and guarantee obligations, legal disputes, etc.

Within the framework of Bonava's regular business operations, Bonava occasionally becomes a party in legal disputes. In such cases, an assessment is made of Bonava's obligations and the probability of a negative outcome for the company. Bonava's assessment is made on the basis of the information and knowledge currently possessed by the company. In a number of cases, these are difficult assessments and the final outcome could differ from the estimation made. See also Note 17.

Sensitivity and risk analysis

Bonava recognises revenues and earnings from housing sales when sold and completed units are delivered to customers. Bonava's operations are affected by seasonal fluctuations as a result of a cyclical production year and cold weather, and the fact that a large proportion of annual production is completed and handed over to customers in the fourth quarter. Accordingly, fourth quarter profit is usually stronger than the other quarters. The assessment is based on values at year end and is made on the basis of all other factors remaining unchanged. See also Note 24.

NOTE 1 Significant accounting policies, cont.

	Change	Profit effect after net financial items, SEK M (annualised)	Equity/assets ratio	Effect on return on capital employed (%-units)
Net sales	+/- 5%	+/- 82	+/- 0.3	+/- 0.5
Operating margin	+/- 1%	+/- 139	+/- 0.4	+/- 0.9
Interest rate change	+/- 1%	+/- 44	+/- 0.1	+/- 0.0
Cash flow before financing	-500 MSEK	-10	-0.8	-0.5

NOTE 2 Reporting by operating segments

The business operations are divided into five operating segments based on the parts of the organisation monitored by the CEO, who is the chief operating decision maker. Each operating segment has a manager who is responsible for the daily operations and who regularly reports the results of the operating segment's performance to the CEO.

On the basis of this internal reporting, Bonava has identified the following segments: Sweden, Germany, Finland, Denmark-Norway and St. Petersburg. The head office, Estonia-Latvia and adjustments and eliminations are included in "Other and eliminations". All segments develop and sell housing units. Sales between the segments are not material.

2018	Sweden	Germany	Finland	Denmark-Norway	St. Petersburg	Other and eliminations	Total
Net sales, housing units sold to consumers	3,130	4,371	1,227	1,197	555	230	10,709
Net sales, housing units sold to investors	416	1,346	1,003				2,766
Net sales, sale of land	422	18	23	32			496
Net sales, other	8		4	3	23		38
Depreciation/amortisation		-36	-4	-1	-2	-90	-134
Operating profit	761	796	65	131	95	-193	1,654
Net financial items							-141
Profit after financial items							1,513
Capital employed ¹⁾	5,164	3,985	1,708	1,278	696	502	13,332

2017

	Sweden	Germany	Finland	Denmark-Norway	St. Petersburg	Other and eliminations	Total
Net sales, housing units sold to consumers	4,540	3,760	802	1,147	701	270	11,221
Net sales, housing units sold to investors	276	1,219	402	223			2,119
Net sales, sale of land	876		75	84			1,036
Net sales, other	8	70	11		26	-11	103
Depreciation/amortisation		-22	-3	-1	-3	-34	-63
Impairment losses					-34	-25	-59
Operating profit	1,230	668	1	141	104	-197	1,946
Net financial items							-226
Profit after financial items							1,721
Capital employed ¹⁾	4,986	3,037	1,284	857	1,108	731	12,003

	2018		2017	
	Net sales	Operating profit	Net sales	Operating profit
Other and eliminations				
Bonava's head office		267	-206	212
Operations in Estonia and Latvia	230		13	273
Eliminations	-267			-226
Total	230	-193	259	-197

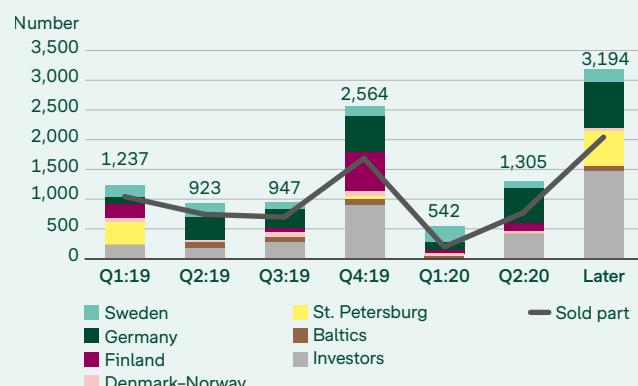
¹⁾ Capital employed is defined on page 135.

NOTE 3 Revenue

	2018	2017
Net sales, housing units sold to consumers	10,709	11,221
Net sales, housing units sold to investors	2,766	2,119
Net sales, sale of land	496	1,036
Net sales, other	38	103
Total net sales	14,008	14,479

The revenue is recognised at one point in time, when the control over the housing unit or land is transferred to the buyer.

The figure illustrates estimated completions of housing units for consumers and housing units for the investor market that have not yet been recognised for profit. The curve illustrates the sold proportion. Total unfulfilled performance obligations for housing units sold (not yet recognised for profit) amounted to SEK 14,919 M, see figure. These are assessed to be distributed as follows: 58 per cent in 2019 and 42 per cent in 2020 and later.

Estimated completions per quarter

NOTE 4 Number of employees, personnel expenses and remuneration of senior executives

Average number of employees	2018		2017	
	No. of employees	Of which men	No. of employees	Of which men
Sweden	267	131	229	106
Germany	914	657	886	644
Finland	230	121	146	63
Denmark	83	57	63	46
Norway	25	20	16	3
St. Petersburg	270	161	266	153
Estonia	46	25	34	19
Latvia	84	60	56	39
Total	1,919	1,232	1,696	1,073

Percentage women, %	2018	2017
Distribution of management by gender		
<i>Total</i>		
Board of Directors	43	43
Senior executives	40	27

Senior executives are defined as the individuals who, together with the CEO, constitute the Executive Management Group.

SALARIES AND OTHER REMUNERATION ALLOCATED BETWEEN THE BOARD AND SENIOR EXECUTIVES, AND OTHER EMPLOYEES

	2018			2017		
	Board of Directors and senior executives	Other employees	Total	Board of Directors and senior executives	Other employees	Total
Salaries and other remunerations	45	1,096	1,141	42	851	893
Social security expenses		299			257	
- of which pension costs	8	95		7		77

TERMS AND REMUNERATION FOR SENIOR EXECUTIVES

The Chairman of the Board and the other directors elected by the Annual General Meeting receive remuneration only at an amount resolved by the Annual General Meeting. No pensions are paid to the Board of Directors.

Remuneration of the CEO is proposed by the Chairman of the Board and decided by the Board of Directors. Remuneration to other members of Bonava's senior management is proposed by the CEO and approved by the Chairman of the Board.

Remuneration to the CEO and other senior executives consists of a fixed salary, variable remuneration, share-based remuneration, other benefits and pensions. At the end of 2018, the number of senior executives was ten. Of these, six were employed by the Parent Company and four by subsidiaries.

VARIABLE REMUNERATION

The variable remuneration payable to CEO Joachim Hallengren was capped at 50 per cent of fixed salary. The variable remuneration was based on financial targets established by the Board of Directors.

Remuneration for the financial year 2018 totalled SEK 1.5 (1.3) M.

For other members of Group Management, variable remuneration is subject to a maximum of 30 or 40 per cent of fixed remuneration.

PENSION TERMS OF THE CEO

CEO Joachim Hallengren has a defined contribution pension plan with a premium amounting to 30 per cent of fixed salary. Joachim Hallengren's retirement age is 65.

PENSION TERMS FOR OTHER SENIOR EXECUTIVES

Other senior executives employed in Sweden have a defined contribution ITP plan with a retirement age of 65. One of the members of Group Management is party to an agreement that states that the portion of occupational pension comprising ITP (i.e. for a proportion of salary up to 30 income base amounts), this shall be paid out in full if the member retires between ages 60 and 65.

For other senior executives employed in other countries, defined contribution supplementary pension terms apply ranging from 0 to 30 per cent of pensionable salary depending on the country of employment.

REMUNERATION, PROVISIONS AND OTHER BENEFITS IN 2018

SEK 000	Total salary, remuneration and benefits ^{1) 3)}	of which benefits	of which variable remuneration ²⁾	of which for share-based remuneration	Pension cost
CEO Joachim Hallengren	9,175	91	1,525	851	1,800
Chairman Carl Engström	621				
Director Viveca Ax:son Johnson	280				
Director Åsa Hedenberg	347				
Director Samir Kamal	347				
Director Mikael Norman	415				
Director Frank Roseen	195				
Director Magnus Rosén	85				
Director Anna Wallenberg	280				
Other senior executives, Group (ten individuals)	33,137	668	4,609	1,346	6,531
Total senior executives	44,882	759	6,134	2,197	8,331

¹⁾ Remuneration and benefits pertain to holiday pay, reduced working hours, company vehicles and, when appropriate, severance pay.

²⁾ Variable remuneration pertains to the amounts expensed for each financial year.

³⁾ Directors fees have been allocated from the date of the Annual General Meeting 2018 onwards. Frank Roseen was elected new Board member and Magnus Rosén resigned as Board member at the AGM on 25 April 2018. Audit Committee remuneration was paid to Mikael Norman (Chairman), Åsa Hedenberg and Samir Kamal.

NOTE 4 Number of employees, personnel expenses and remuneration of senior executives, cont.**REMUNERATION, PROVISIONS AND OTHER BENEFITS IN 2017**

SEK 000	Total salary, remuneration and benefits ¹⁾³⁾	of which benefits	of which variable remuneration ²⁾	of which provisions for share-based remuneration	Pension cost
CEO Joachim Hallengren	7,221	83	1,260	1,355	1,336
Chairman Carl Engström	582				
Director Viveca Ax:son Johnson	271				
Director Åsa Hedenberg	309				
Director Samir Kamal	309				
Director Mikael Norman	279				
Director Magnus Rosén	271				
Director Anna Wallenberg	271				
Other senior executives, Group (ten individuals)	32,886	781	4,788	5,277	5,642
Total senior executives	42,399	864	6,048	6,632	6,978

¹⁾ Remuneration and benefits pertain to holiday pay, reduced working hours, company vehicles and, when appropriate, severance pay.

²⁾ Variable remuneration pertains to the amounts expensed for each financial year.

³⁾ Directors fees have been allocated from the date of the Annual General Meeting 2017 onwards. Mikael Norman was appointed as Board member at the AGM on 4 April 2017. Audit Committee remuneration was paid to Mikael Norman (Chairman), Åsa Hedenberg and Samir Kamal.

SEVERANCE PAY

The period of notice for Joachim Hallengren is six months. The period of notice from the company's perspective is twelve months. Severance pay amounts to twelve months. Other senior executives are subject to between nine and twelve months' notice from the company, or six months' notice if the senior executive resigns of his/her own accord. Severance pay for between nine and twelve months is payable if employment is terminated by the company. The severance pay will be reduced by an amount corresponding to any remuneration received from a new employer or own business. During the period of notice, senior executives may not take up a new position with another employer or conduct their own business activities without the company's written consent. Should the senior executive resign on his/her own accord, severance pay is not payable. When employment ends, the senior executive becomes subject to a prohibition on competing against or recruiting employees for a period of twelve and nine months respectively.

LONG-TERM INCENTIVE PROGRAM

Bonava has three outstanding long-term performance-based share programs for senior executives and key personnel in the Bonava Group (LTIP 2016, LTIP 2017 and LTIP 2018). The purpose of the program is to link the shareholders' and Group Management's interests to ensure maximum long-term value creation, to ensure a long-term Group-wide focus on profit performance and to facilitate the recruitment and retention of members of Group Management and other key executives.

LTIP 2016

LTIP 2016 encompasses 25 senior executives and key personnel in the Bonava Group. LTIP 2016 is a three-year performance-based program that implies that participants received no-cost warrants that confer the right to class B shares. To participate in LTIP 2016 participants are required to invest in proprietary shares in Bonava AB, termed investment shares, that are allocated to LTIP 2016. The participants are divided into three categories; (1) CEO, (2) CFO and Heads of Business Units, (3) rest of Group Management and other key personnel. The allocation value per investment share for category (1) is six warrants, five warrants for category (2) and four for category (3).

Performance-based targets

70 per cent of the targets for LTIP 2016 relate to Bonava's operating profit (EBIT) and 30 per cent to Bonava's average return on capital employed (ROCE). In the event that the total return on the company's class B shares is negative in the period between the introduction of the programs and the day including the day of publication of Bonava's Interim Report for the third quarter 2019, allocation of class B shares will be reduced to half.

Scope and cost of the program

Given full satisfaction of the performance-based targets and maximum participation and maximum investment, the value of the warrants amounts to some SEK 40 M including social security expenses.

Buy-back of treasury shares

In order to cover its undertaking in relation to LTIP 2016 for the delivery of class B shares, including social security expenses, Bonava AB has bought back 354,400 class B shares at a total value of SEK 45 M.

LTIP 2017

LTIP 2017 encompasses 50 senior executives and key personnel in the Bonava Group. LTIP 2017 is a three-year performance-based program that implies that participants received no-cost warrants that confer the right to class B shares. To participate in LTIP 2017 participants are required to invest in proprietary shares in Bonava AB, termed investment shares, that are allocated to LTIP 2017. The participants are divided into four categories; (1) CEO, (2) CFO and Heads of Business Units, (3) rest of Group Management and other key personnel and (4) key personnel with responsibility for functions. The allocation value per investment share for category (1) is six warrants, five warrants for category (2) and four and three for category (3) and (4).

Performance-based targets

Allocation of class B shares is dependent on the extent to which specific predetermined targets are met during the performance term. 70 per cent of the targets for LTIP 2017 relate to Bonava's Earnings per share (EPS) and 30 per cent to Bonava's average return on capital (ROCE). In the event that the total return on the company's class B shares is negative in the period between the introduction of the programs and the day including the day of publication of Bonava's Interim Report for the third quarter 2020, allocation of class B shares will be reduced to half.

Scope and cost of the program

Given full satisfaction of the performance-based targets and maximum participation and maximum investment, the value of the warrants amounts to some SEK 28 M including social security expenses.

Buy-back of Treasury shares

In order to cover its undertaking in relation to LTIP 2017 for the delivery of class B shares, including social security expenses, Bonava AB has bought back 194,800 class B shares at a total value of SEK 30 M.

LTIP 2018

LTIP 2018 encompasses 50 senior executives and key personnel in the Bonava Group. LTIP 2018 is a three-year performance-based program that implies that participants received no-cost warrants

NOTE 4 *Number of employees, personnel expenses and remuneration of senior executives, cont.*

that confer the right to class B shares. To participate in LTIP 2018 participants are required to invest in proprietary shares in Bonava AB, termed investment shares, that are allocated to LTIP 2018. The participants are divided into four categories; (1) CEO, (2) CFO and Heads of Business Units, (3) rest of Group Management and other key personnel and (4) key personnel with responsibility for functions. The allocation value per investment share for category (1) is six warrants, five warrants for category (2) and four and three for category (3) and (4).

Performance-based targets

Allocation of class B shares is dependent on the extent to which two predetermined targets are met during the performance term. 70 per cent of the targets for LTIP 2018 relate to Bonava's average growth in Earnings per share (EPS) and 30 per cent to Bonava's average return on capital (ROCE). The allocation of class B shares is also based on a recalculation measure governed by total yields for Bonava's class B share (share price change plus dividend) over a period.

Scope and cost of the program

Given full satisfaction of the performance-based targets and maximum participation and maximum investment the value of the warrants amounts to some SEK 31 M including social security expenses.

Buy-back of treasury shares

In order to cover its undertaking in relation to LTIP 2018 for the delivery of class B shares including social security expenses, Bonava has bought back 265,861 class B shares at a total value of SEK 29 M.

Warrants	Group	Parent Company
Outstanding at the beginning of the period	456,477	193,869
Allocated in the period	159,487	70,911
Forfeited in the period	-47,204	-4,896
Outstanding at the end of the period	568,760	259,884

FAIR VALUE AND ASSUMPTIONS**LTIP 2016**

	2018		2017	
	Group	Parent Company	Group	Parent Company
Fair value at valuation date, SEK 000	8,764	4,535	8,578	3,994
Share price, SEK	107.76	107.76	107.76	107.76
Exercise price, SEK	0	0	0	0
Term of the warrants, years	0.75	0.75	1.75	1.75

LTIP 2017

	2018		2017	
	Group	Parent Company	Group	Parent Company
Fair value at valuation date, SEK 000	7,119	2,563	3,349	1,175
Share price, SEK	140.47	140.47	140.47	140.47
Exercise price, SEK	0	0	0	0
Term of the warrants, years	1.5	1.5	2.5	2.5

LTIP 2018

	2018	
	Group	Parent Company
Fair value at valuation date, SEK 000	1,422	632
Share price, SEK	106.98	106.98
Exercise price, SEK	0	0
Term of the warrants, years	2.5	2.5

	2018		2017	
	Group	Parent Company	Group	Parent Company
Personnel expenses for share-based remuneration				
Warrants	5	3	11	5
Social security expenses	1	1	2	2
Total personnel cost for share-based remuneration	6	3	13	6

NOTE 5 Depreciation/amortisation

	2018	2017
Intangible assets	82	34
Real estate used in business operations	9	4
Machinery and equipment	44	25
Total depreciation/amortisation	134	63

Depreciations on leased assets amounts to SEK 5 (5) M.

NOTE 6 Remuneration and fees to audit firms

	2018	2017
Audit company		
PwC		
Audit assignment	6	
whereof parent company auditors	3	
Audit related activities in addition to audit assignment		
Tax advice ¹⁾		
Other services		
Total PwC	6	
EY		
Auditing assignments	6	
whereof parent company auditors	3	
Other audit firms		
Auditing assignments	1	1
Total remuneration and cost compensation to auditors and audit firms	6	7

¹⁾ Mainly relates to VAT consultations in Finland.

Audit assignments are defined as fees for statutory audit, that is audit work required to present the Audit Report and provide audit advice in connection with the audit assignment.

NOTE 7 Operating expenses distributed by cost type

	2018	2017
Production-related goods and services, and supplies	10,778	11,259
Change in inventories	1	1
Personnel costs	1,440	1,151
Depreciation/amortisation	134	63
Impairment losses	58	
Total production costs and sales and administrative expenses	12,354	12,532

NOTE 8 Net financial items

	2018	2017
Financial income	9	11
Interest expense on financial liabilities measured at amortised cost	-74	-88
Interest expense on financial liabilities held for trading purposes	-40	-83
Net exchange-rate changes	1	
Other financial expenses	-36	-67
Financial expenses	-150	-236
Net financial items	-141	-226

NOTE 9 Intangible assets

	2018	Goodwill	Other
Recognised cost on 1 January	67	256	
Investments		52	
Recognised cost on 31 December	67	309	
Accumulated amortisation on 1 January		-56	
Amortisation according to plan during the year		-82	
Accumulated amortisation on 31 December		-137	
Accumulated impairment losses on 1 January	-45	-31	
Accumulated impairment losses on 31 December	-45	-31	
Residual value on 1 January	22	169	
Residual value on 31 December	22	140	

	2017	Goodwill	Other
Recognised cost on 1 January	67	179	
Investments		77	
Recognised cost on 31 December	67	256	
Accumulated amortisation on 1 January		-25	
Amortisation according to plan during the year		-31	
Accumulated amortisation on 31 December		-56	
Accumulated impairment losses on 1 January	-45	-6	
Impairment losses during the year		-25	
Accumulated impairment losses on 31 December	-45	-31	
Residual value on 1 January	22	149	
Residual value on 31 December	22	169	

Impairment test of goodwill has not been included for materiality reasons. The Other item mainly relates to capitalised development expenses for IT systems.

AMORTISATION IS INCLUDED IN THE FOLLOWING LINES IN THE INCOME STATEMENT

	2018	2017
Selling and administrative expenses	82	34
Total	82	34

NOTE 10 Property, plant and equipment

	Real estate used in business operations	Machinery and equipment	Total
2018			
Recognised cost on 1 January	101	331	432
Investments	33	80	113
Divestment and scrappage	-15	-15	-30
Translation differences during the year	2	4	5
Recognised cost on 31 December	121	401	521
Accumulated impairment losses and depreciation on 1 January	-28	-184	-211
Divestment and scrappage		8	8
Depreciation during the year	-9	-44	-53
Accumulated impairment losses and depreciation on 31 December	-37	-220	-257
Residual value on 1 January	73	147	221
Residual value on 31 December	83	181	264
2017			
Recognised cost on 1 January	92	269	361
Investments	16	64	80
Divestment and scrappage	-9	-12	-21
Reclassification		7	7
Translation differences during the year	2	3	5
Recognised cost on 31 December	101	331	432
Accumulated impairment losses and depreciation on 1 January	-24	-149	-173
Reclassification		-15	-15
Divestment and scrappage		6	6
Depreciation during the year	-4	-25	-29
Accumulated impairment losses and depreciation on 31 December	-28	-184	-211
Residual value on 1 January	68	120	187
Residual value on 31 December	73	147	221

NOTE 11 Participations in joint operations

Bonava's financial statements include the following items that constitute interests in the joint operations' net sales, costs, assets and liabilities.

	2018	2017
Revenue	53	255
Expenses	-66	-237
Profit/loss	-14	18
Fixed assets	26	31
Current assets	336	399
Total assets	362	430
Non-current liabilities	70	70
Current liabilities	224	271
Total liabilities	294	341
Net assets	69	89

Specification of joint operations	Shareholding, %
Tipton Brown AB	33
NVB Beckomberga KB	33
Stora Ursvik KB	50
Urvik Exploaterings AB	50
KB Öhusen	50
AB Broutsikten	50
Sigtuna Stadsängar Exploaterings AB ¹⁾	53
NVB Sköndalsbyggarna II AB	33
NVB Sköndalsbyggarna II KB	33

¹⁾ The company has not been consolidated because of a shareholder agreement that stipulates that Bonava does not exercise control over the company.

NOTE 12 Non-current receivables and other receivables

	2018	2017
Non-current receivables		
Receivables from joint ventures	7	10
Other non-current receivables	138	135
Non-current receivables	145	145
Other receivables classified as current assets		
Receivables from joint ventures	42	59
Receivables from sold housing projects	43	85
Advance payments to suppliers	61	
Derivative instruments not used for hedge accounting	49	
Receivables in tenant-owners associations	297	687
Other current receivables	150	161
Other receivables classified as current assets	640	993

NOTE 13 Tax on profit for the year, deferred tax assets and deferred tax liabilities

	2018	2017
Tax on profit/loss for the year		
Current tax cost	-255	-129
Deferred tax revenue/cost	7	-189
Total recognised tax on profit/loss for the year	-248	-319

	2018		2017	
	Tax, %	Profit	Tax, %	Profit
Effective tax				
Profit before tax		1,513		1,721
Tax according to company's current tax rate	-22	-333	-22	-379
Effect of other tax rates for non-Swedish companies	-4	-55	-3	-53
Amended tax rates in Sweden 2018 and Norway 2018 and 2017		-4		-2
Non-tax-deductible costs	-1	-10	-3	-45
Non-taxable revenues ¹⁾	4	52	8	144
Tax effect resulting from non-capitalised tax loss carry-forwards		-3		-1
Tax effect resulting from previous non-capitalised tax loss carry-forwards		11		5
Tax effect of revaluation of loss carry-forwards	-6	85	-1	12
Tax attributable to previous years		8		2
Other				-2
Average tax rate/recognised tax	-16	-248	-19	-319

¹⁾ Mainly relates to tax-free sales of shares in subsidiaries.

Current tax has been calculated based on the nominal tax prevailing in the country concerned. When the tax rate for future years has been amended, that rate is used for calculating deferred tax.

CHANGE IN DEFERRED TAX IN TEMPORARY DIFFERENCES AND TAX LOSS CARRY-FORWARDS

	2018	2017
Opening carrying amount	125	319
Acquisitions/divestments of subsidiaries		-5
Recognised tax on profit/loss for the year	7	-189
Translation differences	-1	-1
Closing carrying amount	132	125

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Ongoing housing projects	38	8			38	8
Properties held for future development	10			-7	10	-7
Untaxed reserves			-13		-13	0
Provisions	33	24			33	24
Tax loss carry-forwards	25	90			25	90
Other	41	17	-2	-7	39	10
Deferred tax asset/tax liability	146	139	-15	-14	132	125

Capitalised tax loss carry-forwards are expected to be used within a five-year period.

Bonava has tax loss carry-forwards corresponding to some SEK 8 M (54) that have not been included in the Balance Sheet as they are not considered possible to utilise. These tax loss carry-forwards expire within a ten year period.

NOTE 14 Housing projects

2018	Properties held for future development	Ongoing housing projects	Completed housing units	Total
Recognised cost on 1 January	5,958	9,523	826	16,307
Investments ¹⁾	2,856	10,171	418	13,445
Divestments	-239	-8,118	-2,725	-11,082
Reclassification	-2,723	-300	3,023	0
Translation differences for the year	88	143	-21	211
Recognised cost on 31 December	5,941	11,419	1,521	18,880
Accumulated impairment losses on 1 January	-225	-42	-11	-278
Divestments				
Translation differences for the year	3	4		7
Accumulated impairment losses at year end	-222	-38	-11	-271
Residual value on 1 January	5,734	9,482	815	16,031
Residual value on 31 December	5,720	11,381	1,510	18,611

¹⁾ Investments pertain to investments in land held for future development, ongoing housing production and acquisitions of housing units that have been completed but that have not yet been handed over or sold.

2017	Properties held for future development	Ongoing housing projects	Completed housing units	Total
Recognised cost on 1 January	5,226	7,935	739	13,900
Investments ¹⁾	4,030	10,080	100	14,210
Divestments	-553	-9,492	-1,895	-11,940
Reclassification	-2,791	905	1,886	0
Translation differences for the year	47	95	-4	139
Recognised cost on 31 December	5,958	9,523	826	16,307
Accumulated impairment losses on 1 January	-192	-38	-6	-236
Impairment losses for the year	-34			-34
Divestments			-4	-5
Translation differences for the year	1			1
Accumulated impairment losses at year end	-225	-42	-11	-278
Residual value on 1 January	5,035	7,898	733	13,666
Residual value on 31 December	5,734	9,482	815	16,031

¹⁾ Investments pertain to investments in land held for future development, ongoing housing production and acquisitions of housing units that have been completed but that have not yet been handed over or sold.

NOTE 15 Share capital

Changes in share capital	No. of shares	Share capital, SEK 000s
Number of shares, 1 January 2018	108,435,822	433,743
Number of shares, 31 December 2018	108,435,822	433,743

The shares are divided between 13,119,715 Class A shares and 95,316,107 Class B shares.

Class A shares confer the right to ten votes each and Class B shares confer the right to one vote each.

The quotient value per share is SEK 4.

In order to meet its commitments under the long-term incentive program, Bonava AB holds 815,061 (549,200) Class B shares as of 31 December.

NOTE 16 Interest-bearing liabilities

	2018	2017
Non-current liabilities		
Liabilities to credit institutions and investors	614	590
Financial lease liabilities	15	14
Liabilities pertaining to Swedish tenant-owner associations and Finnish housing companies	943	2,674
Liabilities to joint ventures	6	16
Other non-current loans	48	46
Total	1,625	3,340
Current liabilities		
Current portion of liabilities to credit institutions and investors	956	200
Liabilities pertaining to Swedish tenant-owner associations and Finnish housing companies	3,130	1,737
Liabilities to joint ventures	42	58
Financial leasing, current portion	7	7
Other current liabilities	211	22
Total	4,345	2,024
Total interest-bearing liabilities	5,970	5,364

For repayment schedules and terms and conditions, see Note 24.

NOTE 17 Provisions

2018	Guarantees	Other	Total
On 1 January	326	313	640
Provisions during the year	97	55	151
Amount utilised during the year	-104	-154	-258
Reversed, unutilised provisions	-4	-4	
Reclassification	2	-2	
Translation differences	9	2	11
On 31 December	326	214	541

2017	Guarantees	Other	Total
On 1 January	357	423	780
Provisions during the year	83	10	93
Amount utilised during the year	-117	-116	-233
Reversed, unutilised provisions	-1	-4	-5
Reclassification	-1	1	
Translation differences	5		5
On 31 December	326	313	640

GUARANTEES

Guarantee provisions pertain to assessed future costs. To estimate a future guarantee cost, individual assessments are made per project. Standard percentage rates are used for the calculation of the size of the future cost, whereby the standard percentage is varied depending on the nature of the project. The guarantee cost is posted individually for each project. The longest term for a guarantee provision is ten years, while a majority have maturities of approximately two to three years.

OTHER

Other provisions mainly comprises commitments in sold projects in Bonava Sweden. A majority have a term of approximately 6 years.

NOTE 18 Other liabilities

	2018	2017
Other non-current liabilities		
Liabilities to joint ventures	2	
Liabilities, property acquisitions	191	509
Other non-current liabilities	28	45
Total	221	555
Other current liabilities		
Advances from customers	4,320	3,958
Liabilities, property acquisitions	165	206
Derivative instruments not used for hedge accounting	1	
Current liabilities, other	375	327
Total	4,860	4,492

NOTE 19 Accrued expenses and deferred income

	2018	2017
Payroll-related costs	172	148
Project-related costs	760	749
Administrative costs	89	128
Interest expenses	2	31
Other expenses	6	10
Total	1,029	1,067

NOTE 20 Leasing

The company has master agreements for operational leases on vehicles, equipment and premises. The agreements are based on variable interest rates. A separate agreement is required for the acquisition of leased items and the extension of lease arrangements.

OPERATING LEASES	2018	2017
Operating lessee		
Future minimum leasing fees – lessee		
<i>Leasing contracts that expire:</i>		
Within one year	30	96
Within one year but earlier than five years	141	273
Later than five years	411	456
Total future minimum lease fees	582	825
Cost for operating leases for the year	93	80

NOTE 21 Transactions with related parties

In the period until listing on 9 June 2016, Bonava constituted the NCC Housing operating segment of the NCC AB Group. After this date, all transactions with the NCC AB Group, which is an associated company in the Nordstjernan Group, have been priced on a commercial basis.

For Bonava senior executives, see Note 4 Number of employees, personnel expenses and remuneration to senior executives. For transactions between the parent company and subsidiaries, see Note 12 in parent company.

	2018	2017
Transactions with related parties		
Sales	5	4
Purchases	1 875	2 583
Current receivables	2	
Non-current interest-bearing liabilities ¹⁾	27	35
Current interest-bearing liabilities ¹⁾	13	12
Accounts payable	163	60
Contingent liabilities	230	221

¹⁾ Relates to contractual commitments according to profit sharing agreements for Bonava Deutschland GmbH with NCC AB. For more information, see Legal Structure on page 88.

NOTE 22 Pledged assets and contingent liabilities

	2018	2017
Assets pledged		
<i>For proprietary liabilities:</i>		
Property mortgages	4,049	2,603
Restricted bank funds	11	11
Other assets pledged	3	
Total assets pledged	4,063	2,614

Contingent liabilities

	2018	2017
<i>Proprietary contingent liabilities:</i>		
<i>Deposits and concession fees¹⁾</i>		
Deposits and concession fees ¹⁾	2,879	1,204
Other guarantees and contingent liabilities		105
Total contingent liabilities	2,879	1,309

¹⁾ Deposit guarantees constitute collateral for investments and concession fees paid to tenant-owner associations formed by Bonava Sverige AB. Such guarantees are to be relinquished as soon as one year has passed after the final acquisition cost for the tenant-owner association's building has been established.

Rental guarantees comprise minor amounts.

NOTE 23 Cash Flow Statement, cash and cash equivalents

Cash and cash equivalents	2018	2017
Cash and bank balances	325	1,122
Total according to Balance Sheet and Cash Flow Statement	325	1,122

Current investments have been classified as cash and cash equivalents based on the following considerations:

- They are subject to an insignificant risk of value fluctuation.
- They can easily be converted into cash funds.
- They have a maturity of up to three months at the time of acquisition.

INFORMATION ABOUT INTEREST PAID

Interest received during the year amounted to SEK 7 M (11). Interest paid during the year amounted to SEK 142 M (170).

	2017	Cash flow	Non-cash items		2018
			Exchange rate change	New leases	
Non-current interest-bearing liabilities	3,326	-1,718	2		1,610
Financial leasing liabilities	21			1	22
Current interest-bearing liabilities	2,017	2,290	31		4,338
Total interest-bearing liabilities	5,364	572	33	1	5,970

	2016	Cash flow	Non-cash items		2017
			Exchange rate change	New leases	
Non-current interest-bearing liabilities	2,235	1,090	1		3,326
Financial leasing liabilities	16			5	21
Current interest-bearing liabilities	2,231	-230	17		2,017
Total interest-bearing liabilities	4,481	860	18	5	5,364

NOTE 24 Financial instruments and financial risk management**FINANCE POLICY (PRINCIPLES FOR RISK MANAGEMENT)**

Bonava is exposed to financial risks through its business operations. Financial risk is defined as refinancing risk, liquidity risk, interest rate risk, exchange rate risk, credit risk, counterparty risk and guarantee capacity risk. Bonava's Treasury Department assumes responsibility for compliance with the Finance Policy. Bonava's Finance Policy for managing financial risks has been decided by Bonava's Board of Directors and provides a framework of guidelines and regulations in the form of risk mandates and limits for the finance operations.

Within Bonava's decentralised organisation, the finance operations are centralised in the Group's Treasury Department, in part to monitor the Group's overall financial risk position but also to achieve cost efficiency, economies of scale, accumulate competence and protect Group-wide interests. The Treasury Department handles Bonava's interest rate, currency, credit, refinancing, counterparty and liquidity risk. Customer credit risk is managed by the relevant business area.

REFINANCING RISK

Refinancing risk is defined as the risk that Bonava will not be able to obtain financing at a given time or that creditors will have difficulty in fulfilling their commitments. According to its Finance Policy, Bonava will strive to spread its risks among various sources of financing to secure its long-term access to borrowed capital.

Bonava's policy is that the company's debt portfolio has a maturity structure that minimises exposure from the perspective of refinancing risk. The debt portfolio consists of project financing and corporate debt. Project financing relates to construction by Finnish housing companies and Swedish tenant-owner associations and must be linked to individual housing projects and the term must reflect the

projects' completion dates. The maturity periods of the rest of the debt portfolio must be well-diversified over time and the weighted average remaining maturity must be at least 18 months.

In relation to the financing of construction of Finnish housing companies and Swedish tenant-owner associations totalling SEK 4,072 M (4,411), capital tied up is linked to individual housing projects totalling 15 (18) months. As of 31 December 2018, capital tied up was 37 (30)¹⁾ months for the rest of the company's debt portfolio. Capital tied up was 22 (20)¹⁾ months for total interest-bearing liabilities. For unutilised facilities, capital tied up was 60 (40) months.

CAPITAL STRUCTURE

Bonava defines capital as equity including minority share as indicated in the Balance Sheet. This means that capital amounted to SEK 7,362 M (6,638) as of 31 December 2018. Bonava's objective is to achieve a capital structure that results in an efficient, weighted cost of capital and a credit rating that secures the operations' needs and potential future acquisitions.

When monitoring its capital structure, Bonava uses key measures including the current and forecast equity/assets ratio and cash and cash equivalents. Bonava reviews its capital structure and makes changes when financial circumstances change. To retain or change the capital structure, Bonava's Board of Directors may propose an adjustment of the dividend paid to shareholders, pay an extra dividend, buy back shares, complete a new issue or sell assets in order to reduce liabilities.

¹⁾ The figures for 2017 have been restated for comparability with 2018. For commercial paper, the term date for Bonava's RCF has been applied as this constitutes the back-up for commercial paper.

NOTE 24 *Financial instruments and financial risk management, cont.***MATURITY STRUCTURE OF CAPITAL MATURITIES 2018**

Matures	Interest-bearing liabilities	
	Amount	Proportion, %
2019	4,345	73
2020	1,270	21
2021	355	6
2022		
2023		
2024		
2025-		
Total	5,970	100

LIQUIDITY RISKS

To achieve adequate flexibility and cost-efficiency, while ensuring that future financing requirements are satisfied, Bonava's Finance Policy states that access to funds must correspond to at least 10 per cent of annual sales, and that unutilised committed credit facilities must amount to at least SEK 800 M. Payment capacity is defined as cash and cash equivalents, short-term investments and unutilised committed credit facilities. Available cash and cash equivalents are to be invested in banks or in interest-bearing instruments with good credit ratings, and a liquid secondary market.

As of 31 December 2018, Bonava's cash and cash equivalents, including short-term investments, amounted to SEK 325 M (1,122).

As of 31 December 2018, Bonava's payment capacity was 16 per cent (26) including available cash and cash equivalents of SEK 219 M (1,044) and unutilised committed credit facilities of SEK 2,214 M (2,782).

The following table shows Bonava's financial assets and liabilities (including interest payments) and derivative instruments classified as financial assets and liabilities. For financial instruments carrying variable interest rates, the interest rate pertaining on the Balance Sheet date has been used. The amounts in the tables are contractual undiscounted cash flows.

ANALYSIS OF MATURITIES (AMOUNTS INCLUDING INTEREST)

2018	Total	<3 months	3 months – 1 year			
			1–3 years	3–5 years	>5 years	
Other non-current shareholdings	4					4
Interest bearing receivables	94		84	10		
Accounts receivable	518	518				
Cash and cash equivalents	325	325				
Total financial assets	941	843	84	10		4
Derivatives	49	18	27	3		
TOTAL	990	861	111	13		4
Interest-bearing liabilities	1,923	709	521	386	307	
Interest-bearing liabilities in Finnish housing companies and Swedish tenant-owner associations ¹⁾	4,125	456	2,717	952		
Derivatives	1	0,4	0,6			
Accounts payable	777	777				
TOTAL	6,826	1,943	3,239	1,338	307	
2017	Total	<3 months	3 months – 1 year			
			1–3 years	3–5 years	>5 years	
Other non-current shareholdings	4					4
Interest bearing receivables	168	156		12		
Accounts receivable	440	440				
Cash and cash equivalents	1,122	1,122				
Total financial assets	1,734	1,718		12		4
Derivatives	11	4	1	6		
TOTAL	1,745	1,722	1	18		4
Interest-bearing liabilities	983	203	95	332	353	
Interest-bearing liabilities in Finnish housing companies and Swedish tenant-owner associations ¹⁾	4,488	445	1,345	2,698		
Derivatives	82	72	7		3	
Accounts payable	807	807				
TOTAL	6,360	1,527	1,447	3,030	356	

¹⁾ The due date for interest-bearing liabilities in unsold completed projects in Finnish housing companies is defined as the due date for the long-term loan agreements. However, the loans will be redeemed at a pace with sales of the housing units.

NOTE 24 *Financial instruments and financial risk management, cont.***INTEREST RATE RISK**

Interest-rate risk is the risk that changes in market rates will adversely affect Bonava's cash flow or the fair value of financial assets and liabilities. Bonava's main financing sources are shareholders' equity, cash flow from operating activities and borrowing.

Interest-bearing borrowing exposes Bonava to interest-rate risk.

According to Bonava's Finance Policy for managing the interest rate risk, the weighted average remaining fixed-rate term for liabilities concerning construction projects by Finnish housing companies and Swedish tenant-owner associations must not exceed the scheduled completion date for the project. For the company's portfolio the fixed-rate term must be between 1 and 18 months.

The fixed interest term for project-related debt of SEK 4,072 M (4,411) was 2 (1) months. Interest bearing liabilities for the rest of the company's debt portfolio were SEK 1,898 M (954), and the average fixed interest term was 3 (2) month. As of 31 December 2018, Bonava's total interest-bearing gross debt was SEK 5,970 M (5,364) and the average fixed interest term was 2 (1) months.

The fixed interest term for project-related financing and the rest of the company's debt portfolio follows the adopted Finance Policy.

There were no interest rate swaps outstanding as of 31 December 2018 or 2017.

An increase in interest rates by one percentage point would result in a change of SEK -44 M (-35) in net profit/loss for the year, assuming the interest-bearing assets and liabilities that existed on the Balance Sheet date.

INTEREST RATE SENSITIVITY

Interest rate sensitivity, profit	2018	2017
	Effect on profit	Effect on profit
Market interest rate +/- 1 %	44	35

MATURITY STRUCTURE INTEREST TERM 2018

Matures	Interest-bearing liabilities incl. interest-rate swaps	
	Amount	Proportion, %
2019	5,970	100
Total	5,970	100

EXCHANGE RATE RISK

Exchange-rate risk is the risk that fluctuations in exchange rates will adversely affect the consolidated Income Statement, Balance Sheet or Cash Flow Statement.

TRANSACTION EXPOSURE

In accordance with Bonava's Finance Policy, transaction exposure must be eliminated as soon as it becomes known and material. Contractual and probable forecast flows are to be hedged.

Because Bonava's business units receive and make payments in local currency, the extent of transaction exposure is limited. There were no outstanding derivatives to hedge transaction exposure as of 31 December 2018.

The following table shows Bonava's interest-bearing liabilities in various currencies.

INTEREST-BEARING LIABILITIES 2018

Counter-value	Amount	Proportion, %
EUR	1,910	32
SEK	4,060	68
Total	5,970	100

NOTE 24 *Financial instruments and financial risk management, cont.***Translation exposure**

Up until 2016, translation exposure in foreign net assets was hedged. In January 2017, Bonava stopped using hedge accounting for net investment hedges with a profit of SEK 2 M. The profit effect was reported in the Income Statement.

COUNTER-VALUE

Currency	2018	
	Net investment	
DKK	371	
EUR	1,910	
NOK	461	
RUB	450	
Total	3,192	

2017

Currency	Net investment	
DKK	347	
EUR	1,529	
NOK	510	
RUB	461	
Total	2,847	

CREDIT RISK**Credit and counterparty risk in financial operations**

Bonava's investment regulations for financial credit risks are revised continuously and characterised by caution. Transactions are only entered into with creditworthy counterparties with credit ratings of at least A- (Standard & Poor's) or the equivalent international rating, as well as local banks with a minimum rating equal to the creditworthiness of the country in which Bonava conducts operations. ISDA's (International Swaps and Derivatives Association) master agreement on netting is used with all external counterparties with respect to derivative trading. The investment regulations specify maximum credit exposures and maturities for various counterparties.

The total counterparty exposure relating to derivative, calculated as net claim per counterpart, amounted to SEK 53 M (0) at the end of 2018. Net receivables per counterparty is calculated in accordance with the market valuation method, i.e. the market value of the derivative plus a supplement for the change in risk (1 per cent of the nominal amount). Calculated gross exposure to counterparty risks pertaining to cash and cash equivalents and short-term investments amounted to SEK 325 M (1,122).

Credit risk in accounts receivable

The risk that Bonava's customers will not fulfil their obligations, meaning that payment is not received from the customers, is a credit risk. The credit rating of the Group's customers is checked, whereby information on the customers' financial position is obtained from various credit information companies. Essentially, the right of ownership of the product the customer is paying for is not transferred until full payment has been made. This means that Bonava's risk is low, as it is limited to changes in market value.

The following table shows Bonava's net investments and hedging positions by currency. From 2017, Bonava ceased hedging its net investments.

As of 31 December 2018, a 5 per cent depreciation of the SEK in relation to other currencies would result in a change of SEK 160 M (142).

Currency sensitivity, profit

	2018 Effect profit	2017 Effect profit
DKK +/- 5 %	19	17
EUR +/- 5 %	96	76
NOK +/- 5 %	23	25
RUB +/- 5 %	22	23

NOTE 24 *Financial instruments and financial risk management, cont.***AGE ANALYSIS OF ACCOUNTS RECEIVABLE INCLUDING RECEIVABLES FOR DIVESTED HOUSING PROJECTS**

	Gross amount	Expected default rate, %	Credit loss allowance	Total
Not due accounts receivable	401	0,3-4	2	399
Past-due accounts receivable 1-30 days	93	0,3-5	3	90
Past-due accounts receivable 31-60 days	40	2,4-50	2	38
Past-due accounts receivable 61-180 days	16	3-100	2	14
Past-due accounts receivable > 180 days	52	3-100	32	20
Total	602		41	561

Bonava has grouped its accounts receivable in portfolios corresponding to the respective Group operating segment, as these items are deemed to have a similar credit risk. Each operating segment in the Bonava Group has prepared a matrix for accounts receivables, which examines historical losses and has been adjusted

for current conditions and forward-looking adjustments. This means that the intervals represent the lowest and highest credit loss allowance percentage applied in the Group for each period.

CHANGE IN CREDIT LOSS RESERVE

	2018	2017
31 December		
- calculated under IAS 39	33	
Opening balance as at 1 January 2018		
- calculated under IFRS 9	36	
Restatement of opening balances ¹⁾		
Provision for the year	5	5
Reversal of previously posted credit losses	-2	-3
Translation differences	2	1
Closing balance 31 December²⁾	41	36

1) The transition to IFRS 9 and the new expected credit loss allowance model did not have a material impact.

2) The amount for 2017 is calculated under IAS 39.

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 requires loss provisions for expected credit losses. This differs from IAS 39, which required loss provisions to be made only after an event that indicated that the counterparty would be unable to pay the receivable in full. Historically, Bonava's credit losses have been limited, which means that this new approach to calculating credit losses has not had a material impact on Group credit losses. Bonava applies the simplified approach according to IFRS 9.5.5.15. The simplified approach means that Bonava values provisions for accounts receivable at an amount that corresponds to the expected credit losses for the remaining lifetime, regardless of whether the credit has deteriorated or not.

CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the fair value of financial instruments are presented in the following table.

The measurement at fair value of currency-forward contracts is based on published forward rates on an active market.

For financial instruments recognised at amortised cost; accounts receivables, other receivables, cash and cash equivalents, accounts payable, other interest-free liabilities and other interest-bearing liabilities, fair value is considered equal to carrying amount.

Classification of financial instruments for 2017 was prepared in accordance with IAS 39 and the previously applicable IFRS 7. For 2018, financial instruments have been classified according to IFRS 9 and the amended IFRS 7. Reclassification has not implied changes in the valuation of any financial asset, and changes between years are due to updated categories. Accordingly, the transition to IFRS 9 has not implied any effect on profit or restatement of opening balances. For financial liabilities, the transition from IAS 39 to IFRS 9 has not had any impact. All financial assets included in the category Financial assets held for sale under IAS 39 have been included in the category Financial assets measured at fair value through profit or loss under IFRS 9.

NOTE 24 *Financial instruments and financial risk management, cont.***CLASSIFICATION OF FINANCIAL INSTRUMENTS (ACCORDING TO IFRS 9 2018)**

2018	Financial assets valued at fair value In Other Comprehensive income	Financial assets valued at fair value in the Income Statement	Financial assets valued at accrued cost	Financial liabilities valued at fair value in the Income Statement	Other financial liabilities	Total
Other long-term securities holdings		4				4
Long-term receivables	3	10				13
Accounts receivable		518				518
Other receivables		84				84
Cash and cash equivalents		325				325
Derivatives	49					49
Total assets	56	937				993
Long-term interest-bearing liabilities				1,625	1,625	
Other long-term liabilities				221	221	
Current interest-bearing liabilities				4,345	4,345	
Accounts payable				777	777	
Other current liabilities				165	165	
Derivatives			1			1
Total liabilities	1	7,133		7,134		

CLASSIFICATION OF FINANCIAL INSTRUMENTS (ACCORDING TO IAS 39 2017)

2017	Financial assets valued at fair value In Other Comprehensive income	Financial assets valued at fair value in the Income Statement	Financial assets valued at accrued cost	Financial assets held for sale	Financial liabilities valued at fair value in the Income Statement	Other financial liabilities	Total
Other long-term securities holdings				4			4
Long-term receivables		12					12
Accounts receivable		440					440
Other receivables		155					155
Cash and cash equivalents		1,122					1,122
Derivatives	11						11
Total assets	11	1,729	4				1,744
Long-term interest-bearing liabilities					3,340	3,340	
Other long-term liabilities					555	555	
Current interest-bearing liabilities					2,024	2,024	
Accounts payable					807	807	
Other current liabilities					206	206	
Derivatives				82			82
Total liabilities	82	6,932			7,014		

In the following tables, disclosures are made concerning how fair value has been determined for the financial instruments that are continuously measured at fair value and the financial instruments not recognised at fair value in Bonava's Balance Sheet. The difference between fair value and book value for long-term liabilities does not constitute significant amounts and book value has therefore been deemed to correspond to fair value. For current liabilities, book value has been deemed to correspond to fair value. The fair value measurement divides assets into three levels. No transfers have been made between the levels during the period and no significant changes were made with respect to measurement methods, used data or assumptions.

Level 1: in accordance with prices quoted on an active market for the same instruments. This category is not relevant for Bonava.

Level 2: according to the method for Level 2, fair value is based on models that use observable data for the asset or liability other than the quoted prices included in Level 1. For Bonava, this data means market interest rates and yield curves used to calculate fair value.

Level 3: on the basis of input data that is not observable on the market. This category is not relevant for Bonava.

NOTE 24 *Financial instruments and financial risk management, cont.*

	2018		2017	
	Level 2	Total	Level 2	Total
Financial assets measured at fair value				
Derivative instruments not used for hedge accounting	49	49	11	11
Financial assets held for sale	4	4	4	4
Total financial assets	53	53	15	15
Financial liabilities measured at fair value				
Derivative instruments not used for hedge accounting	1	1	82	82
Financial liabilities not recognised at fair value				
Other liabilities (interest-bearing liabilities)	5,970	5,970	5,364	5,364
Total financial liabilities	5,971	5,971	5,446	5,446

OFFSETTING FINANCIAL INSTRUMENTS

Bonava has binding master agreements (ISDA) governing netting with all derivatives counterparties. The above table shows reported gross financial assets and liabilities that are offsettable. Bonava has not offset any amounts in the Balance Sheet.

NOTE 25 *Transition to IFRS 16***CONSOLIDATED BALANCE SHEET (EXTRACT)**

	31 Dec 2018 IAS 17	Transition effect	1 Jan 2019 IFRS16
ASSETS			
Fixed assets			
Buildings	83	233	316
Machinery and equipment	181	51	232
Total fixed assets	264	284	548
Current assets			
Ongoing housing projects	11,381	154	11,536
Prepaid expenses and accrued income	303	-11	291
Total current assets	11,684	143	11,827
TOTAL ASSETS	11,948	427	12,375
LIABILITIES			
Non-current liabilities			
Non-current interest-bearing liabilities	1,625	308	1,932
Total non-current liabilities	1,625	308	1,932
Current liabilities			
Current interest-bearing liabilities	4,345	119	4,465
Total current liabilities	4,345	119	4,465
TOTAL LIABILITIES	5,970	427	6,397

At the transition to IFRS 16 total assets, capital employed and net debt will increase in accordance with the above balance sheet effect. Operating profit will also increase in line with lease charges being classified as an interest expense. This is not expected to have a material impact. The transition will also affect some key performance indicators, for example, return on capital employed and the equity/assets ratio will decrease. This is not expected to have a material impact.

Bonava applies the implied interest rate as of 1 January 2019 in the calculation of land lease contracts, and for other lease contracts, Bonava applies the marginal borrowing rate.

During the transition, Bonava has essentially chosen not to consider the possibility of extending lease contracts as this is not financially beneficial because the assets are not business-critical or specialised, and other suitable alternatives are judged to be available. In addition, the costs associated with not extending contracts, such as costs of negotiation, relocation and identifying other appropriate measures are deemed to be immaterial.

In connection with the transition, a number of simplifications and practical expedients have been applied: all rights of use have been measured as the lease liability (adjusted for prepaid or accrued lease charges under the agreement as of 31 December 2018), the same discount rate has been applied for lease contracts with similar characteristics (term and geographical market), and direct acquisition costs for rights of use have been excluded.

Bonava reports rental agreements for land as leases when a detailed blueprint has been produced or building rights can no longer be appealed. Before such time, Bonava does not have control of the land and therefore has no rights or obligations relating to the land. These lease contracts are classified as ongoing housing projects.

With regard to completed housing unsold housing units, Bonava has certain commitments to Swedish tenant-owner associations, Finnish housing companies and other parties relating to payment of membership fees and rent. The intention is to divest these completed unsold housing units immediately, which means that no such commitments are included in connection with the calculation of right-of-use assets and related debt under IFRS 16.

Parent Company Income Statement

	Note	2018	2017
Net sales		267	212
Production costs		-31	-21
Gross profit		236	191
Administrative costs		-423	-385
Operating profit	2,3,4	-187	-195
Profit/loss from financial items			
Profit/loss from participations in Group companies	5	1,722	432
Other interest income etc.		150	176
Interest expenses etc.	6	-66	-128
Profit/loss after financial items	12	1,618	284
Appropriations			
Group contributions received		730	141
Profit/loss before tax		2,348	425
Tax on profit/loss for the year	9	-142	3
Profit/loss for the year		2,206	428

Comments on the Parent Company Income Statement and Balance Sheet

COMMENTS ON THE PARENT COMPANY INCOME STATEMENT

The Parent Company consists of Group-wide services for Finance, Treasury, IT, Marketing, Procurement, Human Resources, Legal and Strategy.

Parent Company revenue largely comprises invoicing to subsidiaries for services provided. Net sales amounted to SEK 267 M (212). The increase was due to higher administrative expenses compared to the previous year due to a larger organisation.

Profit/loss from participations in Group companies comprises dividends. Otherwise, financial items mainly comprise interest income and expenses from the centralised Treasury function.

COMMENTS ON THE PARENT COMPANY BALANCE SHEET

Receivables from Group companies increased due to an increase in investments, partly financed by Parent Company loans.

Parent Company Balance Sheet

	Note	2018	2017
ASSETS			
Fixed assets			
<i>Intangible fixed assets</i>			
Capitalised expenditure for development work etc.	7	131	159
<i>Tangible fixed assets</i>			
Equipment		10	11
<i>Financial fixed assets</i>			
Shares in Group companies	8	2,278	2,276
Deferred tax asset	9		63
Other long-term receivables		3	2
Total financial fixed assets		2,282	2,340
Total fixed assets		2,423	2,509
Current assets			
<i>Current receivables</i>			
Receivables from Group companies		4,934	2,812
Prepaid expenses and accrued income		33	25
Other receivables		1,422	983
Total current receivables		6,389	3,820
TOTAL ASSETS	12	8,812	6,330
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital		434	434
Fund for development expenses		70	98
Total restricted equity		503	532
<i>Non-restricted equity</i>			
Earnings/loss brought forward		4,121	4,249
Profit/loss for the year		2,206	428
Total non-restricted equity	15	6,327	4,677
Total shareholders' equity		6,830	5,208
<i>Provisions</i>			
Other provisions		3	2
Total provisions		3	2
<i>Long-term liabilities</i>			
Other liabilities to credit institutions	10	614	590
Liabilities to Group companies			
Other liabilities		2	2
Total long-term liabilities		617	592
<i>Current liabilities</i>			
Accounts payable		29	36
Liabilities to Group companies		257	178
Current tax liability		76	
Other liabilities		964	207
Accrued expenses and deferred income	11	35	107
Total current liabilities		1,362	528
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	12	8,812	6,330

Parent Company Changes in Shareholders' Equity

	Restricted equity		Non-restricted equity		Total equity
	Share capital	Fund for development expenses	Earnings brought forward	Profit/loss for the year	
Opening balance, 1 January 2017	434	83	4,648	45	5,210
Appropriation of profit			45	-45	0
Transfer to fund for development expenses		15	-15		0
Performance-based incentive program			11		11
Repurchases of treasury shares			-30		-30
Dividend			-410		-410
Net profit/loss for the year			428		428
Closing balance, 31 December 2017	434	98	4,249	428	5,208
Appropriation of profit			428	-428	0
Transfer to fund for development expenses		-28	28		0
Performance-based incentive program			5		5
Repurchases of treasury shares			-29		-29
Dividend			-560		-560
Net profit/loss for the year			2,206		2,206
Closing balance, 31 December 2018	434	70	4,121	2,206	6,830

Parent Company Cash Flow Statement

	2018	2017
Operating activities		
Profit/loss after financial items	1,618	284
Adjustments for items not included in cash flow:		
Anticipated dividend	-369	-294
Depreciation/amortisation	89	33
Impairment losses	56	
Changes in provisions	1	1
Other	-23	42
Total items not included in cash flow	-302	-162
Tax paid	10	-17
Cash flow from operating activities before change in working capital	1,326	106
Increase (-)/decrease (+) in receivables	302	-79
Increase (+)/decrease (-) in liabilities	-56	96
Cash flow from change in working capital	246	18
Cash flow from operating activities	1,572	123
Investment activities		
Investments in shares in subsidiaries	-3	-567
Investments in equipment	-9	
Investments in intangible assets	-51	-71
Cash flow from investment activities	1,510	-638
Financing activities		
Repurchases of treasury shares	-29	-30
Dividend	-560	-410
Increase (-)/decrease (+) in interest-bearing assets	-1,410	347
Increase (+)/decrease (-) in interest-bearing liabilities	780	-3
Cash flow from financing activities	-1,219	-95
Cash flow for the year	291	-610
Cash and cash equivalents on 1 January	-490	120
Cash and cash equivalents on 31 December	-199	-490

Cash and cash equivalents of SEK -199 M (-490) at year end 2018 relate to funds held in Group accounts and were recognised as other liabilities and other receivables in the Balance Sheet. In 2017, Cash and cash equivalents were recognised net as Group company receivables in the Balance Sheet.

Comments on the Parent Company Cash Flow Statement

Cash flow from operating activities was SEK 1,572 M (123). An increase in non-current interest free receivables meant that cash flow from working capital was negative compared to previous year.

Cash flow from investment activities was higher than in the previous year due to capital contributions not being paid out to Bonava's subsidiaries during the year.

Cash flow from financing activities was positive compared to the previous year. This was due to the share of current interest-bearing liabilities being higher than in the previous year, driven by higher share of ongoing projects in the final phase.

During the year, interest received amounted to SEK 150 M (176) and interest paid was SEK 82 M (17).

Changes in interest-bearing liabilities	2017	Cash flow	2018
Current interest-bearing liabilities	200	756	956
Non-current interest-bearing liabilities	590	24	614
Total interest-bearing liabilities	790	780	1,570

Changes in interest-bearing liabilities	2016	Cash flow	2017
Current interest-bearing liabilities	219	-19	200
Non-current interest-bearing liabilities	574	16	590
Total interest-bearing liabilities	793	-3	790

Parent Company Notes

NOTE 1 Accounting policies

The Parent Company's Annual Report has been prepared in accordance with the Annual Accounts Act (1995:1554) and recommendation RFR2 Accounting for legal entities and statements from the Swedish Financial Reporting Board.

The Parent Company's accounting policies differ from the Group's in the following ways:

Subsidiaries

For the Parent Company, shares in subsidiaries are reported at cost less any impairment losses. Impairment losses for these shares and participations arise if the recoverable value is lower than book value. Received and anticipated dividends are recognised as revenue.

Leasing

In the Parent Company, all lease arrangements are reported in accordance with regulations governing operating leases. Leasing fees paid are reported in the Income Statement.

Group contributions

Group contributions received and paid are reported as appropriations in the Parent Company Income Statement, in accordance with the alternative rule in RFR 2.

Cost of borrowing

The Parent Company posts total borrowing costs to the period in which they arise.

NOTE 2 Number of employees, salaries and other remuneration

The average number of employees was 78 (62) in the year. 49 (38) of the employees are women and 29 (24) are men.

GENDER DIVISION

	Percentage women, %	
	2018	2017
Board of Directors	43	43
Senior executives	50	43

SALARY AND OTHER REMUNERATION, AND SOCIAL SECURITY EXPENSES INCLUDING PENSION COSTS

	2018	2017
Salary and remuneration	85	68
Social security expenses	51	45
of which pension costs	18	14

Salary and remuneration refer exclusively to personnel in Sweden. See also note 4 for the Group, Number of employees, personnel expenses and remuneration to senior executives.

SALARY AND OTHER REMUNERATION DIVIDED BETWEEN BOARD MEMBERS ETC. AND OTHER EMPLOYEES

	2018		2017	
	The Board and CEO	Other employees	The Board and CEO	Other employees
Salaries and other remuneration	12	73	10	58
(of which bonuses etc.)	(2)	(2)	(1)	(3)

NOTE 3 Depreciation/amortisation

	2018	2017
Intangible assets	79	30
Tangible assets	4	3
Total depreciation/amortisation	83	33

NOTE 4 Remuneration and fees to audit firms

	2018	2017
Audit firms		
PwC		
Auditing assignment	1	
EY		
Auditing assignment	2	
Total remunerations and fees to audit firms	1	2

Audit assignments are defined as the statutory audit, this includes audits and reviews necessary to present an audit report, and audit advice provided as part of the audit assignment.

NOTE 5 Result from shares in Group companies			NOTE 7 Intangible assets		
	2018	2017		2018	2017
Dividend	1,722	463	Acquired intangible assets		
Impairment losses	-31		Recognised cost on 1 January	242	170
Total	1,722	432	Investments	51	72
			Recognised cost on 31 December	294	242
			Accumulated amortisation on 1 January	-52	-22
			Amortisation according to plan during the year	-79	-30
			Accumulated amortisation on 31 December	-132	-52
			Accumulated impairment losses on 1 January	-31	-6
			Impairment losses for the year		-25
			Accumulated impairment losses on 31 December	-31	-31
			Residual value on 1 January	159	142
			Residual value on 31 December	131	159

NOTE 6 Interest expenses and similar items		
	2018	2017
Interest expenses, credit institutions	53	99
Other financial expense	13	29
Total	66	128

Name, Corp. ID no., Reg. office	Proportion, %	No. of shares	Carrying amount	
			2018	2017
Bonava East Holding AB, 556495-9079, Stockholm	100	1,000		
Bonava Sverige AB, 556726-4121, Stockholm	100	1,000	52	51
Bonava Latvija SIA, 40003941615, Latvia	100	15,780,000	176	78
Januki SIA, 40003835266, Latvia	100	3,357,977		98
Bonava Eesti OÜ, 11398856, Estonia	100	1	41	41
LLC Bonava Saint-Petersburg, INN7841322136, Russia	100		381	381
LLC Petro Center, INN7841457408, Russia	99		11	11
Bonava Norge AS, 980 390 020, Norway	100	7,501	481	481
Bonava Danmark A/S, 32 65 55 05, Denmark	100	5,000	457	457
Bonava Holding GmbH, HRB 16608 FF, Germany	100	100,000	376	375
Bonava Wohnbau GmbH, HRB 15662 FF, Germany	10	2,500	1	1
Bonava Suomi Oy, 2726714-3, Finland	100	10,000	303	302
Total shares in Group companies			2,278	2,276

Only directly owned companies are reported in the table above. Apart from the companies listed above, Bonava AB indirectly controls a number of trading and dormant sub-subsidiaries.

NOTE 9 Tax on profit for the year, deferred tax assets and deferred tax liabilities

	2018	2017
Tax on profit for the year		
Current tax cost	-80	-2
Deferred tax revenue/cost	-63	4
Total reported tax on profit for the year	-142	3
Results		
Effective tax	2018	2017
Profit before tax	2,348	425
Tax according to company's current tax rate	-517	-93
Non-tax-deductible costs	-1	-7
Non-taxable revenues	379	102
Tax effect related to previous non-capitalised tax loss carry forwards	3	
Tax attributable to prior years	-3	-2
Other		
Recognised tax	-142	3
Effective tax	6	1

	Assets			Liabilities			Net	
	2018	2017		2018	2017		2018	2017
Tax loss carry-forwards	63			63			63	
Other	63			63			63	

NOTE 10 Interest-bearing liabilities

	2018	2017
Long-term liabilities		
Liabilities to credit institutions and investors	614	590
Total	614	590
Current liabilities		
Current portion of liabilities to credit institutions and investors	956	200
Total	956	200
Total interest-bearing liabilities	1,570	790

For repayment schedules and terms and conditions, see Note 24 for the Group, Financial instruments and financial risk management.

NOTE 11 Accrued expenses and deferred income

	2018	2017
Payroll-related costs	26	21
Administrative costs	7	53
Interest costs	2	31
Other costs	2	2
Total	35	107

NOTE 12 Transactions with related parties

Bonava AB has entered into transactions with NCC companies to a limited extent, indicated in the table below. Ahead of 2016, Bonava signed agreements with NCC AB regarding specific administrative and IT-related services.

Bonava AB's sales to subsidiaries totalled SEK 267 M (211) and purchases totalled SEK 38 M (31). These are mainly invoices for costs related to Group-wide services provided on an arm's length basis.

For Bonava AB's senior executives, see Note 4 for the Group, Number of employees, personnel expenses and remuneration of senior executives.

	2018	2017
Transactions with the NCC group		
Sales		
Purchases	3	
Financial expenses		
Accounts payable		

NOTE 13 Pledged assets and contingent liabilities

SEK M	2018	2017
	Utilized amount	Utilized amount
Deposits and concession fees	3,516	1,290
Construction loans, tenant-owner associations	3,225	3,857
Counter guarantee to external guarantors	8,018	8,100
Other guarantee commitments	4,539	4,493
Other pledged assets	3	
Total pledged assets and contingent liabilities	19,299	17,740

The Parent Company's guarantees are on behalf of subsidiaries.

NOTE 14 Information about the Parent Company

Bonava AB, corp. ID no 556928 -0380, is a registered limited company with its registered office in Stockholm, Sweden. Bonava AB's shares are listed on the Stockholm Stock Exchange (Nasdaq Stockholm/ Large Caps).

The address of the head office is Bonava AB, Lindhagensgatan 72, Stockholm, Sweden.

The Consolidated Financial Statements for 2018 consist of the Parent Company and its subsidiaries, jointly termed the Group. The Group also includes shares in holdings in associated companies.

NOTE 15 Appropriation of profit

The Board of Directors proposes that distributable earnings of SEK	6,326,843,075
Be appropriated as follows:	
Ordinary dividend to shareholders SEK 5.20 per share	559,627,957
Carried forward	5,767,215,118
Total SEK	6,326,843,075

Shares repurchased by Bonava AB do not confer the right to receive dividends. The total amount of proposed dividend is calculated on the basis of the number of outstanding shares as of 15 March 2019.

Appropriation of profit

The Board of Directors proposes that distributable earnings	6,326,843,075
Be appropriated as follows:	
Ordinary dividend to shareholders SEK 5.20 per share ¹⁾	559,627,957
Carried forward	5,767,215,118
Total SEK	6,326,843,075

¹⁾ Shares repurchased by Bonava AB do not confer the right to receive dividends. The total amount of proposed dividend is calculated on the basis of the number of outstanding shares as of 15 March 2019.

The Board of Directors and the Chief Executive Officer hereby give their assurance that the annual accounts and the consolidated accounts have been prepared in compliance with the international accounting standards referred to in the European Parliament's and Council of Europe's Regulation (EC) No. 1606/2002 dated July 19, 2002 regarding the application of international accounting standards and generally accepted accounting practice, and thus give a true and fair view of the financial position and results of operations of the Group and the Parent Company. The Report of the Board of Directors for the Group and Parent Company accurately review the Group's and the Parent Company's operations, financial position and results of operations and describe the significant risks and uncertainties facing the Parent Company and the Group.

The Board of Directors and the Chief Executive Officer also submits Bonava AB:s Sustainability Report for 2018. The Sustainability Report describes the Group operations from financial, environmental and social aspects. The Report is prepared according to the Global Reporting Initiatives (GRI) Sustainability Reporting Standards.

The annual accounts and the consolidated accounts were approved for publication by the Board of Directors on 15 March 2019. The Consolidated Income Statement and Balance Sheet and the Parent Company's Income Statement and Balance Sheet will be presented to the Annual General Meeting for adoption on 10 April 2019.

Stockholm, Sweden, 15 March 2019

Carl Engström
Chairman

Viveca Ax:son Johnson
Director

Åsa Hedenberg
Director

Samir Kamal
Director

Mikael Norman
Director

Frank Roseen
Director

Anna Wallenberg
Director

Joachim Hallengren
CEO

Our Audit Report was submitted on 15 March 2019
Öhrlings PricewaterhouseCoopers AB

Patrik Adolfson
*Authorised Public
Accountant
Lead Partner*

Ulrika Ramsvik
*Authorised Public
Accountant*

Audit Report

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Bonava AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 86–127 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other information

The audit of the Annual Report and consolidated accounts for the financial year 2017 was carried out by a different auditor, who presented an audit report dated 16 March 2018 with unmodified statements in the report on the annual accounts and consolidated accounts.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial

statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Bonava AB (publ) is a housing development company. Operations comprise the development of suitable land into affordable and sustainable residential neighbourhoods in Sweden, Germany, Finland, Denmark, Norway, St. Petersburg, Estonia and Latvia. Bonava develops and sells multi-family housing and single-family housing to consumers and investors, mainly in metropolitan areas.

We have carried out an audit of consolidated operations for the business areas in Sweden, Germany, Finland and Denmark-Norway, as well as a specific review of the St. Petersburg business area. This operation comprises 98 per cent of Group turnover and constitutes a majority of the Group's total assets. In addition, we have carried out a statutory audit of all relevant units in the Group. Our audit includes the following:

- Review of internal control over financial reporting, routines and processes focusing on key controls for financial reporting and accounting of housing projects;
- Summary review of the financial statements as of 30 September 2018 with the aim of providing a summary audit review;
- Audit of year-end financial statements as of 31 December 2018, focusing on the valuation of properties held for future development and unsold properties, judgments and assumptions relating to ongoing housing construction projects, accrued costs and prepaid expenses as well as guarantee provisions; and
- Final audit measures required for the presentation of this audit report of the annual report in the parent company and Group and, where applicable, other legal entities. In this context, we have also carried out a review giving our opinion on compliance with guidelines for senior executives, corporate governance of the parent company and sustainability reporting.

The review has been carried out by an audit team that is part of the PwC network. The work complies with local auditing standards in the relevant countries and specific instructions relating to the consolidated accounts. With regard to the operations in St. Petersburg, the audit team working on the consolidated accounts carried out the Group review, while the statutory audit was carried out by a local auditing firm. In addition, the Auditor in Charge and co-signor for the year visited operations in Finland and Germany to acquire an understanding of operations in these units as well as routines and controls focusing on evaluating internal control and presenting a summary review of financial reporting on the basis of the Group's accounting principles. For other units in the Group that are not subject to statutory audit requirements, we have carried out other analytical audit measures as part of the review of the consolidated accounts.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key matter
<p>Valuation of housing projects <i>Housing projects are described in the Annual Report in Note 14 and Note 1 Significant accounting policies under Critical estimates and judgments.</i></p> <p>As of 31 December 2018, housing projects totalled SEK 18,611 M, comprising 88 per cent of Group assets as of 31 December 2018. Housing projects consist of ongoing housing projects (SEK 11,381 M), completed housing units (SEK 1,510 M) and properties held for future development (SEK 5,720 M).</p> <p>Housing projects are recognised in full at the lower of acquisition value and net realisable value. The assessment of net realisable value is by its nature associated with a degree of assumption, and changes in these assumptions can have a material impact on reported values. Assumptions and judgments affect all items mentioned, but have the largest impact on the valuation of properties held for future development. In order for the accounting of these items to be representative, related cost reserves and provisions attributable to housing projects or completed housing projects are also of material significance.</p> <p>As housing projects comprise the most significant item in Bonava's accounts, the review of Bonava's valuation of this item, which is in part based on assumptions, constitutes a key audit matter.</p>	<p>Our audit is based on evaluating internal control and substantive testing as well as other analytical measures, including data-based transaction analysis of certain Balance Sheet and Income Statement items on a sample basis in housing projects of significant subsidiaries. To ensure the accuracy of the valuation in particular we have also carried out the following audit measures:</p> <ul style="list-style-type: none"> Evaluated the management process for project reporting, including review of relevant parts of Bonava's operating system with the aim of determine the expediency of its processes and controls. Reviewed key controls on a sample basis to ensure that relevant control processes have been carried out and documented in accordance with the stipulations of the operating system and to ensure that projects have been reported correctly. Carried out an analytical review of a selection of projects where divergences have been identified between actual and forecast outcomes to create an understanding of the relevant causes. Analysed trends over time to identify and, where applicable, understand the causes of trend breaks. Reviewed project calculations and evaluated the reasonableness of project margins. With the support of PwC's valuation experts, we reviewed the reasonableness of assumptions such as sales prices, production costs, rent levels and yield requirements for the valuation of properties held for future development and, where necessary, other parts of housing projects. On a sample basis, tested, evaluated and challenged the information used in the calculations of Bonava's hourly rates paid to staff and other reported costs associated with housing projects. Evaluated Bonava's projects that necessitate specific judgments. Tested and evaluated Bonava's judgments on the basis of our own experience and Bonava's supporting documentation, and through discussions with Bonava's executives. Carried out in-depth reviews of a selection of projects by following these through the full term of the project. Reviewed relevant control processes as projects progress, carried out in-depth forecast reviews. Reviewed that requisite provisions and other reserves attributable to housing projects have been appropriately reported on the basis of supporting documentation and other assessments. Assessed that the information contained in the annual report is correct on the basis of applicable disclosure requirements. <p>Apart from stating that the valuation of housing projects is associated with inherent uncertainty because reporting is partly based on assumptions that are subject to change, our review has not resulted in the reporting of any material observations to the Audit Committee.</p>
<p>Guarantee commitments <i>Guarantee commitments are described in the Annual Report in Note 17 Provisions and Note 1 Significant accounting policies under Critical estimates and judgments.</i></p> <p>Provisions for guarantee commitments totalled SEK 326 M as of 31 December 2018.</p> <p>Provisions for future guarantee commitments have been reported at the amount judged to be required to settle the commitments on the Balance Sheet date. The estimate is based on calculations, management's judgment and experience of previously completed housing projects. This means that reporting is mainly based on management's judgments and is thereby associated with a degree of uncertainty attributable to these judgments.</p> <p>On the basis of the materiality of the item, and the fact that reporting is based on judgments, the review of the valuation of guarantee provisions constitutes a key audit matter.</p>	<p>Our audit of guarantee commitments included the following review measures:</p> <ul style="list-style-type: none"> Evaluated routines relating to provisions of guarantee commitments in our audit, including by evaluating the methods used. Analysed reported provisions and guarantee expenses in the year and previous years, and discussed effects that could affect guarantee provisions with management. On a sample basis, reviewed calculations and assumptions against supporting documentation and judgments on the basis of historical outcomes and other sources. Judged that the information provided in the annual report is correct. <p>On the basis of our audit, we have not reported any material observations to the Audit Committee. However, we have noted that the scale of future guarantee costs for current and previous housing projects are dependent on future outcomes and are thereby associated with inherent uncertainty, and as such may come to deviate from the guarantee provisions made.</p>

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–69, pages 80–83 and 145–148. The Board of Directors and the CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Bonava AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the Auditor's Report.

Öhrlings PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Bonava AB (publ) by the general meeting of the shareholders on the 25 April 2018 and has been the company's auditor since that date.

Stockholm 15 March 2019
Öhrlings PricewaterhouseCoopers AB

Patrik Adolfson
Authorised Public Accountant
Lead Partner

Ulrika Ramsvik
Authorised Public Accountant

Sustainability – information and GRI

About the Sustainability Report

This is Bonava's third annual Sustainability Report. The latest Sustainability Report for the financial year 2017 was published in March 2018. The Sustainability Report forms part of Bonava's Annual Report and has been prepared in accordance with the Global Reporting Initiative's standards. The Report encompasses 2018 and the significant changes in the reporting relates to the transition to the GRI standard from GRI G4 core. Reported indicators refer to all Bonava's units and the full year unless otherwise indicated.

The Sustainability Report has been reviewed and authorised by an external sustainability auditor, see page 144.

The index on page 142–143 shows where in the Annual Report sustainability-related information can be found.

Organisation for sustainability

Bonava's organisation and responsibility for the sustainability agenda is described in the Corporate Governance Report on page 71–79. Bonava's progress in its sustainability work is mainly driven within the framework of the company's strategic initiatives. Each sustainability aspect on the agenda is associated with a strategic initiative. The strategic initiatives are led by the respective Strategic Boards. Collaboration is frequently required for Bonava to achieve the appropriate results.

Steering documents

The key steering document for Bonava's sustainability work is the Code of Conduct, where the principles for Bonava's compliance with UN Global Compact and the sustainability agenda are clarified. The Code of Conduct aligns with Bonava's Sustainability Policy including Bonava's social and environmental responsibility, and Bonava's Health and safety policy and HR policy including its commitment to diversity and against discrimination. The Code of Conduct and all policies are authorised by the Board. Bonava's supplier requirements apply to all suppliers. More information about the aforementioned policies and Bonava's supplier requirements can be found at Bonava.com. In addition, Group-wide procedures with internal mandatory instructions govern areas such as tax, travel, motor vehicles, sponsorship, alcohol and drugs, and the minimum standard for the environment and health and safety management in all business units.

Memberships in external initiatives and organisations

Bonava is a financially supporting member of UN Global Compact. In Sweden, Bonava is a member of the Sweden Green Building Council. In Denmark, Bonava is a member of the Danish Green Building Council and in St. Petersburg of the Russian Green Building Council. Bonava is also a member of The Swedish Safety Culture Network (SÄKU). Bonava in Sweden is a partner of the organi-

sation Mitt Liv, a community-driven company that works for a more inclusive society and a labour market that values diversity. Bonava's Head of Marketing and Sales is Chairman of the steering committee for the Centre for the Future of Places (CFP) at The Royal Institute of Technology (KTH) in Stockholm. CFP is an international hub for research relating to places of the future and has been established to promote sustainable urban development. The centre focuses on city planning and design in order to meet the challenges of today and tomorrow. Bonava's Group Head of Health and Safety is Chairman of the SIS committee responsible for management systems for Occupational Health and Safety OHSAS 18001/ISO 45001 and serves in expert capacity in the international organisation for developing ISO Health and Safety standard 45001. The ISO 45001 standard has now been completed, and Bonava's HSEQ manager stepped down at year end 2018.

Materiality analysis

In Bonava's first year as an independent company, the company completed an extensive materiality analysis aimed at identifying Bonava's key sustainability aspects. The process started with far-reaching analysis of external factors and anticipated regulatory progress globally, in the EU and locally. External specialists and key staff in Bonava were then interviewed to identify expected consequences for Bonava. A wide range of specific sustainability aspects were ranked with the help of an internal survey. Relevant Heads of key functions and representatives from all business units identified the most significant aspects in a joint workshop. The design of the sustainability agenda and the grouping of aspects into four focus areas was prepared by Bonava's steering committee for the sustainability agenda, validated by Executive management and finally authorised by the Board. The Board of Directors amends and approves the sustainability agenda and the overarching sustainability targets annually.

The materiality analysis can be summarised in four focus areas:

- **Happy Neighbourhoods** – demographic and societal changes on Bonava's markets mean that more affordable housing units are needed in socially and environmentally well-functioning neighbourhoods in order to develop sustainable cities and societies. Contributing to this development is a major business opportunity for Bonava.
- **Protecting our planet** – the over-utilisation of natural resources and the effects of environmental destruction in combination with a strong trend towards urbanisation require alignment towards more efficient utilisation of resources, lower emissions and land use that increase climate change resilience. These are critical to achieving sustainable consumption and production and climate action. For Bonava, this trend rep-

resents both a risk and an opportunity to make a positive contribution and is a prerequisite for obtaining permits for developing land and to cost-efficiently produce homes that our customers want to live in.

- **Passionate workplace** – Bonava is active in an industry where the prevalence of accidents is far too high and is also characterised by limited diversity. Accordingly, Bonava is dependent on committed employees that are willing to drive change in order to achieve decent work and economic growth. This kind of change is a pre-requisite for Bonava's success and simultaneously creates the opportunity to contribute to progress outside of Bonava's direct control.
- **Reliable business** – partly as an effect of digitalisation and the emerging information society, stakeholders' expectations on transparency and information about how businesses assume their societal responsibility increases. Openly reporting on Bonava's work contributes to compliance with the universal principles through partnerships for the goals, relating to the global sustainability targets determined by the UN. This is key to being a credible business partner.

Business model and sustainability impact

Land acquisition

The land used and its location in relation to infrastructure and amenities have a significant impact on social and environmental aspects, directly in connection with production and indirectly through the impact on inhabitants' ability to live sustainably. Bonava examines the conditions applying to the land it purchases and analyses its potential for long-term sustainability prior to making acquisitions.

Design and planning

The design and planning phase is key to Bonava's long-term indirect social and environmental impact. In collaboration with public authorities and other operators, through dialogue with the local community and Bonava's customers, Bonava aims to create happy neighbourhoods for the many. Bonava's Code of Conduct and the Our Foundation compliance program provide support and guidance to ensure that contacts with authorities and suppliers are handled correctly, including minimising the risk of bribery or unethical practices. Design and decisions about materials choices determine whether housing units belong in the affordable segment, the indoor environment they will provide and the environmental impact during production and for the remainder of the buildings' and neighbourhood's life cycle.

Project execution

Bonava's main direct impact on sustainability occurs during the project execution. Production of most buildings involves ground work that can affect the water table

and surrounding areas. Remediation of earlier contamination may also be necessary. Transport to and from the construction site, energy for production, materials used and waste have a direct and indirect environmental impact. How the work is carried out has an impact on working conditions including health and safety for the people that spend time on the construction site. Noise, dust and light pollution can directly disrupt the lives of neighbours. Indirectly, Bonava can affect human rights, working conditions, the environment and anti-corruption considerations outside its own operations through demands on and control of suppliers and subcontractors.

Customer service

After completion, Bonava's impact is largely indirect. Final inspection, remedial measures and finetuning of installations and maintenance instructions are key factors. Collaboration agreements or providing contacts may also imply a significant indirect impact on sustainability in areas such as supporting residents in their choice of supplier for service and maintenance and power supply, for example. By providing information and support that help Bonava's customers to use the buildings and the surrounding area for sustainable lives, and by facilitating collaboration between residents, Bonava can have a further indirect social and environmental impact.

Stakeholders

Bonava's key stakeholders are:

- Customers
- Stock market investors and analysts
- Employees
- Suppliers
- Public authorities

Bonava collaborates with its customers mainly in connection with the housing projects. Bonava also carries out regular customer surveys. Bonava has regular contact with investors and analysts through Interim Reporting, shareholders' meetings, capital markets days and meetings and presentations. During the year, the importance of banks and their associated sustainability analysts have become an increasingly important stakeholder group.

The most important dialogue with employees takes place in day-to-day activities and regular meetings regarding developing and performance planning. Bonava's employee surveys enable the employees to anonymously voice their opinions about Bonava as a workplace. Bonava has close contact with its suppliers, including through dedicated supplier meetings. Finally, Bonava works in close collaboration with public authorities, mainly within the framework of development projects and in connection with publicly circulated documents where comments have been invited.

Stakeholder dialogue in the year

During the year, Bonava has amended its customer segmentation after analysing 12,000 interviews and charting various preferences with regard to homes, neighbourhoods and the different stages of moving home. Bonava's primary target group on all markets is people looking for homes who place a high value on great neighbourhoods, a sense of community and the opportunity to live sustainable lives.

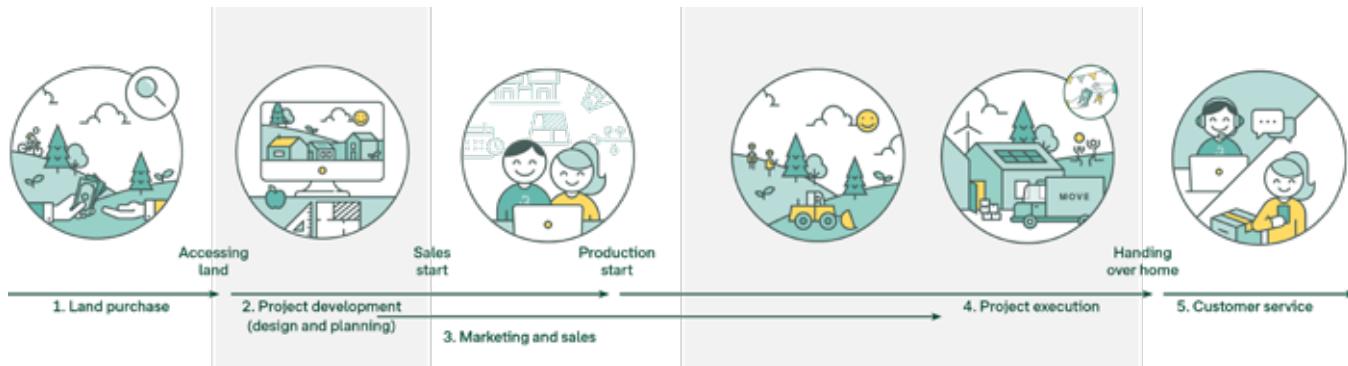
The insights from Bonava's Happy Quest for 2017 have been transformed into operational benefits by integrating the results with those obtained in the Happy Neighbourhood Tool, which will shortly be introduced in the development of all new projects. At the

same time, Bonava has prepared the next version of Happy Quest, which will be carried out in 2019. The new version of the survey has been designed to provide even deeper insights into what drives a sense of belonging in a neighbourhood, as well as increased understanding of how effectively different sustainability factors correlate. The survey is carried out on a nationally representative sample of the population across all of Bonava's markets. The design and scope of the survey enables Bonava to identify similarities and differences between various national markets, family constellations, housing types etc.

The results of Bonava's first Happy Quest correlate closely with the earlier materiality analysis aimed at identifying Bonava's sustainability agenda. For example, Happy Quest confirms that sustainable use of land contributes to creating happy neighbourhoods. The survey clearly indicates that plants, vegetation and green spaces in the neighbourhood is one of the factors that creates a sense of wellbeing in a neighbourhood regardless of national market. Happy Quest also shows that an average of 36 per cent of people consider it to be very important to be able to influence a neighbourhood's development. Being able to influence neighbourhoods is of particular importance to older people and people with higher income. It is also clear that this is especially important for families with young children, a key target group for Bonava.

Aside from its customers, the external stakeholder group that Bonava assigned the highest priority to in the year was stock market investors and banks. The overall analysis following meetings and interviews held in the year confirms that Bonava is prioritising the right aspects from the perspective of its sustainability agenda and continued

Bonava's value chain



→ Read more about Bonava's value chain on pages 40–41.

progress, including from the point of view of equity investors and banks. Bonava's contacts with banks indicates a need to analyse sustainability measurements across more dimensions than those presented in the Annual Report, so that more specific sustainability reports for green finance frameworks, for example, can be produced.

Apart from the Passionate workplace employee survey, the key stakeholder dialogue in 2018 was a series of in-person workshops with selected members of staff across all eight markets, with the aim of discussing Bonava's ethical guidelines and their effectiveness. The discussions during the year have resulted in intensified commu-

nication aimed at increasing awareness of Bonava's Code of Conduct, our whistle blower function and to encourage ethical discussion in a range of forums. The ethics committee, which meets regularly throughout the year and comprises Bonava's ethical advisors, has analysed the outcome of the workshops with the aim of identifying ethical focus areas that support Bonava's Our Foundation compliance program.

Limitations

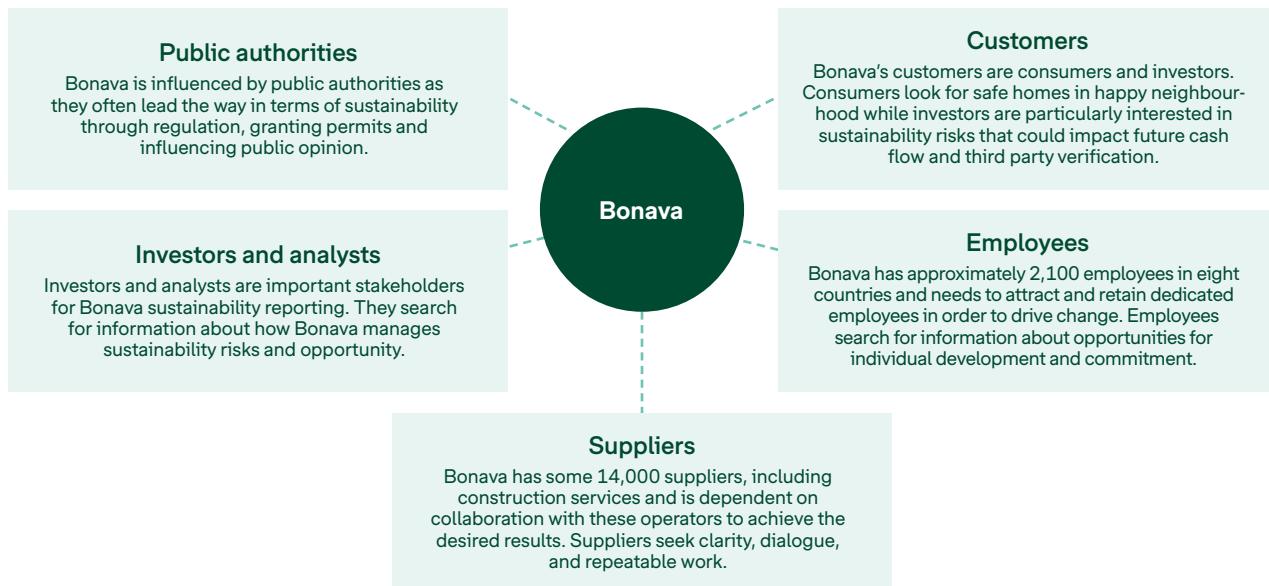
From the perspective of the entire value chain, Bonava's main impact on people and the environment mainly lies outside the organisation. Aspects that primarily

influence the organisation internally include working conditions that support Bonava's values and compliance. A circular production model, health and safety and diversity have a significant impact within the organisation itself and in the surrounding world.

Contact

For more information about Bonava's sustainability work and reporting, contact Anna Hamnö Wickman, Group Head of Sustainability:
anna.wickman@bonava.com
+46 (0)8 409 544 00

Bonava's key stakeholders



Results 2018

UN Sustainable Development Goals	Bonava's focus	Bonava's Group targets, set by the Board	Outcome 2018	Outcome 2017	Outcome 2016
Sustainable cities and communities	Happy neighbourhoods for the many	By 2020, 50 per cent of Bonava's production starts of housing units shall be in the affordable segment.	61%	40%	46%
Sustainable consumption and production	Protecting our planet	By 2020, 50 per cent of Bonava's production starts of housing units on markets with Nordic Swan eco-labelling or Green Zoom certification, shall be subject to environmental certification or labelling.	45%	42%	32%
Fight climate change	Protecting our planet	By 2020 Bonava shall fight climate change with Science Based Targets Initiative.	Grade C in the Carbon Disclosure project	Grade D in the Carbon Disclosure project	N/A
Decent working conditions and economic growth	Passionate workplace	Zero Harm	99% of all Zero Harm targets met in the year	83% of all Zero Harm targets met in the year	N/A
Partnerships for achieving the targets	Reliable business	Publish annual Sustainability Reports in accordance with GRI's guidelines and report progress to UN Global Compact.	Externally reviewed and authorised Sustainability Report	Externally reviewed and authorised Sustainability Report	Bonava's first Sustainability Report

Happy neighbourhoods for the many

Affordable housing units

Comments on the results

The proportion of affordable housing starts for 2018 was slightly above the target for 2020. Conversely, the proportion of production starts in the affordable segment was slightly lower in 2017. Years in which individual major projects start production have a significant impact on this measure. The trend over time should be considered.

Happy neighbourhoods and developing a sense of community

Surveys of new customers

From 2018, all new customers on all national markets are included in Bonava's customer satisfaction surveys. Bonava's customer satisfaction measure is based on a survey carried out 4-8 weeks after hand-over. The results are measured using both NPS (Net Promotor Score – willingness to recommend) and NKI (Happy Customer Index).

Happy index for existing customers

Bonava conducts biannual thorough surveys that measure NKI, NPS and Bonava Happy Index for all existing customers. The survey is sent to everyone who has bought a home from Bonava in the past 12 months and who remains in the property.

Happy Index measures the degree of happiness in a neighbourhood. The index has been developed by Bonava, is based on extensive research into what drives well-being and a sense of belonging in a neighbourhood through the Happy Quest survey, and represents an indexation of three questions. By measuring this across all our projects, in a nationally representative selection of the population, we are able to evaluate to what extent we live up to our brand promises and vision. The Happy Index is statistically verified for our eight markets. Read more about this on the previous page, under stakeholder dialogue in the year.

These surveys of both new and existing customers focus on capturing positive feedback and opportunities for improvement in the neighbourhood, home or the relationship with Bonava.

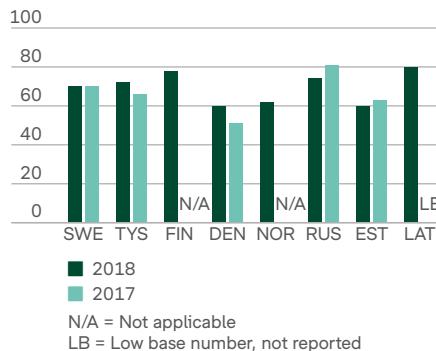
Additional information about happy neighbourhoods and developing a sense of community

The implementation of Bonava's Happy Neighbourhoods Tool has started on all markets. For 2018, it has not been possible to report the number of projects that have completed the process. These measures will be presented in future Annual Reports.

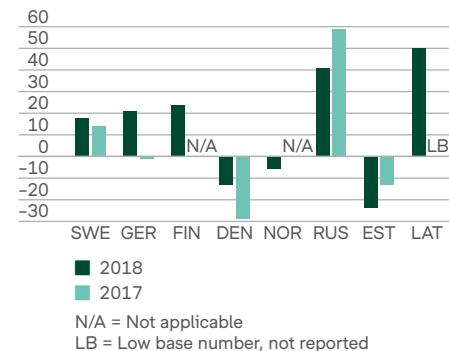
Affordable housing units

Segment	2018			2017		
	Affordable	Moderate	Upper	Affordable	Moderate	Other
Production starts, %	61	39	0	40	53	7
Completed homes, %	51	48	1	45	48	7

NKI (Happy Customer Index) for new customers



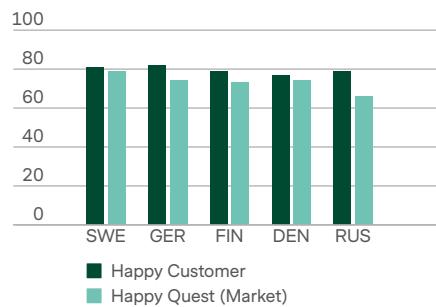
NPS (Net Promotor Score) for new customers



Comments on the results

NKI and NPS in Sweden are in line with the previous year, and in line with the sector average in Sweden (based on the Nordic Forecasting Centre's measurements). Focusing on NKI, we anticipate sustained high figures for Latvia, Germany and Finland. The results for Denmark, St. Petersburg and Estonia are lower. It is pleasing that progress in Denmark is heading in the right direction, following a sharp focus on improving product quality.

Happy index for existing customers



Comments on the results

The Happy index reports higher ratings on all Bonava's markets compared to a representative sample of the population for each country. The results show a significantly higher Happy index for Bonava's customers in Germany, Finland and St. Petersburg compared to the general population. No results were provided for Norway, Estonia and Latvia due to low base numbers. The information is based on the latest survey of all existing customers, from 2017.

Protecting our planet

Circular production model

Materials usage in Germany

Usage of building materials	2018	2017	2016
Concrete m ³ /home	36.1	37.0	48.5
Prefabricated concrete elements m ² /home	114.0	123.1	161.4
Steel ton/home	3.3	2.7	3.5
Lime sandstone m ³ /home	26.4	31.1	40.7

Comments on the results

The positive trend of gradually lower materials use continues in Germany. The limited increase in steel use is due to a higher proportion of multi-family housing.

Materials usage in St. Petersburg

Usage of building materials	2018	2017	2016
Concrete m ³ /home	46.7	30.6	24.7
Prefabricated concrete elements m ² /home	62.6	68.2	50.2
Steel ton/home	5.3	2.8	2.3
Insulation m ³ /home	6.7	4.8	7.5

Comments on the results

For St. Petersburg, there is no clearly discernible trend for reduced materials use as yet. A limited number of very large projects are currently underway in St. Petersburg. Accordingly, annual data for materials use can vary significantly between years depending on what phase a particular project is in.

Additional information regarding circular production model

Germany and St. Petersburg are the markets with the highest proportion of direct materials purchasing, which means that Bonava is able to present figures for materials used for these business units. The categories of material the measures refer to have been identified as the most significant for reducing Bonava's dependence on new-production raw materials. These materials are mainly derived from non-renewable sources.

Sustainable use of land

Projects where production start has been approved

Key ratios	2018	2017	2016
Share, previously exploited (%)	58	55	46
Share, previously unexploited land (%)	42	45	54
Land decontamination (ha)	14	12	40
Share of projects with significant initiatives aimed at preserving ecological values (%)	27	25	24
Number of protected species affected	4	3	N/A

N/A = Not available

Additional information regarding sustainable use of land

The four protected species affected by Bonava's housing development projects that have been granted permits to start production in the year are all in IUCN's 'least concern' category. This relates to the fish zander (*Sander Lucioperca*), where a Bonava riverbank neighbourhood in St. Petersburg has been adapted to protect the species, as well as house martins, bats and blackstarts which projects in Germany are required to protect by measures including the installation of nesting boxes.

Efficient buildings

Different countries define energy performance differently, which is why the data is not comparable between markets. The margin applying to more energy efficient homes than building regulations

require also varies between markets. Accordingly, Bonava follows up its building's energy performance in relation to current requirements in each country.

Production starts

	Bonava's energy performance, kWh/m ²			Required energy performance, kWh/m ²			Better than requirement, %		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Sweden	61	64	64	77	83	88	20	23	27
Germany	24	34	N/A	30	47	N/A	19	27	N/A
Finland	98	122	126	104	131	133	7	6	6
Denmark	27	27	39	30	30	49	10	9	20
Norway	95	47	N/A	95	60	95	0	22	N/A
St. Petersburg	57	47	52	101	113	113	43	58	55
Estonia	139	125	138	139	150	150	0	17	8
Latvia	44	41	46	63	66	70	30	38	34

N/A = Not available

Completed homes

	Bonava's energy performance, kWh/m ²			Required energy performance, kWh/m ²			Better than requirement, %		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Sweden	58	67	64	79	91	91	27	27	30
Germany	42	44	N/A	58	61	N/A	29	28	N/A
Finland	115	124	117	128	135	130	10	8	10
Denmark	31	43	30	31	43	55	0	1	42
Norway	93	15	N/A	107	30	95	14	50	N/A
St. Petersburg	59	49	58	103	113	102	43	57	44
Estonia	122	139	108	150	150	150	19	7	28
Latvia	43	46	N/A	66	63	N/A	35	26	N/A

N/A = Not Applicable / Not Available

Comments on the results

The results are in line with partial targets for each market, with the exception of Finland where improved energy performance targets (compared to building regulations) have been reduced. The reason is that Finnish building regulations are already very demanding in terms of energy performance, and further life cycle analysis and other reviews will be required for Bonava to avoid suboptimizing buildings from a climate and resources perspective, or risk

technical problems. Further analysis is required before it can be considered justifiable to construct large-scale housing developments with higher energy performance than required. In Estonia, Bonava's energy performance target aims to be 20 per cent more efficient than standard building requirements for buildings in the core price segment. In 2018, Bonava has only started production in the Affordable price segment.

Sustainable and non-hazardous materials

The tables show Bonava's implementation of eco-labelling and certification on markets where Nordic Swan eco-labelling or Green Zoom certification is applicable. Bonava Sweden is in a transitional

phase, changing from the Sweden Green Building certification to Nordic Swan eco-labelling. Due to varying production times between different markets and types of home, Bonava's eco-labelling detailed targets are based on production starts in the year.

Production starts

	Eco-labelled/certified homes			Share of total number of homes, %		
	2018	2017	2016	2018	2017	2016
Sweden	721	681	1,084	92	65	70
Finland	0	0	0	0	0	0
Denmark	50	135	72	27	48	28
Norway	0	0	0	0	0	0
St. Petersburg	730	813	72	100	100	9
Total	1,501	1,629	1,228	45¹⁾	42¹⁾	32¹⁾

¹⁾ Share of total number of homes on markets where Nordic Swan eco-labelling or Green Zoom apply.

Completed homes

	Eco-labelled/certified homes			Share of total number of homes, %		
	2018	2017	2016	2018	2017	2016
Sweden	1,013	995	734	93	68	56
Finland	0	0	0	0	0	0
Denmark	78	38	64	65	14	100
Norway	0	101	0	0	55	0
St. Petersburg	437	72	562	100	9	26
Total	1,528	1,206	1,360	48¹⁾	36¹⁾	29¹⁾

¹⁾ Share of total number of homes on markets where Nordic Swan eco-labelling or Green Zoom apply.

Comments on the results

Bonava did not achieve 100 per cent environmentally certified housing units in Sweden due to delayed production start of a project not encompassed by the updated Nordic Swan eco-labelling license – the project was delayed until January 2018 rather than starting in 2017 as planned.

Passionate workplace

Employees by professional category, headcount by year-end

Period	Total		Salaried employees				Skilled workers			
			Women		Men		Women		Men	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sweden	Permanent, full time	274	244	136	123	138	121	0	0	0
	Permanent, part time	5	5	5	5	0	0	0	0	0
	Line consultants, full time	25	17	15	14	10	3	0	0	0
	Line consultants, part time	4	1	3	1	1	0	0	0	0
	Temporary, full time	2	4	1	4	1	0	0	0	0
	Temporary, part time	0	0	0	0	0	0	0	0	0
Germany	Permanent, full time	806	780	204	190	414	387	0	0	188
	Permanent, part time	41	45	39	40	2	5	0	0	0
	Line consultants, full time	0	0	0	0	0	0	0	0	0
	Line consultants, part time	0	0	0	0	0	0	0	0	0
	Temporary, full time	59	40	16	8	42	32	0	0	1
	Temporary, part time	5	6	2	3	3	3	0	0	0
Finland	Permanent, full time	246	172	112	91	134	81	0	0	0
	Permanent, part time	2	2	2	2	0	0	0	0	0
	Line consultants, full time	5	4	5	3	0	1	0	0	0
	Line consultants, part time	0	0	0	0	0	0	0	0	0
	Temporary, full time	21	5	5	3	5	2	0	0	11
	Temporary, part time	0	0	0	0	0	0	0	0	0
Denmark-Norway	Permanent, full time	106	92	29	22	77	70	0	0	0
	Permanent, part time	0	0	0	0	0	0	0	0	0
	Line consultants, full time	3	1	1	1	2	0	0	0	0
	Line consultants, part time	0	0	0	0	0	0	0	0	0
	Temporary, full time	1	3	1	1	0	2	0	0	0
	Temporary, part time	0	0	0	0	0	0	0	0	0
St. Petersburg	Permanent, full time	206	195	84	72	80	79	4	5	38
	Permanent, part time	1	2	1	2	0	0	0	0	0
	Line consultants, full time	22	16	16	13	6	3	0	0	0
	Line consultants, part time	8	5	4	3	4	2	0	0	0
	Temporary, full time	73	52	16	13	15	6	13	7	29
	Temporary, part time	1	0	1	0	0	0	0	0	26
Estonia and Latvia	Permanent, full time	110	83	46	34	64	49	0	0	0
	Permanent, part time	4	2	0	0	4	1	0	1	0
	Line consultants, full time	2	3	1	1	1	2	0	0	0
	Line consultants, part time	0	0	0	0	0	0	0	0	0
	Temporary, full time	43	9	1	1	0	2	2	0	40
	Temporary, part time	0	0	0	0	0	0	0	0	6
Total	Permanent, full time	1,748	1,566	611	532	907	787	4	5	226
	Permanent, part time	57	56	49	49	8	6	0	1	0
	Line consultants, full time	57	41	38	32	19	9	0	0	0
	Line consultants, part time	12	6	7	4	5	2	0	0	0
	Temporary, full time	199	113	40	30	63	44	15	7	81
	Temporary, part time	2	6	1	3	1	3	0	0	32

N/A = Not applicable

Millions of hours worked for contractors under Bonava's site management

Period	Skilled workers	
	2018	2017
Sweden	0.26	0.21
Germany	2.46	2.16
Finland	0.50	0.59
Denmark-Norway	0.44	0.23
St. Petersburg	0.85	1.10
Baltics	0.45	0.16

Comments on the results

From the 2018 Sustainability Report onwards, Employees by professional category has been indicated as headcount and not as full-time equivalents. This is to ensure a closer correlation with HR-reporting in Bonava's Interim Reports. The information provided under Employees per professional category in the Sustainability Report includes line consultants and excludes apprenticeships and temporary students. Accordingly, there are slight variations in the definitions of the number of employees presented in Note 4.

The table indicating contractors under Bonava's site management shows millions of hours worked. In last year's Annual Report, the information had been converted to full-time equivalents on the basis of a 40-hour working week.

Personnel turnover¹⁾, no. in the year

Period	< Age 30							
	Women		Men		Terminations		Terminations	
	New employees	2018	2017	New employees	2018	2017	2018	2017
Sweden	7	9	1	0	3	5	1	1
Germany	11	19	1	6	13	18	10	2
Finland	7	6	0	1	15	6	0	0
Denmark-Norway	1	1	1	0	0	5	0	0
St. Petersburg	7	8	5	5	3	1	4	5
Estonia and Latvia	3	9	0	3	11	7	1	0
Period	30-50 years							
	Women		Men		Terminations		Terminations	
	New employees	2018	2017	New employees	2018	2017	2018	2017
Sweden	29	29	21	13	31	32	9	14
Germany	24	22	10	7	28	40	10	18
Finland	18	21	4	4	39	41	7	7
Denmark-Norway	6	5	1	2	13	27	7	10
St. Petersburg	9	7	8	16	9	3	5	14
Estonia and Latvia	13	8	6	3	14	13	8	2
Period	> Age 50							
	Women		Men		Terminations		Terminations	
	New employees	2018	2017	New employees	2018	2017	2018	2017
Sweden	6	4	5	3	3	9	6	5
Germany	2	4	8	5	9	6	19	14
Finland	1	3	3	1	9	5	7	4
Denmark-Norway	2	3	1	2	4	9	4	2
St. Petersburg	0	1	1	0	0	0	2	5
Estonia and Latvia	0	0	0	0	1	4	0	0

¹⁾ Does not include temporary employment.

Engagement and loyalty

Results from Passionate workplace employee survey	Bonava		Benchmark ²⁾	
	2018	2017	2018	2017
Engagement index	85	83	77	77
eNPS ¹⁾	39	35	9	8

¹⁾ eNPS = Employee Net Promoter Score, likelihood of recommending employer.

²⁾ Based on some 500,000 responses from more than 200 organisations (Nordic and international) in Brilliant Futures' employee surveys.

Comments on the results

The engagement index and the loyalty measure eNPS are Bonava's most important employee-related KPIs. These represent partial results of the annual Passionate workplace employee survey. This year's results of 85 and 39 are both well above the benchmark.

Collective agreements

Number of employees covered by collective agreements	2018	2017
Sweden	310	271
Germany	802	774
Finland	137	84
Denmark-Norway	0	0
St. Petersburg	0	0
Estonia and Latvia	0	0
Total	1,249	1,129

Bonava supports collective agreements in all markets and for all personnel groups where these are applicable.

Further information about labour conditions supporting our values

Bonava employees on all markets, except for Germany, have access to a Group-wide system that supports individual performance development. 74 per cent of these employees use the system, and of these, 84 per cent had their goals and development plans approved. This means that they have completed Bonava's process for performance and career development in a way that can be followed up.

Health and safety

	Sickness absenteeism ¹⁾			Fatalities ²⁾			Work-related injuries ³⁾				Work-related injuries, frequency ⁴⁾					
	2018	2017	2016	2018	2017	2016	2018 ⁵⁾	2018 ⁶⁾	2017 ⁵⁾	2017 ⁶⁾	2016 ⁵⁾	2018 ⁵⁾	2018 ⁶⁾	2017 ⁵⁾	2017 ⁶⁾	2016 ⁶⁾
Sweden	2.29%	1.90%	1.80%	0	0	0	1	0	7	2	1	1.6	0	10.6	4.6	2.3
Germany	7.21%	6.80%	7.90%	0	0	0	32	14	22	8	17	8.2	9.8	6.3	5.9	13.7
Finland	2.49%	1.50%	1.10%	0	0	0	6	1	8	0	0	6.2	2.2	9.1	0	0
Denmark-Norway	1.74%	1.60%	2.80%	0	0	0	13	0	7	0	0	23.9	0	18.1	0	0
St. Petersburg	3.34%	0.40%	N/A	0	0	0	0	0	3	1	1	0	0	2	2.5	2
Baltics	1.51%	1.10%	0.20%	0	0	0	0	0	2	0	0	0	0	6.8	7.6	0
Total	4.60%	4.00%	5.00%	0	0	0	52	15	49	11	19	6.3	4.6	6.8	4	7

1) Number of hours of sickness absenteeism, in relation to total hours worked.

2) Work-related injuries on Bonava's construction sites leading to fatalities for employees or sub-contractors with or without Bonava's site management.

3) Work-related injuries leading to sickness absenteeism.

4) Number of work-related injuries per million hours worked.

5) Employees and contractors under Bonava's site management.

6) Bonava's employees.

N/A = Not available.

Comments on the results

Bonava's preventative work with injury reduction at the construction sites continues to give result. The Lost Time Injury Frequency Rate (LTIFR) for Bonava total, employees and contractors under our site management, in all eight countries is with good margin well below the Swedish construction industry average, in spite that Sweden, in international construction competition, tends to deliver fairly low Lost Time Injury Frequency rates. The LTIFR in Swedish construction industry is 10.2 Lost Time Injuries per million worked hours or 11.3 Lost Time injuries per 1,000 workers (source: Bl and Luleå Tekniska Universitet, 2017). For a company in the construction industry, Bonava has high salaried labour distribution, which partly explains the low LTIFR for Bonava employees.

Diversity (gender and age distribution)

Diversity (age distribution, no. at year end)	< Age 30				30-50 years				> 50 years			
	Women		Men		Women		Men		Women		Men	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Board of Directors	0	0	0	0	1	1	1	1	2	2	3	3
Executive Management	0	0	0	0	2	2	3	6	3	1	1	2
Salaried employees	134	121	146	112	450	383	608	513	117	110	226	215
Skilled workers	0	1	18	18	12	7	159	141	7	5	130	115
Line consultants	26	13	7	3	16	18	12	8	3	5	5	0

Comments on the results

The category that stands out as being negatively skewed is the female skilled workers category, even if the gender imbalance is decreasing. Considering that Bonava's sector is well known for having an uneven gender distribution, it is encouraging that the gender gap is beginning to decrease, albeit slowly. Bonava reorganised Group Management during the year, resulting in a reduction in the number of roles. Two of Bonava's Heads of national markets left their position and were replaced by an acting Head of national market and a permanent Head of national market respectively. Both new Heads of national markets are internally recruited women. Read more about the reconstruction of the Executive Management group implemented during 2018, on page 80-83.

Additional information about health and safety

One of Bonava's four health and safety areas focuses specifically on subcontractor staff, with the aim of ensuring acceptance of and compliance with Bonava's routines and regulations. This work is yielding results even if some challenges remain, mainly in Denmark, Germany and Finland.

The most common work-related injuries are injuries to hands and fingers, and trip accidents.

Additional information regarding diversity

Questions about equal opportunities were included in the Passionate workplace employee survey. Last year, nine per cent of all employees responded that they did not consider that the company provides equal opportunities and obligations. This was taken very seriously, and Bonava immediately implemented measures to increase awareness of the importance of inclusiveness, and that harassment and discrimination are not acceptable. The 2018 Passionate workplace survey indicated that the proportion of employees that did not consider that the company provides equal opportunities and obligations had decreased to five per cent. In order to ensure this important question is followed up, respondents were able to add a comment to their response in this year's survey. None of the respondents indicated that they themselves had experienced discrimination or harassment, and the small number of negative responses originated in a desire for even more active work aimed at creating a diverse workplace in terms of gender and background for all professional roles and positions.

Reliable business

Compliance

Reported grievances	No.	2018		2017	
		Comment, consequence	No.	Comment, consequence	No.
Bonava SpeakUp	8			1	
Other reported grievances	4			3	
Of which, significant grievances		Two divergences from internal Code of Conduct, grounds for giving notice and termination of contracts, one formal warning and one changed routine for avoiding repeat mistakes			Two divergences from internal Code of Conduct, grounds for giving notice and termination of contracts
	4			2	
Of which, found to be groundless following investigation	8			2	
Legal action against competition- restricting practices or significant sanctions for breaches of current laws and regulations	0			0	

Comments on the results

In 2018, Bonava completed measures to increase internal awareness of the possibility of reporting breaches anonymously through Bonava Speak Up, with the aim of increasing the willingness to report grievances, which have started to show results. None of the reported grievances included any suspicion of corruption.

Additional information regarding compliance

In 2018, all new salaried employees have been offered Bonava's online training program within the framework of the Our Foundation compliance program. At the end of the year, 88 per cent of all salaried employees had completed the program, and intensified efforts initiated to reach all employees that had not completed the training. During the year, Bonava also held 24 in-person workshops with groups of employees across all eight markets to discuss and provide information about the company's ethical guidelines. Bonava's Passionate workplace employee survey indicates that 95 per cent of Bonava's staff consider that they are familiar or very familiar with Bonava's Code of Conduct.

A Group-wide system for risk management and reporting divergences regarding the environment and health and safety has been implemented to improve transparency and preventative measures. 10 environmental incidents were reported in the year, of which nine were minor with no lasting environmental impact but which resulted in applicable routines being communicated, as well as one environmental incident where trees were felled incorrectly, which resulted in a claim for compensation and a change of routines to avoid a repeat of such incidents.

Additional information about responsible supply chain management

Bonava has an estimated 14,000 suppliers. The procurement organisation signed 2,140 new agreements with materials suppliers or contractors, centrally or at business unit level, during the year.

Responsible supply chain management	Number, 2018	Share of total value - new contracts 2018	
		Contracts with audited suppliers, Nordics	Contracts with audited suppliers, Germany
Contracts with audited suppliers, Nordics	160	33%	
Contracts with audited suppliers, Germany	1,498	100%	
Contracts with audited suppliers, St. Petersburg and Baltics	117	47%	

Bonava has amended its procurement processes in connection with the introduction of Group-wide supplier standards for compliance with Bonava's Code of Conduct, UN Global Compact and Bonava-specific requirements relating to anti-corruption, HSEQ, working hours, minimum pay and environmental standards. From this Annual Report onwards, Bonava presents information on signed agreements with audited suppliers relating to the Group-wide supplier standards. This differs from earlier reports, which presented information at an earlier stage of the supplier audit and qualification process. Read more on page 32.

Bonava's supplier standards apply to all new agreements and concerted efforts are being made to ensure that this is implemented on all markets.

Tax	Denmark-Norway											
	Total		Sweden		Germany		Finland		St. Petersburg		Baltics	
Tax paid, SEK M	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Income tax	62	147	0	48	40	31	17	18	3	29	1	21
Property tax	20	27	8	3	0	4	8	7	3	8	1	4
Transfer tax	111	112	27	9	70	87	12	8	2	7	0	0
Social security expenditure ¹⁾	196	177	79	76	90	80	1	1	3	2	12	12
Other taxes ²⁾	0	39	0	0	0	0	0	0	0	4	0	34
Total tax paid	389	501	114	136	200	202	38	34	11	50	14	71

¹⁾ In Germany, this is not paid as tax to the authorities but in the form of a fee to an insurance company.

²⁾ Consists of non-deductible value added tax in Norway and tax deducted at source for dividends in St. Petersburg.

Tax collected, SEK M	Denmark-Norway											
	Total		Sweden		Germany		Finland		St. Petersburg		Baltics	
Tax collected, SEK M	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Value added tax	789	851	478	589	0	7	270	200	20	35	-4	7
Pay roll taxes	310	242	86	81	120	88	47	28	41	31	7	9
Total collected tax	1,099	1,093	564	670	120	96	317	228	61	67	3	35

Comments on the results

Tax for the year is largely due to last year's financial results.

GRI-index

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UN Global Compact

Human Rights		Labour	Environment
Principle 1 (p. 31-32, 141)	Businesses should support and respect the protection of internationally proclaimed human rights; and	Principle 3 (p. 139)	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 2 (p. 31-32, 141)	make sure that they are not complicit in human rights abuses.	Principle 4 (p. 32, 55-57, 141)	the elimination of all forms of forced and compulsory labour;
Anti-corruption			
Principle 5 (p. 32, 141)		Principle 5 (p. 32, 141)	the effective abolition of child labour; and
Principle 6 (p. 30, 140)		Principle 6 (p. 30, 140)	the elimination of discrimination in respect of employment and occupation.
Principle 7 (p. 27, 137)		Principle 7 (p. 27, 137)	Businesses should support a precautionary approach to environmental challenges;
Principle 8 (p. 26-27, 131)		Principle 8 (p. 26-27, 131)	undertake initiatives to promote greater environmental responsibility; and
Principle 9 (p. 21, 131)		Principle 9 (p. 21, 131)	encourage the development and diffusion of environmentally friendly technologies.
Principle 10 (p. 31-32, 141)		Principle 10 (p. 31-32, 141)	Businesses should work against corruption in all its forms, including extortion and bribery.

Specific Standard Disclosures

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Auditor's Limited Assurance Report on the Sustainability Report and Report on the Statutory Sustainability Report

To the general meeting of the shareholders of Bonava AB (publ), corporate identity number 556928-0380.

Introduction

We have been engaged by the Board of Directors of Bonava AB (publ) to undertake an examination of Bonava's Sustainability Report for the year 2018. The company has defined the scope of the Sustainability Report on page 131 of this document. The scope of the statutory Sustainability Report is defined on page 3.

Responsibilities of the Board and management

The Board of Directors and the Group Management are responsible for the preparation of the sustainability statement including the statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act. The criteria are explained on page 131 of the Sustainability Report and comprise the parts of GRI Standards that are applicable to the Sustainability Report, as well as the accounting and calculation principles the company applies. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and present an Auditor's Report on the statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination of the statutory Sustainability Report has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's opinion regarding the statutory Sustainability Report. The procedures performed in a limited assurance engagement and an audit under RevR 12 vary in nature from, and are less in extent than for, an audit in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Bonava in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed in limited assurance procedures and an audit under RevR 12 consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion based on our limited assurance procedures and an audit under RevR 12.

Our review of the Sustainability Report is based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Opinions

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

A statutory Sustainability Report has been prepared.

Stockholm, Sweden, 15 March 2019
Öhrlings PricewaterhouseCoopers AB

Patrik Adolfson
Authorised Public Accountant

Fredrik Ljungdahl
Expert Member of FAR

Definitions

Bonava uses measurements including the alternative key performance indicators return on capital employed, net debt and equity/assets ratio. The Group considers that these key figures provide complementary information to readers of its financial reports that contribute to assessing the Group's capacity to pay dividends, make strategic investments, meet its financial commitments and to evaluate its profitability. Calculations and more information about the alternative key performance indicators are available at bonava.com. The Group defines the key figures as indicated below. The definitions are unchanged on earlier periods.

Sector-related definitions

Housing units in ongoing production

Refers to the period from production start to completion of a building. A housing unit is considered complete on receipt of inspection documentation.

Building right

Estimated possibility of developing a site. With respect to housing units, a building right corresponds to an apartment or a semi-detached or detached house. Either ownership of a site or an option on ownership of the site is a prerequisite for being granted access to a building right.

Production start

The time when Bonava starts production of a building. At this time, capitalised expenditure in properties held for future development is recognised as ongoing production.

Properties held for future development

Refers to Bonava's holdings of land and building rights for future residential development and capitalised properties held for future development.

Completed housing units

Refers to housing units for which inspection documents have been received, but the unit has not yet been sold; alternatively, has been sold but not handed over to the customer.

Completion rate

Recognised expenses in relation to the calculated total expenses of ongoing housing projects.

Sales rate

Number of housing units sold in production in relation to the total number of housing units in production.

Number of profit-recognised housing units

Number of housing units sold that have been occupied by the purchaser. Once the purchaser has taken over occupancy, the purchase consideration is recognised as net sales, and expenses incurred for the housing unit are recognised as production costs.

Reservation rate

Number of reserved housing units in production in relation to the total number of housing units in production.

Housing units sold

Number of housing units for which binding sales agreements have been signed with the customer and production of the housing unit has started.

Key financial ratios

Share of risk-bearing capital

Total shareholders' equity and deferred tax liabilities as a percentage of total assets.

Return on capital employed

Profit after financial items on a rolling 12-month basis following the reversal of interest expense as a percentage of average capital employed.

Total assets

Total assets, or liabilities and shareholders' equity.

Dividend yield

Dividend as a percentage of the share price at year-end.

Average interest rate

Nominal interest rate weighted by interest bearing liabilities outstanding on the Balance Sheet date.

Average fixed-interest term

Remaining fixed-interest term weighted by interest-bearing liabilities.

Average equity

Average reported equity as of the last five quarters.

Average capital employed

Average capital employed as of the five last quarters.

Capital turnover rate

Net sales on a rolling 12-month basis divided by average capital employed.

Production costs

Costs incurred for land, such as development expenses for architects and other contractor-related costs, utility connection fees and construction.

Net debt

Interest-bearing liabilities and provisions less financial assets including cash and cash equivalents.

Net sales

Net sales are recognised when the housing unit is handed over to the end customer. Property sales are recognised on the date when control is transferred to the buyer, which normally coincides with transfer of ownership. Net income is subject to the same definition.

Operating margin

Operating profit as a percentage of net sales.

Interest coverage ratio

Profit/loss after financial items plus financial expense divided by financial expense, calculated on a rolling 12-month basis.

Debt/equity ratio

Net debt divided by shareholders' equity.

Equity/assets ratio

Total equity as a percentage of total assets.

Capital employed

Total assets less non-interest bearing liabilities including deferred tax liabilities.

Share-related key figures

Earnings per share

Net profit/loss for the period attributable to Bonava's shareholders divided by the weighted average number of shares in the year.

Key financial ratios

Overview of key financial ratios¹⁾

Unless otherwise stated, the table below contains certain financial and operational key ratios that are not defined according to IFRS. The information below referring to the financial years 2013–2018 is of material value to investors since it enables a better evaluation of Bonava's financial position and earnings. The key ratios for 2013–2015 below are unaudited but have been calculated on the basis of the figures in the Audited Combined Financial Statements 2013–2015, which have been audited by the Company's auditor. For definitions of key ratios, see "Definitions" in the section "Key performance indicators".

SEK M unless otherwise stated	2014	2015	2016	2017	2018
Profitability ratios					
Return on capital employed, % ²⁾	8.4	12.5	14.6	16.6	12.8
Financial ratios at period-end					
Interest-coverage ratio, times ²⁾	2.4	3.9	5.4	8.3	11.1
Equity/Assets ratio, %	2.1	30.5	33.7	33.7	34.9
Interest-bearing liabilities/total assets, %	65.8	32.8	26.7	27.2	28.3
Net debt	9,600	4,216	3,699	4,165	5,542
Net debt, excl. tenant-owner associations and housing companies	7,422	1,039	75	-168	
Debt/equity ratio, times	28.4	0.9	0.7	0.6	0.8
Capital employed at period end	10,688	9,811	10,134	12,003	13,332
Capital employed, average	10,885	10,882	10,412	11,419	12,683
Capital turnover rate, time ²⁾	0.9	1.2	1.3	1.3	1.1
Share of risk-bearing capital, %	2.1	30.5	33.8	33.8	35.0
Average interest rate, at period end, % ³⁾	3.26	3.06	3.75	2.86	1.41
Average period of fixed interest, year ³⁾	0.2	0.2	0.3	0.2	0.2
Average interest rate, at period end, % ⁴⁾	1.76	1.26	1.35	1.40	1.30
Average period of fixed interest, year ⁴⁾	0.1	0.1	0.1	0.1	0.2
Per share data before and after dilution					
Profit after tax, SEK	4.15	7.36	9.26	12.99	
Cash flow from operating activities, SEK	-0.86	13.37	6.54	0.79	
Dividend, SEK ⁵⁾	0	0	3.80	5.20	5.20
Shareholders' equity, SEK	2.71	43.08	52.25	61.48	
Number of shares in million, average	108.4	108.4	108.4	107.9	

¹⁾ The historical key financial ratios are affected by Bonava's historical capital structure, since it, as a business area within the NCC group, did not reflect the capital structure of an independent, publicly traded company. Accordingly, a shareholders' contribution of approximately SEK 5 billion was provided in late 2015 via a receivable from NCC. This transaction is presented in other capital contributions in Bonava.

²⁾ Calculations are made on the basis of a 12-month average.

³⁾ Excluding loans in Swedish tenant-owner associations and Finnish housing companies. For more information, see the heading "Indebtedness pertaining to tenant-owner associations and housing companies" in the section "Capital structure and other financial information".

⁴⁾ Pertains to loans in Swedish tenant-owner associations and Finnish housing companies. For more information, see the heading "Indebtedness pertaining to tenant owner associations and housing companies" in the section "Capital structure and other financial information".

⁵⁾ Dividend for 2018 is the Board of Director's proposal to the Annual General Meeting.

Key ratios, housing units

Bonava (no. of housing units unless otherwise indicated)	2014	2015	2016	2017	2018
Building rights, at period end	31,300	29,100	28,000	31,400	30,600
Of which, off-balance sheet building rights	9,800	11,000	10,500	14,600	15,300
Housing development for consumers					
Profit-recognised housing units during the period	3,661	3,968	4,371	4,294	3,539
Production starts during the period	4,503	4,452	4,041	4,984	4,375
Housing units sold during the period	4,575	4,542	4,311	3,984	3,906
Housing units in ongoing production, at period end	5,952	6,432	6,158	6,844	7,259
Sales rate, ongoing production, at period end, %	58	60	63	54	52
Reservation rate, ongoing production, at period end, %	12	6	6	3	4
Completion rate, ongoing production, at period end, %	45	46	49	44	46
Completed housing units, not profit-recognised, at period end	438	429	373	377	718
Housing units for sale (ongoing and completed), at period end	2,812	2,713	2,440	3,443	3,833
Completed unsold housing units	314	156	180	284	379
Housing development for investors					
Profit-recognised housing units during the period	1,393	1,768	407	1,170	1,686
Production starts during the period	1,445	1,904	1,791	1,718	2,103
Housing units sold during the period	1,472	1,773	1,922	1,718	2,103
Housing units in ongoing production, at period end	1,735	2,346	2,955	3,036	3,453
Sales rate, ongoing production, at period end, %	100	94	100	100	100
Completion rate, ongoing production, at period end, %	65	69	40	32	30
Completed housing units, not profit-recognised, at period end					
Housing units for sale (ongoing and completed), at period end		131			
Housing development for consumers					
Housing units in ongoing production, at period start	4,831	5,952	6,432	6,158	6,844
Changed evaluation of number of housing units in production at period start			-13		
Production starts during the period	4,503	4,452	4,041	4,984	4,375
Profit-recognised housing units during the period	-3,661	-3,968	-4,371	-4,294	-3,539
Decrease (+)/increase (-) in completed housing units, not profit-recognised at period end	279	9	56	-4	-421
Housing units in ongoing production, at period end	5,952	6,432	6,158	6,844	7,259
Housing development for investors					
Housing units in ongoing production, at period start	1,552	1,735	2,346	2,955	3,036
Production starts during the period	1,445	1,904	1,791	1,718	2,103
Profit-recognised housing units during the period	-1,393	-1,768	-407	-1,170	-1,686
Time offset between completion and profit-recognition in Bonava Finland ¹⁾	131	475	-775	-467	
Housing units in ongoing production, at period end	1,735	2,346	2,955	3,036	3,453

¹⁾ Up until 2015, Bonava Finland profit-recognised housing units for investors at the time of production start. Thus, there has been a time offset between years regarding profit-recognition and completion of housing units for investors. From 2016, profit-recognition of housing units to investors in Bonava Finland is made at the time of completion.

Annual General Meeting 2019

The Annual General Meeting will be held on Wednesday 10 April 2019 at 3 p.m. at Bonnier Conference Centre in Stockholm, Sweden.

Participation

Shareholders wishing to participate at the AGM must:

- be included in the share register kept by Euroclear Sweden AB by no later than Thursday 4 April 2019
- notify the company of their intention to participate by no later than Thursday 4 April 2019

Registration

To register:

- go to Bonava's website, bonava.com/en/general-meeting/annual-generalmeeting-2019
- on tel +46 (0)8 402 92 26
- weekdays between 9 a.m. and 4 p.m.
- by mail at:
Bonava AB,
c/o Euroclear Sweden AB
P.O. Box 191
101 23 Stockholm
Sweden

When registering their intention to attend, shareholders should provide their name, personal or corporate identity number, address, telephone number and the number of assistants.

If participation is through Power of Attorney, the documentation should be submitted in good time before the AGM.

A template Power of Attorney is available for download on our website, bonava.com

Proposed dividend

The Board of Directors proposes a dividend of SEK 5.20 per share, divided into two payments. The first payment of SEK 2.60 per share is proposed for disbursement on 17 April 2019 and the second payment of SEK 2.60 per share on 16 October 2019.

For more information: ir@bonava.com, bonava.com

Nominee-registered holdings

In addition to registering their participation in the AGM with the company, shareholders with nominee-registered holdings must temporarily re-register their share in their own name in the share register (voting right registration) to be entitled to participate in the AGM. In order for such registration to be complete by Thursday 4 April 2019, shareholders should contact their bank or fund manager in good time before that date.



Production: Bonava in collaboration with Hallvarsson & Hallvarsson.

Translation: Kristina Turner.

Photography/graphics: Anders Lindén, Agent Bauer, Diakrit, EVE Images, Some People I Know, Pontus Orre, Julio Orduña Sánchez & Matias Celayes, Maskot, Sören Weile.

Printer: TMG Stockholm 2019.

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