

Q4

Year-end report 2019

Summary, January-December 2019

- » Rental income increased to SEK 3,027 million (2,607).
- » Profit from property management increased to SEK 1,720 million (1,443).
- » Changes in the value of properties amounted to SEK 2,037 million (2,060) and changes in the value of financial instruments to SEK -25 million (91).
- » Profit after tax for the year increased to SEK 3,111 million (3,092).
- » The market value of investment properties was SEK 55,027 million (46,236).
- » During the year, 23 properties (29) were acquired for SEK 5,242 million (3,135) and 16 properties (10) were divested for SEK 1,239 million (867).

Significant events during the fourth quarter

- » Hemsö's shareholders decided to inject an additional SEK 1 billion in equity, and the underwriting commitment from the Third Swedish National Pension Fund was increased to SEK 5 billion.
- » A 20-year rental agreement was signed with Stiftelsen Stora Sköndal for the development of a new nursing home in central Tyresö. The investment amount was SEK 270 million.
- » Mälardalen University in Eskilstuna was completed. The rental value amounts to SEK 47 million. The university will open in April 2020 and 4,000 students will have new and modern educational facilities.

Hemsö in summary

	Jan-Dec 2019	Jan-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
Property income, SEK million	3,046	2,618	780	676
Profit from property management, SEK million	1,720	1,443	443	346
Profit after tax, SEK million	3,111	3,092	1,114	1,203
Operating cash flow, SEK million	1,628	1,383	399	329
Loan-to-value ratio, %	62.1	63.1	62.1	63.1
Interest-coverage ratio, times*	5.1	4.9	5.1	4.9
Market value of investment properties, SEK million	55,027	46,236	55,027	46,236
NOI margin, %	74.8	74.5	71.1	69.2
Economic occupancy rate, %	98.1	98.3	98.1	98.3
Rental duration, years	9.9	9.7	9.9	9.7
Lettable area, tsqm	1,884	1,732	1,884	1,732

* Based on rolling 12-month outcome

HEMSÖ



CEO statement

As we summarise the financial results for 2019, I note that Hemsö delivered the strongest cash flow and highest results ever. The strong growth in profit from property management during the year continued into the fourth quarter. For the full-year, profit from property management rose 19 per cent to SEK 1.7 billion and profit before tax increased to SEK 3.7 billion.

In addition to the strong financial results, 2019 was a year in which we built a stronger Hemsö, broadened our partnership with the public sector and laid the foundation for continued growth with new high-quality development projects.

Creating cash flows from new developments

During the year, Hemsö completed 11 development projects that are generating new cash flows, either development projects under own management or. The investment volume for these amounted to SEK 2.2 billion, with annual rental income of SEK 150 million, a rental duration of 20 years, and public-sector tenants that account for 72 per cent of the rental income.

During the year, Hemsö also signed agreements for 11 new development projects in Sweden, Finland and Germany that have either already had or are scheduled for construction start in 2020. The investment volume for these development projects was SEK 2.2 billion, with annual rental income of SEK 135 million, a rental duration of 19 years and public-sector tenants that account for 80 per cent of the rental income.

The completed and newly signed development projects comprise nursing homes, preschools, elementary schools, colleges and fire and rescue stations. They include 3,300 student placements, 5,000 college placements and 900 nursing home beds.

Hemsö sees great potential for helping to create the social infrastructure that will be needed in the future.

Our development portfolio ensures continued and stable cash-flow growth, while simultaneously strengthening the quality of our property portfolio. Two key ratios that reflect this improvement and that have been continuously strengthened in recent years through our developments are rental duration, which was almost ten years at the end of 2019, and the share of the portfolio that is located in larger cities, which rose to nearly 85 per cent.

Improved property management driving tenant satisfaction

Tenant satisfaction is a prerequisite for being a relevant property owner over the long term. We conducted an extensive customer survey in Sweden and Finland during the year.

In Sweden, customer satisfaction rose 10 per cent and is the result of a greater focus on our property management that commenced two years ago. However, we are not totally satisfied and are striving to further strengthen customer satisfaction by improving our processes, increasing maintenance on our properties and strengthening relationships with our tenants.

In Finland, we conducted an extensive customer survey for the first time. Hemsö received a very high rating and was ranked second-best in the market (from among 19 top Finnish property owners) using a Net Promoter Score, and best in Overall Satisfaction. In a relatively short time, Hemsö has established itself as a local property owner with a good reputation.

The strength of long-term and financially strong shareholders

Hemsö's shareholders decided to inject an additional SEK 1 billion in new equity in 2020 to increase investment capacity while maintaining a stable capital structure. At the same time, Hemsö raised the Third Swedish National Pension Fund's underwriting commitment from SEK 4 billion to SEK 5 billion. At year-end, total available liquidity amounted to SEK 13.6 billion.

The owners' support for Hemsö's long-term growth is a strength, especially in a time when the need for social infrastructure in the municipalities is growing steadily. Hemsö's strong financial position and robust liquidity mean that the company can continue to be a stable partner for the public sector, regardless of market conditions.

I would like to thank our shareholders for their trust, as well as our tenants, municipalities, and other partners. I would also like to thank Hemsö's fantastic employees for their efforts during the year to create a company that is equipped for tomorrow's challenges and opportunities.

Nils Styf, CEO

Vision

To be the best property company for public services

Mission

To sustainably own, manage and develop public properties

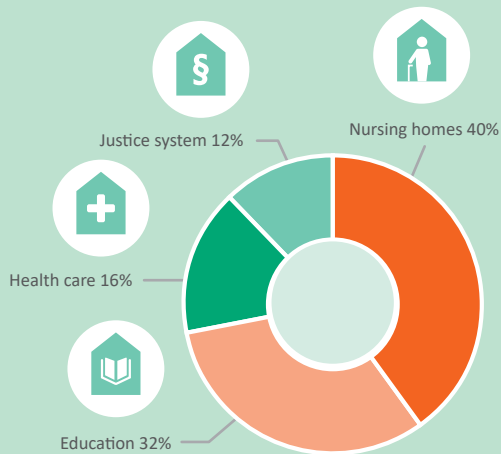
This is Hemsö

- Hemsö is Sweden's leading private owner of public properties.
- The business is based on sustainably owning, managing and developing properties for nursing homes, education, health care and the justice system.
- Hemsö owns properties in Sweden, Germany and Finland.
- Our vision is to be the best property company for public services.

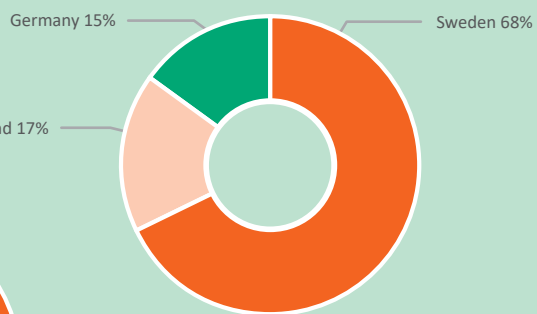
This means that Hemsö will create added value for its customers, and be the long-term property partner for the public sector and private operators of public services.

- The operations are characterised by long-term rental agreements and stable tenants.
- The Third Swedish National Pension Fund is the majority owner.
- The total value of Hemsö's property portfolio is SEK 55 billion.
- Hemsö has a credit rating of A- from Standard & Poor's.

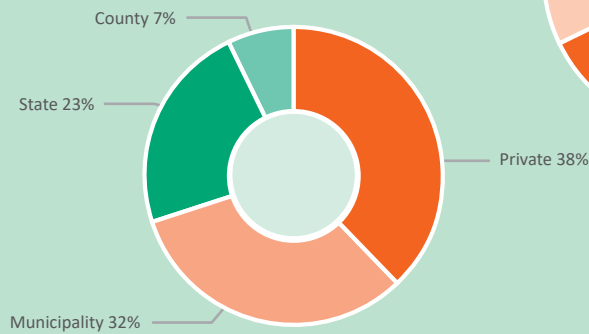
Contracted rent per property category



Market value of investment properties



Contracted rent per customer category



Income, costs and profit

Profit/loss items relate to the January-December 2019 period, and are compared with the year-earlier period. Balance-sheet items relate to the period-end position, and are compared with the corresponding period-end of the preceding year.

Rental income

During the period, rental income amounted to SEK 3,027 million (2,607). Rental income rose 33 per cent in Germany, and 79 per cent in Finland, mainly driven by acquisitions. In Sweden, rental income rose 3 per cent, mainly attributable to acquisitions and completed development projects.

In the comparable portfolio, rental income rose SEK 70 million, or 3.1 per cent, due to rent indexation, renegotiations and currency effects.

At period-end, contracted annual rent amounted to SEK 3,126 million (2,750) and economic vacancies to SEK 63 million (49). The economic occupancy rate at period-end was 98.1 per cent (98.3).

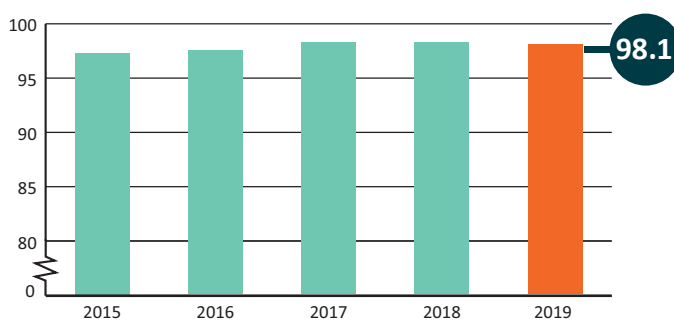
In 2020, rental agreements with annual rent of SEK 186 million will expire, of which SEK 10 million has already been extended. The remaining rent due in 2020 is SEK 176 million, corresponding to 6 per cent of Hemsö's contracted rental income.

The rental duration increased to 9.9 (9.7) years, due to completed development projects and renegotiations.

Property costs

Property costs amounted to SEK 769 million (668), up SEK 101 million. In the comparable portfolio, costs increased SEK 27 million, or 4.6 per cent, mainly due to an increase in maintenance measures and property administration.

Economic occupancy rate, %



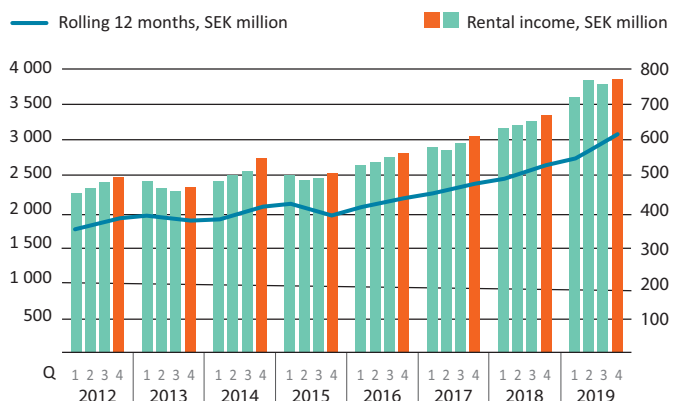
Vacancy changes

SEK million	Jan-Dec 2019
Opening vacancy	49
Terminated rental agreements	47
Adjusted for vacancy rents	-22
New rental agreements	-23
Acquired	20
Divested	-8
Closing vacancy	63

Rental maturity

Year	Annual rent, SEK million	Share, %
2020	176	6
2021	222	7
2022	208	7
2023	207	7
2024	96	3
2025	167	5
2026	121	4
2027	132	4
2028	245	8
2029	120	4
>2029	1,438	46
Total	3,132	100

Rental income



SEK 3,027 million

Rental income

Net operating income

Net operating income increased to SEK 2,276 million (1,950). The increase was mainly attributable to acquisitions and completed development projects. The NOI margin for the period was 74.8 per cent (74.5), up 0.3 percentage points year-on-year.

In the comparable portfolio, net operating income rose SEK 44 million, or 2.6 per cent. The increase was mainly due to higher income.

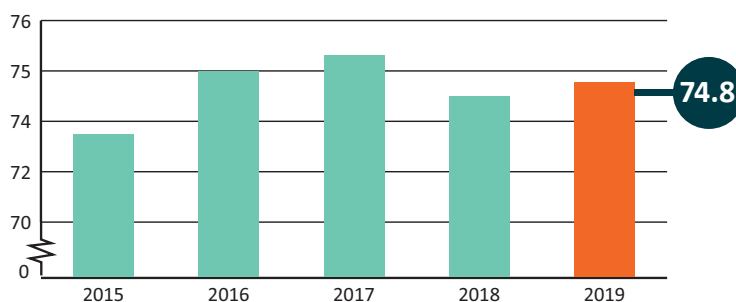
Comparable portfolio

	31 Dec 2019	31 Dec 2018	Change, %
No. of properties	292	292	–
Market value, SEK million	36,193	34,485	5.0
Property yield, %	4.8	4.9	-2.7

Amounts in SEK million	Jan-Dec 2019	Jan-Dec 2018	Change, %
Rental income	2,331	2,261	3.1
Other income	10	9	12.1
Operating costs	-379	-359	5.6
Maintenance costs	-191	-177	7.5
Other costs	-37	-43	-15.2
Net operating income	1,734	1,690	2.6

Pertains to properties owned and held throughout the entire period from 1 January 2018 until 31 December 2019 (excl. 43 development properties)

NOI margin, rolling 12-month period, %



Administration

Administrative expenses for the period declined to SEK 135 million (146), mainly attributable to a higher distribution of administrative expenses, which were instead recognised in net operating income.

Financial items

Net financial items increased year-on-year to SEK -419 million (-372), due to an increase of SEK 35,542 million (29,728) in interest-bearing debt. The average interest rate remained unchanged at 1.3 per cent (1.3). The fixed-rate period increased to 6.4 years (5.9).

Hemsö adopted IFRS 16 Leases on 1 January 2019, which means that leasehold fees will now be recognised under net financing cost rather than net operating income.

Financial items

SEK million	Jan-Dec 2019	Jan-Dec 2018
Interest income	5	2
Other financial income	57	48
Interest expense	-420	-381
Other financial expenses	-42	-41
Interest expense, site leaseholds and leasehold estates	-19	-
Total financial items	-419	-372

SEK 2,276 million

Net operating income

Profit from property management

Profit from property management rose 19 per cent to SEK 1,720 million (1,443), mainly the result of a larger property portfolio.

Value change, investment properties

During the period, the change in value of investment properties was SEK 2,037 million (2,060), of which realised value changes accounted for SEK 54 million (-28) and unrealised value changes for SEK 1,983 million (2,088). Unrealised value changes were mainly attributable to lower yield requirements in Sweden and Germany, but also to property management and project development in Sweden. The yield on the entire property portfolio, excluding development properties, was 4.7 per cent (4.9).

The total yield was 8.7 per cent (9.7).

Unrealised value changes

SEK million	Jan-Dec 2019
Sweden	
Property management and development-related value change	890
General market value change	769
Subtotal Sweden	1,659
Germany	
Property management and development-related value change	-
General market value change	241
Subtotal Germany	241
Finland	
Property management and development-related value change	32
General market value change	51
Subtotal Finland	83
Total unrealised value changes	1,983

Calculation of property yield

SEK million	31 Dec 2019
Net operating income according to income statement	2,276
Adjusted for 12-month holding period and leasehold fees	-11
Adjusted for development properties	-87
Adjusted net operating income	2,178
Market value of properties according to balance sheet	55,027
Adjusted for development properties	-8,888
Adjusted market value of properties	46,139
Property yield	4.7%

SEK 1,720 million

Profit from property management

Property value
SEK 55.0 billion

Properties
370

Lettable area
1,884 tsqm

Change in value of property portfolio

	SEK million	No. of
Market value, opening balance	46,236	365
Acquisitions	5,242	23
Investments in new construction, extension and refurbishment	2,724	
Divestments	-1,239	-16
Disposals	-43	-2
Exchange-rate fluctuations	124	
Unrealised value changes	1,983	
Market value at period-end	55,027	370

Change in value of financial instruments

Changes in the value of financial instruments had a negative impact of SEK -25 million (pos: 91) on profit. Changes in the value of interest-rate derivatives had a positive impact of SEK 66 million (81) on profit, largely due to the fact that the new interest-rate derivatives carried a lower interest rate than the rate at the closing date. Foreign exchange derivatives had a negative impact of SEK -91 million (pos: 10) on profit, attributable to currency risk management in connection with property acquisitions in EUR.

Tax

Recognised tax for the period amounted to SEK -621 million (-502), of which current tax accounted for SEK -78 million (-36) and deferred tax for SEK -543 million (-466). Deferred tax expense mainly consisted of changes in the temporary difference between the market and taxable value of investment properties. At year-end, deferred tax assets amounted to SEK 77 million (73). Deferred tax liabilities amounted to SEK 3,677 million (3,140). Deferred tax assets were netted against deferred tax liabilities in the balance sheet.

Segment information

Amounts in SEK million	Profit/loss items per segment				Asset items per segment	
	Rental income		Net operating income		Market value of investment properties	
	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2019	Jan-Dec 2018	31 Dec 2019	31 Dec 2018
Sweden East	781	772	565	569	16,942	14,758
Sweden West	303	292	205	196	3,898	3,837
Sweden Central/North	618	587	443	418	11,286	10,266
Sweden South	323	314	215	218	5,342	4,783
Germany	434	325	403	307	8,225	7,240
Finland	568	317	445	242	9,334	5,352
Total	3,027	2,607	2,276	1,950	55,027	46,236

Segment identification is based on internal reporting. The Chief Executive Officer primarily uses net operating income per segment for performance analysis. Administrative expenses, financial income and expenses and income tax are managed at Group level. The Group is managed and reported in six segments: Sweden: East, West, Central/North, South, and Germany and Finland.

Earnings

Profit after tax for the year amounted to SEK 3,111 million (3,092), up SEK 19 million year-on-year. The earnings improvement was mainly attributable to an increase in net operating income.

Cash flow

Hemsö's cash flow from operating activities before changes in working capital was SEK 1,614 million (1,430). The change in working capital amounted to SEK 129 million (0). Operating cash flow amounted to SEK 1,628 million (1,383). Investing activities had a negative impact of SEK -7,139 million (-5,010) on cash flow, while increased borrowings, redemption of financial instruments, shareholder contributions received, dividends paid and cash inflows from non-controlling interests had a positive impact of SEK 5,940 million (2,923) on cash flow from financing activities. Overall, cash and cash equivalents rose SEK 544 million (declined: -657) during the period.

Parent Company

The operations of the Parent Company, Hemsö Fastighets AB, mainly consist of managing the Group's properties through ownership of shares in the property-owning subsidiaries. Parent Company sales amounted to SEK 78 million (63) and consisted of fees for services to the subsidiaries. Administrative expenses increased to SEK -164 million (-158). Financial items amounted to SEK 353 million (322). Financial items include gains of SEK 253 million (223) on sales of shares in subsidiaries, a loss of SEK -52 million (gain: 508) from participations in Group companies, interest income of SEK 559 million (82), interest expense of SEK -462 million (-417), and exchange-rate differences of SEK 55 million (-74). Changes in the value of financial instruments amounted to SEK -25 million (-453) and comprehensive income for the year declined to SEK 301 million (485).

Property portfolio

Of the total property value of SEK 55,027 million (46,236), 68 per cent (72) was attributable to Sweden, 17 per cent (12) to Finland and 15 per cent (16) to Germany.

At year-end, Hemsö owned properties in 60 municipalities in Sweden, 43 municipalities in Germany and 21 municipalities in Finland. The largest share of the market value of investment properties (84 per cent) was attributable to properties located in metropolitan areas and large cities in Sweden, Germany and Finland.

In Sweden and Finland, Hemsö owns properties for nursing homes, education, health care and the justice system. In Germany, Hemsö owns properties for nursing homes, education and the justice system. At 31 December 2019, Hemsö's property portfolio comprised 370 properties (365) with a total lettable area of 1,884 tsqm (1,732).

Properties acquired and divested

Quarter	No. of	Property value, SEK million	Lettable area, sqm
Acquisitions			
Q1	5	2,348	64,096
Q2	8	1,438	80,145
Q3	2	478	4,217
Q4	8	978	24,140
Total	23	5,242	172,598
Divestments			
Q1	1	-58	3,475
Q2	14	-1,056	55,837
Q3	-	2	-
Q4	1	-127	8,026
Total	16	-1,239	67,338

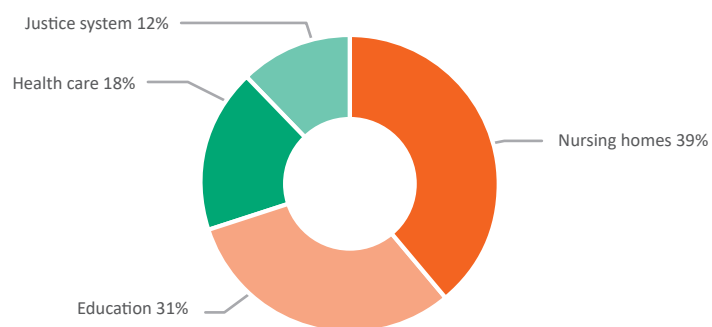
Property transactions

During the year, 23 properties (29) were acquired for SEK 5,242 million (3,135) and 16 properties (10) were divested for SEK 1,239 million (867). The realised gain, excluding tax for properties sold, was SEK 97 million.

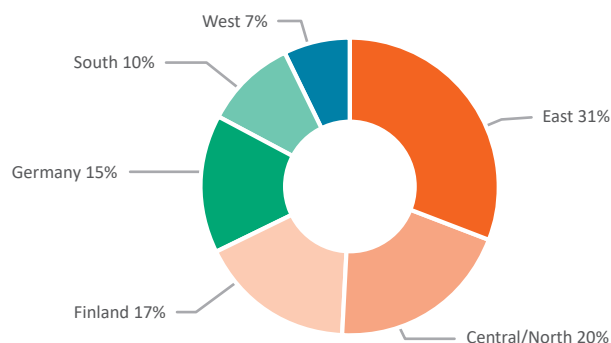
Investments

Investments pertain to investments in both existing properties and new construction. Investments in existing properties usually take place in conjunction with new lettings, with the aim of adapting and modernising the premises and thus increasing the rental value. During the year, SEK 2,724 million (2,660) was invested, including SEK 2,215 million (2,303) in new construction, while SEK 508 million (357) pertained to improvements and new lettings.

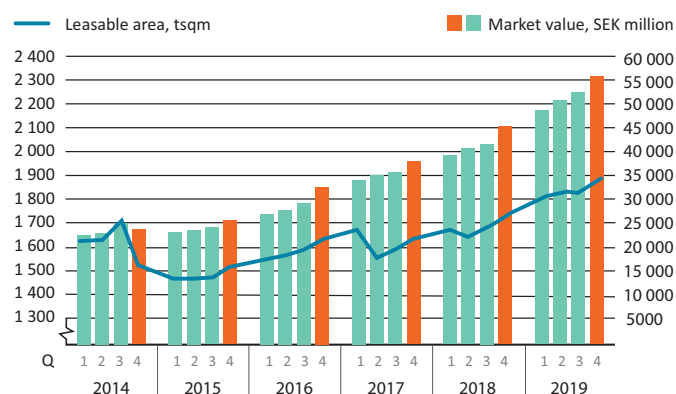
Market value of investment properties per property category



Market value of investment properties per segment



Market value and area of investment properties



Hemsö's property categories

	Nursing homes	Education	Health care	Justice system	Total
No.	186	108	59	17	370
Lettable area, tsqm	836	565	294	189	1,884
Rental duration, years	9.7	12.2	7.3	7.8	9.9
Property value, SEK million	21,644	17,177	9,790	6,416	55,027
Property income, SEK million	1,213	958	508	367	3,046
Net operating income, SEK million	926	711	357	282	2,276
Economic occupancy rate, %	99.6%	98.7%	95.2%	95.8%	98.1%
Property yield, %	4.5	4.7	5.1	4.9	4.7

Tenants

94 per cent of Hemsö's total rental income is derived from taxpayer-funded operations. 13 of the 20 largest tenants were state, municipalities and county operators. The share of contracted annual rent with public-sector tenants was 62 per cent, where rental agreements with state operators accounted for 23 per cent, municipal operators for 32 per cent and county operators for 7 per cent. In Sweden, most privately run education, health care and elderly care operations are taxpayer-funded via school, health-care and care voucher schemes. In Finland, private operators receive funding through a system similar to Swedish schemes.

In Germany, nursing home operations are funded through the public health insurance scheme and care-user fees. When users are unable to pay their own expenses, funding is provided through municipal contributions.

Hemsö is usually able to obtain collateral for the rental income through pledges of the operators' entitlements to municipal contributions. Contracted annual rent for nursing homes in Germany amounted to EUR 34 million, of which EUR 9 million is secured through pledges. 41 per cent of rental income in Germany is therefore derived directly from public-sector tenants, or guaranteed by pledging public funds.

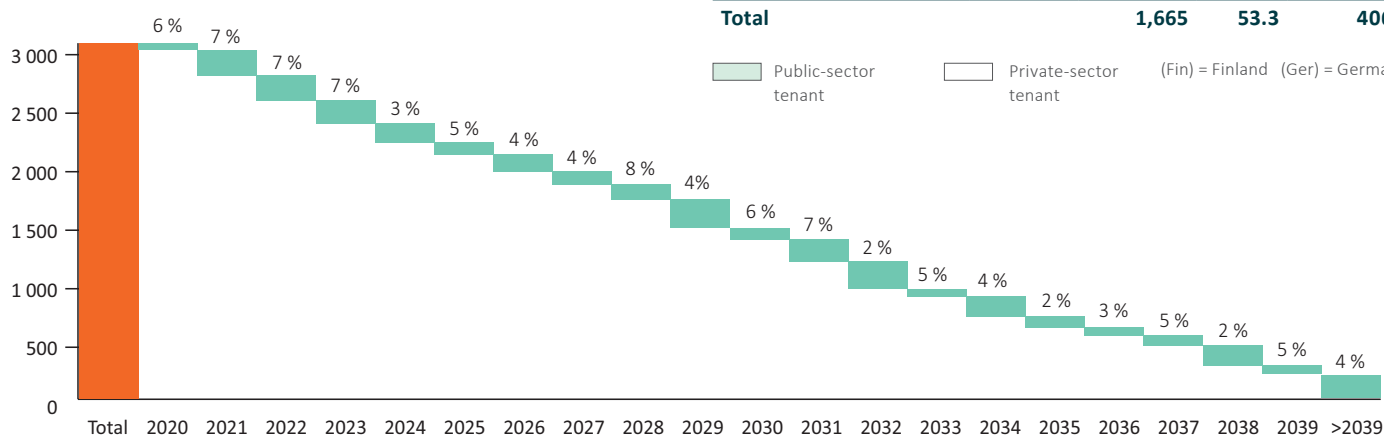
The largest tenants are the Swedish Police Authority, the City of Turku (Finland), Attendo and the Ministry of Justice (Finland), which together represent 17 per cent of rental income.

Hemsö's 20 largest tenants

Tenant	Category	Annual rent, SEK million	Share, %	No. of rental agreements
Swedish Police	State	156	5.0	31
City of Turku (Fin)	Municipality	144	4.6	14
Attendo	Private	134	4.3	68
Ministry of Justice (Fin)	State	113	3.6	14
Academedialia	Private	113	3.6	21
Region Stockholm	County Council	111	3.6	73
Mälardalen University	State	102	3.3	3
City of Västerås	Municipality	83	2.6	17
AWO Hessen Süd (Ger)	Private	80	2.6	10
Norrköping Municipality	Municipality	74	2.4	19
Västra Götaland Region	County Council	70	2.2	60
Karolinska Institute	State	66	2.1	9
Ambea	Private	62	2.0	10
Alloheim (Ger)	Private	60	1.9	8
North Rhine-Westphalia (Ger)	State	57	1.8	1
HEWAG (Ger)	Private	55	1.8	9
Municipality of Gävle	Municipality	52	1.6	19
The University of the Arts Helsinki (Fin)	State	45	1.4	3
Region Gotland	Municipality	44	1.4	9
Mehiläinen (Fin)	Private	44	1.4	8
Total		1,665	53.3	406

Public-sector tenant Private-sector tenant (Fin) = Finland (Ger) = Germany

Rental maturity, annual rent SEK million



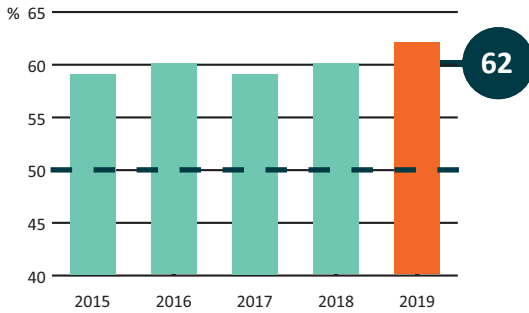
Property frameworks

To clarify the company's strategy, Hemsö has four property frameworks. The aim of these frameworks is to ensure a low

level of risk in the property portfolio and that Hemsö's cash flow remains stable over time.

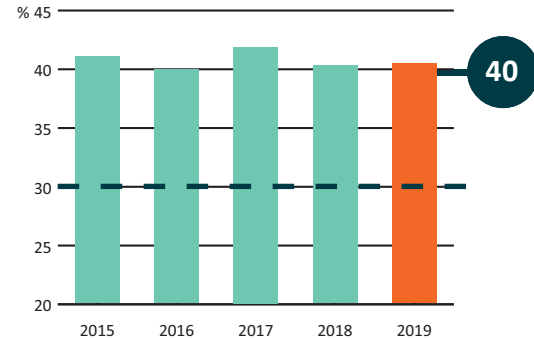
Public-sector tenants

– At least 50 per cent of the rental income



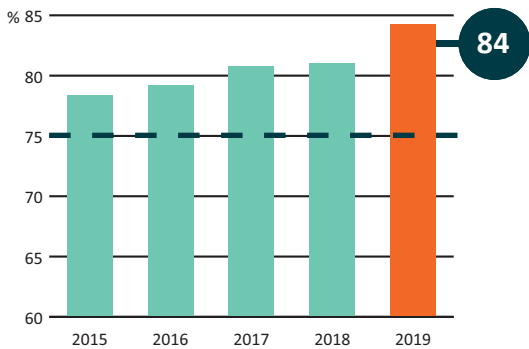
Nursing homes

– At least 30 per cent of rental income



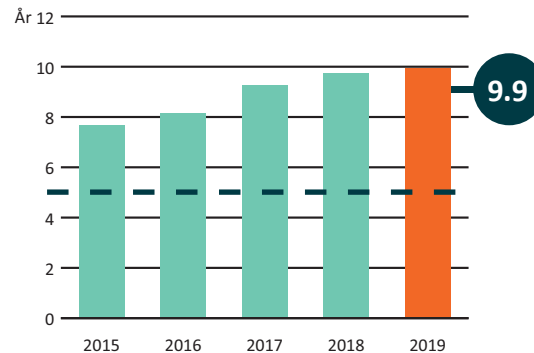
Metropolitan areas and large cities

– At least 75 per cent



Rental duration

– At least 5 years



Property valuation

Hemsö recognises its investment properties at an estimate of fair value, in accordance with IAS 40. At 31 December 2019, the fair value of all properties had been determined internally. The fair value of properties is determined quarterly. To verify the internal measurement, the fair value of most properties in the portfolio is determined externally every year. The measurements are categorised within Level 3 of the fair value hierarchy in IFRS 13. At period-end, the fair value of properties was SEK 55,027 million (46,236).

Earning capacity

The table reflects Hemsö's earning capacity on a 12-month basis at 31 December 2019. It is important to note that this should not be compared with a forecast for the next 12 months, for example, as it does not include any assessments regarding future vacancies, rental trends, changes in operating costs or future property transfers. Rental income is based on annual rental value less vacant premises and discounts. Property costs are based on actual results over the past 12 months adjusted for the holding period. Administrative expenses are based on

Earning capacity

SEK million	31 Dec 2019	31 Dec 2018	Change, %
Rental income	3,126	2,750	
Property costs	-762	-673	
Net operating income	2,364	2,077	14
Central administrative expenses	-135	-146	
Profit from associated companies	28	6	
Financial items	-432	-345	
Profit from property management	1,825	1,592	15

the actual outcome over the past 12 months. Net financial items are calculated on the basis of interest-bearing assets and liabilities at the closing date. Interest expenses are based on the Group's average interest rate plus amortised origination fees and other estimated financial income and expenses. Profit from participations in associated companies does not include changes in fair value and is calculated using the same assumptions as for Hemsö with consideration for the size of the participation.

Development projects

Hemsö's largest ongoing development projects over SEK 100 million

Municipality	Development projects	Category	Area, sqm	Investment, SEK million	Remaining investment, SEK million	Increase in rental value, SEK million	Occupancy rate, %	Completed, year
Solna	Patienten ¹⁾	Health care	21,258	2,231	628	104	99%	2020
Stockholm	Princeton ¹⁾	Health care	22,364	1,576	645	107	93%	2021
Västerås	Södra Källtorp	Nursing home	14,219	555	483	29	100%	2021
Zossen	Dabendorf	Education	15,500	492	394	26	100%	2021
Stockholm	Police headquarters Rinkeby	Justice system	11,703	480	11	28	100%	2020
Luleå	Kronan	Nursing home	12,005	288	121	21	100%	2020
Borlänge	Paradisskolan	Education	9,200	252	215	17	100%	2021
Norrköping	NOD-huset	Health care	4,495	247	185	13	89%	2021
Kristianstad	Villa Boulevard	Nursing home	4,207	135	67	9	89%	2020
Halmstad	Fyllinge	Nursing home	3,804	100	26	8	100%	2020
Total			118,755	6,357	2,774	363		

Public-sector tenant Private-sector tenant ¹⁾ The development projects are conducted in companies owned jointly with Vitartes.

Development projects

Hemsö has many ongoing development projects, mainly related to the construction of new schools and nursing homes. The largest projects comprise a total investment of SEK 6,357 million, of which the remaining investment amount is SEK 2,774 million. During the quarter, three development projects totalling SEK

464 million were completed. They pertain to a nursing home in Boden with a rental duration of 15 years, the Sibelius Academy in Helsinki, Finland, with a rental duration of 25 years and a school building in Norrköping with a rental duration of 25 years. The properties have been transferred to property management.

Development projects completed, 2019

Municipality	Development projects	Completed	Category	Area, sqm	Investment, SEK million	Rental duration, years	Increase in rental value, SEK million	Occupancy rate, %
Norrköping	Diademet	Q1	Nursing home	4,025	45	20	3	100
Staffanstorps	Villa Vikhem	Q2	Nursing home	4,126	129	15	10	100
Norrköping	Sandbyhov – Sandbyhovsskolan	Q2	Education	4,904	104	25	9	100
Norrköping	Sandbyhov – Sandbyängsskolan	Q2	Education	3,545	92	25	7	100
Solna	Järvastaden school, stage 3	Q2	Education	1,440	57	30	3	100
Staffanstorps	Stora Uppåkra – Preschool	Q3	Education	1,195	42	20	3	100
Boden	Björknäsgården	Q4	Nursing home	10,700	246	15	20	100
Helsinki	Sibelius Academy	Q4	Education	4,077	156	25	1	100
Norrköping	Estethuset	Q4	Education	1,785	62	25	3	100
Total				35,797	933	24	59	

Public-sector tenant Private-sector tenant

Associated company

At 31 December 2019, Hemsö owned shares in two associated companies, Turku Technology Properties Oy (TTP) and Lanthem Samhällsfastigheter AB (Lanthem). These companies are reported in Hemsö's consolidated accounts using the equity method. The carrying amount of the shares in Lanthem is SEK 121 million (112) and the carrying amount of the shares in TTP is SEK 514 million (-). During the period, Lanthem repaid a loan of SEK 71 million to Hemsö. Total investments in associated companies amounted to SEK 635 million (183).

Turku Technology Properties (TTP)

Hemsö acquired shares in TTP in April 2019. The City of Turku and Hemsö are the company's largest owners, with a 35.4 and 34.8 per cent shareholding, respectively. The other owners are the Turku University of Applied Sciences, OP-bank, Veritas Pensionsförsäkring, the Eschnerska Frilasarettet Foundation and the Åbo Akademi University Foundation.

TTP is focused on public properties and its property portfolio is concentrated to the Kupittaa area of central Turku. The company combines education, research and private enterprise in a dynamic cluster of tenant firms known as Science Park. The company is currently constructing another educational property in the area, in which the Turku University of Applied Sciences holds a 25-year rental agreement for 15,000 sqm. The property is scheduled for completion in 2020 and will hold LEED Platinum certification.



TTP	31 Dec 2019	31 Dec 2018
Shareholding, %	34.8	–
Rental value, SEK million	283	–
No. of properties	19	–
Economic occupancy rate, %	99	–
Market value of investment properties, SEK million	3,816	–
Rental duration, years	6	–
Share of public-sector tenants, %	59	–

Lanthem

In autumn 2017, Hemsö entered into a partnership with Lantmännen Fastigheter AB by forming a joint venture, Lanthem Samhällsfastigheter AB. The partnership is based on Lantmännen's land bank. Most of the properties lie adjacent to ports or in one of Hemsö's prioritised central locations. The partnership will secure Hemsö access to land for attractive development projects.

The company acquired five nursing homes and school properties from Lantmännen. Future development projects will mainly belong to these two property categories.

Ownership of Lanthem Samhällsfastigheter AB is shared equally by Hemsö and Lantmännen Fastigheter AB.



Lanthem	31 Dec 2019	31 Dec 2018
Shareholding, %	50	50
Rental value, SEK million	21	21
No. of properties	5	4
Economic occupancy rate, %	100	100
Market value of investment properties, SEK million	408	377
Rental duration, years	10	11
Share of public-sector tenants, %	30	30

Profit from associated companies, SEK million

Jan-Dec 2019	TTP	Lanthem	Total
Profit from property management	30	8	38
Value changes, properties	-1	3	2
Value changes, financial instruments	-41	0	-41
Tax	1	-2	-1
Profit/loss recognised	-11	9	-2

Financing

The overall objective of Hemsö's financing activities is to secure a stable capital structure, and an optimal net financial position, within the given risk limits. Hemsö's loan-to-value ratio should not exceed 70 per cent, and the interest-coverage ratio should be at least 2.0. At year-end, the loan-to-value ratio was 62.1 per cent (63.1) and the interest-coverage ratio was 5.1 (4.9).

Hemsö issues bonds in Swedish and European capital markets and certificates in the Swedish market. In addition, Hemsö has committed credit facilities and underwriting commitments from Nordic banks, the European Investment Bank (EIB) and the Third Swedish National Pension Fund, which diversifies the company's funding sources. Hemsö has a credit rating of A- from Standard & Poor's.

Interest-bearing debt

At period-end, Hemsö's interest-bearing debt amounted to SEK 35,542 million (29,728).

During the period, Hemsö issued bonds totalling SEK 3,907 million in the Swedish capital market and EUR 343 million in European markets. In addition, Hemsö utilised an additional EUR 100 million from a total line of credit corresponding to SEK 3 billion from the European Investment Bank (EIB).

The EIB's loans will be used to finance social infrastructure investments classified as nearly zero-energy buildings (NZEBS) and are included in Hemsö's sustainable finance. The loan from EIB is unsecured, with a 15-year term and a fixed interest rate.

Hemsö works actively to buy back bonds as they approach maturity to minimise the company's refinancing risk. During the period, Hemsö repurchased bonds totalling SEK 1,181 million (1,193).

Sources of funding, SEK million

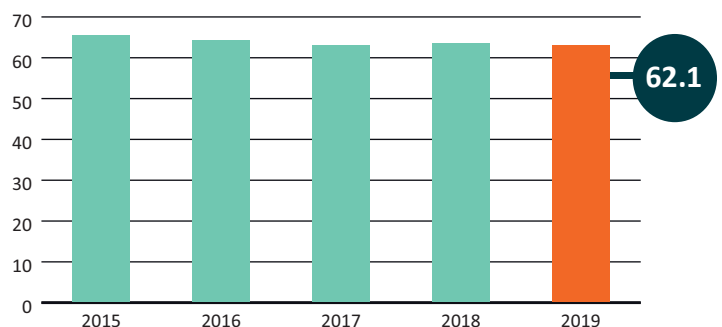
	Q4 2019	Q4 2018
Bonds, SEK	12,989	12,604
Bonds, EUR	14,053	11,075
Total bonds	27,042	23,679
<i>Of which sustainability bonds</i>	<i>1,000</i>	<i>1,000</i>
Commercial papers	5,074	4,449
European Investment Bank	1,843	800
Nordic Investment Bank	800	800
Schuldschein	783	–
Secured loans	–	–
Interest-bearing debt	35,542	29,728
<i>Of which sustainable finance</i>	<i>3,643</i>	<i>2,600</i>

Capital structure, SEK million

	Q4 2019	Q4 2018
Interest-bearing debt	35,542	29,728
Current investments	–	–
Cash and cash equivalents	988	450
Net debt	34,554	29,278
Market value of investment properties	55,027	46,236
Investments in associated companies	635	183
Total	55,662	46,419
Loan-to-value ratio*	62.1%	63.1%
Share of secured debt	0.0%	0.0%

* Due to its investments in associated companies, Hemsö has updated its definition of Loan-to-value ratio to include these investments. Refer also to the definitions and key ratio calculations on pages 21 and 23.

Loan-to-value ratio, %



At period-end, Hemsö had undrawn committed credit facilities totalling SEK 12,661 million (12,700), which lowers the company's refinancing risk and secures access to capital. During the period, Hemsö' raised its underwriting agreement with AP3 by SEK 1 billion. Cash and cash equivalents and current investments amounted to SEK 988 million (450) and total available liquidity to SEK 13,649 million (13,150). The debt-coverage ratio was 173 per cent (165).

Hemsö uses interest-rate derivatives to manage its interest-rate risk, and foreign exchange derivatives to manage its currency risk.

At year-end, the nominal value of the interest-rate derivatives was SEK 6,300 million (6,350). The nominal value of Hemsö's outstanding foreign exchange derivatives was SEK 0 million (0). At period-end, currency exposure corresponded to 11.8 per cent (11.5) of the Group's equity.

At year-end, the average loan maturity was 7.4 years (7.9) and the average fixed-rate period was 6.4 years (5.9). The average interest rate was 1.3 per cent (1.3).

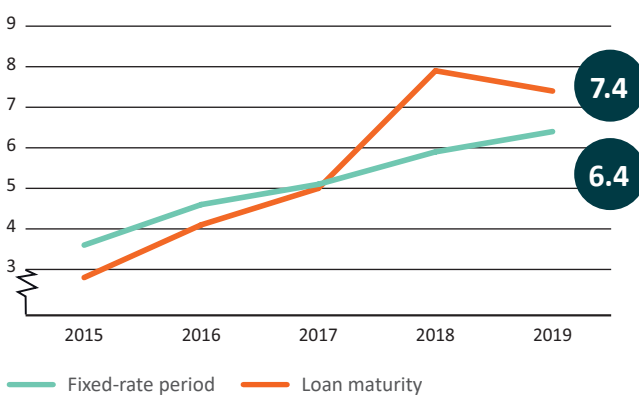
Committed credit facilities and underwriting commitments, SEK million

	Q4 2019	Q4 2018
Banks	6,500	6,500
Third Swedish National Pension Fund	5,000	4,000
EIB	1,161	2,200
Total	12,661	12,700
Current investments		–
Cash and cash equivalents	988	450
Available liquidity	13,649	13,150
Short-term borrowings	7,898	7,994
Debt-coverage ratio	173%	165%

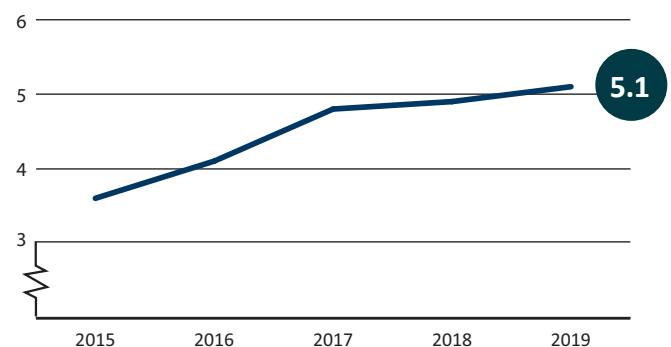
Currency exposure, SEK million

	Q4 2019	Q4 2018
Properties, EUR	17,559	12,592
Cash, EUR	291	0
Assets, EUR	17,850	12,592
Debt, EUR	15,879	11,075
Exposure, EUR	1,971	1,517
Currency hedging	–	–
Currency exposure	1,971	1,517
Equity	16,714	13,199
Currency exposure	11.8%	11.5%

Loan maturity and fixed-rate period, years



Interest-coverage ratio, times (rolling 12-month period)



Summary of Financial Policy

Financing risk	Policy	Outcome
Loan-to-value ratio	Max. 70%	62.1%
Loan maturity	At least 3 years	7.4 years
Debt-coverage ratio	At least 125%	173%
Share of secured debt	Max. 20%	0.0%
Interest-rate risk		
Interest-coverage ratio	At least 2.0 times (rolling 12-month period)	5.1 times
Fixed-rate period	Average fixed-rate period, 3-8 years	6.4 years
Fixed-rate maturity	Max. 40% within 12 months	31.0%
Counterparty risk		
Financial instruments	Bank with a minimum credit rating of A- (S&P)	Fulfilled
Currency risk		
Currency exposure	Max. 20 % of the Group's equity	11.8%



Loan maturity and fixed-rate period

Year	Loan maturity			Fixed-rate period	
	Credit agreement, SEK million	Drawn, SEK million	Share, %	SEK million	Share, %
2020	2,825	2,825	9	11,068	31
2021	11,828	5,167	17	1,250	4
2022	3,745	2,745	9	1,050	3
2023	2,806	1,806	6	1,750	5
2024	5,000	1,000	3	2,000	6
2025	0	0	0	0	0
2026	5,996	5,996	20	5,196	15
2027	100	100	0	0	0
2028	100	100	0	500	1
>2028	10,728	10,728	35	12,728	36
Total	43,129	30,468	100	35,542	100
Commercial papers		5,074			
Total		35,542			

Quarterly overview

Amounts in SEK million	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Income statement									
Property income	780	764	774	727	676	653	650	640	617
Property costs	-226	-170	-193	-180	-208	-145	-148	-168	-154
Net operating income	554	594	581	547	468	508	502	472	463
Central administrative expenses	-29	-36	-37	-33	-48	-33	-36	-30	-43
Profit/loss from participations in associated companies	27	-48	17	2	6	2	2	1	1
Operating profit	552	510	561	516	426	477	468	443	421
Financial items	-109	-110	-107	-93	-80	-96	-102	-93	-91
Profit from property management	443	400	454	423	346	381	366	350	330
Value change, properties	758	460	691	128	1,166	94	622	178	739
Value change, financial instruments	154	-76	-53	-51	-2	63	2	28	33
Profit before tax	1,355	784	1,092	500	1,510	538	990	556	1,102
Current tax	-25	-16	-10	-26	11	-4	-39	-4	13
Deferred tax	-216	-135	-124	-68	-318	-100	-14	-34	-229
Profit for the year	1,114	633	958	406	1,203	434	937	518	886
Other comprehensive income	-66	12	78	63	-4	-5	5	26	24
Comprehensive income for the period	1,048	645	1,036	469	1,199	429	942	544	910
Balance sheet									
Investment properties	55,027	53,218	51,614	49,559	46,236	42,573	41,597	40,152	38,883
Other assets	1,930	1,762	1,759	1,089	720	929	770	715	660
Cash and cash equivalents and current investments	988	2,122	2,333	3,585	450	1,500	1,223	1,132	1,134
Total assets	57,945	57,102	55,706	54,233	47,406	45,002	43,590	41,999	40,677
Equity	16,714	15,667	15,022	14,668	13,199	12,053	11,624	11,340	10,795
Deferred tax liabilities	3,600	3,401	3,263	3,142	3,067	2,750	2,651	2,638	2,591
Derivatives	211	366	305	285	281	350	512	515	544
Interest-bearing liabilities	36,124	36,439	36,071	34,720	29,728	28,738	27,786	26,380	25,575
Non-interest-bearing liabilities	1,296	1,229	1,045	1,418	1,131	1,111	1,017	1,126	1,172
Total equity and liabilities	57,945	57,102	55,706	54,233	47,406	45,002	43,590	41,999	40,677
Key ratios									
Financial ratios									
Loan-to-value ratio, %*	62.1	62.9	63.6	62.0	63.1	63.7	63.6	62.6	62.6
Interest-coverage ratio, times ¹	5.1	5.1	5.3	5.1	4.9	4.7	4.7	4.8	4.8
Operating cash flow, SEK million	399	432	417	380	329	366	350	338	330
Return on equity, % ¹	20.8	23.1	22.5	22.9	25.8	25.3	25.8	24.3	26.6
Property-related key ratios									
Property yield, %	4.7	4.8	4.8	4.9	4.9	5.1	5.1	5.2	5.2
Total yield, % ¹	8.7	9.9	9.2	9.2	9.7	9.2	9.5	9.0	9.8
Economic occupancy rate, %	98.1	97.7	98.0	97.9	98.3	98.1	98.3	98.1	98.3
NOI margin, %	71.1	77.7	75.2	75.3	69.2	77.8	77.2	73.8	75.0
No. of properties	370	364	362	368	365	353	349	345	346
Lettable area, tsqm	1,884	1,833	1,830	1,800	1,732	1,679	1,651	1,658	1,636

1) Based on rolling 12-month outcome.

* Due to its investments in associated companies, Hemsö has updated its definition of Loan-to-value ratio to include these investments. The loan-to-value ratio for previous quarters has been restated in accordance with the new definition.

Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan-Dec 2019	Jan-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
Rental income	3,027	2,607	774	673
Other income	19	11	6	3
Operating costs	-472	-411	-131	-107
Maintenance costs	-221	-197	-68	-85
Other property costs	-77	-60	-27	-16
Net operating income	2,276	1,950	554	468
Central administrative expenses	-135	-146	-29	-48
Profit/loss from participations in associated companies	-2	11	27	6
Operating profit	2,139	1,815	552	426
Financial items	-419	-372	-109	-80
Profit from property management	1,720	1,443	443	346
Value change, investment properties	2,037	2,060	758	1,166
Value change, financial instruments	-25	91	154	-2
Profit before tax	3,732	3,594	1,355	1,510
Current tax	-78	-36	-25	11
Deferred tax	-543	-466	-216	-318
Profit for the year	3,111	3,092	1,114	1,203
Profit for the year attributable to				
Parent Company shareholders	2,948	2,980	1,050	1,180
Non-controlling interests	163	112	64	24
Other comprehensive income				
Profit for the year	3,111	3,092	1,114	1,203
Translation difference	87	22	-66	-3
Comprehensive income for the period	3,198	3,114	1,048	1,200
Comprehensive income for the period attributable to				
Parent Company shareholders	3,035	3,002	984	1,176
Non-controlling interests	163	112	64	24

Group – Condensed statement of financial position

Amounts in SEK million	31 Dec 2019	31 Dec 2018
ASSETS		
Investment properties	55,027	46,236
Right-of-use assets	582	–
Participations in associated companies	635	112
Receivables from associated companies	–	71
Other non-current assets	94	92
Total non-current assets	56,338	46,511
Current receivables	619	445
Cash and cash equivalents	988	450
Total current assets	1,607	895
TOTAL ASSETS	57,945	47,406
EQUITY AND LIABILITIES		
Equity	16,714	13,199
Deferred tax liabilities	3,600	3,067
Interest-bearing debt	27,644	21,736
Interest-bearing debt, right-of-use assets	582	–
Non-interest-bearing liabilities	211	281
Total non-current liabilities	32,037	25,084
Interest-bearing debt	7,898	7,992
Non-interest-bearing liabilities	1,296	1,131
Total current liabilities	9,194	9,123
TOTAL EQUITY AND LIABILITIES	57,945	47,406

Group – Condensed statement of changes in equity

Amounts in SEK million	Share capital	Other capital contributions	Translation reserve	Retained earnings	Share of equity from non-controlling interests	Total equity
Opening equity, 1 Jan 2018	1	6,856	104	3,546	288	10,795
Dividends	–	-500	–	-157	–	-657
Divestment of minority share	–	–	–	–	-53	-53
Comprehensive income	–	–	22	2,980	112	3,114
Closing equity, 31 Dec 2018	1	6,356	126	6,369	347	13,199
Opening equity, 1 Jan 2019	1	6,356	126	6,369	347	13,199
Reclassification of capital contribution, 2015	–	-21	–	21	–	–
Dividends	–	-500	–	-221	–	-721
Shareholder contributions received	–	1,000	–	–	–	1,000
Contributions from minority interests	–	–	–	–	38	38
Adjustment of translation reserve	–	–	22	-22	–	–
Comprehensive income	–	–	87	2,948	163	3,198
Closing equity, 31 Dec 2019	1	6,835	235	9,095	548	16,714

Group – Condensed statement of cash flows

Amounts in SEK million	Jan-Dec 2019	Jan-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
Operating activities				
Profit from property management	1,720	1,443	444	346
<i>Adjusted for non-cash items in profit from property management</i>				
Profit/loss from participations in associated companies	2	-11	-27	-6
Depreciation	12	2	4	0
<i>Adjusted for other non-cash items</i>				
Exchange differences, unrealised	40	27	-98	-30
Capital gain/loss and disposals	-54	20	-18	-7
Tax paid	-106	-51	-22	-11
Cash flow before changes in working capital	1,614	1,430	283	292
Increase (+)/decrease (-) in working capital	129	0	68	289
Cash flow from operating activities	1,743	1,430	351	581
Investing activities				
Acquisition of properties	-5,242	-3,135	-978	-1,712
Investments in new construction, extension and refurbishment	-2,724	-2,660	-717	-805
Divestment of properties	1,288	871	179	1
Investments in financial non-current assets	-461	-86	-2	-63
Other non-current assets	0	-	0	4
Cash flow from investing activities	-7,139	-5,010	-1,518	-2,575
Financing activities				
Interest-bearing loans raised	9,892	8,463	1,705	2,029
Repayment of interest-bearing liabilities	-4,174	-4,711	-1,724	-1,015
Financial derivatives realised	-95	-172	0	-71
Shareholder contributions received	1,000	-	-	-
Contributions from non-controlling interests	38	-	-1	-
Dividends paid	-721	-657	-	-
Cash flow from financing activities	5,940	2,923	-20	943
Cash flow for the period	544	-657	-1,187	-1,051
Opening balance, cash and cash equivalents	450	1,134	2,122	1,500
Exchange-rate differences in cash and cash equivalents	-6	-27	53	1
Closing cash and cash equivalents	988	450	988	450
Operating cash flow	1,628	1,383	399	329

Parent Company – Condensed income statement

Amounts in SEK million	Jan-Dec 2019	Jan-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
Operating income	78	63	34	22
Administrative expenses	-164	-158	-46	-51
Operating loss	-86	-95	-12	-29
Financial items	353	322	-171	-51
Value changes, financial instruments	-25	-453	155	-1
Appropriations	77	653	77	653
Profit before tax	319	427	49	572
Recognised tax	-18	58	-35	-13
Profit for the year	301	485	14	559
Other comprehensive income	–	–	–	–
Comprehensive income for the period	301	485	14	559

Parent Company – Condensed balance sheet

Amounts in SEK million	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Intangible assets	0	1
Equipment	3	1
Shares and participations in Group companies	7,697	6,233
Deferred tax assets	43	57
Non-current receivables	26,674	16,120
Total non-current assets	34,417	22,412
Current assets		
Current receivables	5,250	11,008
Cash and cash equivalents	0	0
Total current assets	5,250	11,008
TOTAL ASSETS	39,667	33,420
EQUITY AND LIABILITIES		
Equity	3,653	3,073
Untaxed reserves		
Tax allocation reserve	58	34
Liabilities		
Deferred tax liabilities	26	25
Interest-bearing liabilities	35,542	29,728
Non-interest-bearing liabilities	388	560
Total liabilities	35,956	30,313
TOTAL EQUITY AND LIABILITIES	39,667	33,420

Other information

Significant events after period-end

Hemsö is investing SEK 1.8 billion in schools and nursing homes in Sweden. The investment includes construction and acquisition of four nursing homes, three schools and two sports centres.

Employees

At period-end, Hemsö had 122 employees, of whom 57 were women and 65 men. Of these employees, 43 worked with asset and property management and 16 with development. Other employees worked with administration, accounting, finance, IT, legal affairs, communication, management, HR and transactions. Of all employees, 110 were employed in Sweden, six in Germany and six in Finland.

Risks and uncertainties

No changes are deemed to have impacted Hemsö's risks and uncertainties, which are described on pages 76-81 of the 2018 Annual Report.

Related-party transactions

Hemsö's related-party transactions are set out in Note 27 of Hemsö's 2018 Annual Report. In the fourth quarter of 2019, Hemsö's underwriting commitment from AP3 was raised to SEK 5 billion.

Joint ventures

Hemsö owns shares and participations in companies held jointly with the Third Swedish National Pension Fund and SveaNor, respectively. These joint ventures are included in the consolidated financial statements.

Hemsö Norden KB is owned jointly with the Third Swedish National Pension Fund. Hemsö Norden KB currently owns 25 investment properties through limited partnerships.

Hemsö owns half of the shares in Scandinavian Life Science AB and Scandinavian Life Science Två AB. These companies own two properties in Hagastaden. The other half of the shares are owned by SveaNor.

In addition, Hemsö and Lantmännen each own a 50 per cent stake in Lanthem Samhällsfastigheter AB. This company is not included in the consolidated financial statements. Lanthem Samhällsfastigheter owns five investment properties through subsidiaries.

Hemsö also owns 34.8 per cent of the participations in Turku Technology Properties Oy, which owns 19 public properties

in Turku through subsidiaries. This company is not included in the consolidated financial statements.

Accounting policies applied

This interim report was prepared in accordance with IAS 34 Interim Financial Reporting. The same principles of accounting and measurement were applied as in the 2018 Annual Report, pages 98-101, except as stated below. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have also been prepared in accordance with Swedish law, with application of the Swedish Financial Reporting Board's recommendation RFR, 1 Supplementary Accounting Rules for Groups. The Parent Company applies the Swedish Annual Accounts Act and recommendation RFR 2, Accounting for Legal Entities.

IFRS 16 Leases

This standard supersedes IAS 17 and was adopted by Hemsö on 1 January 2019 with no retrospective effect. Revenue recognition for lessors will essentially remain unchanged. For lessees (tenants), the standard will mean that most leases (rental agreements) will be recognised on the balance sheet as a right-of-use asset.

For Hemsö, most of the right-of-use assets recognised on the balance sheet comprise site leasehold agreements. Leasehold fees are recognised as an interest expense on the income statement and no longer included in net operating income. At 31 December, right-of-use assets and their corresponding lease liabilities amounted to SEK 582 million and affected some financial ratios, including a -0.1 percentage point change in the equity/assets ratio.

New and revised IFRSs effective on or after

1 January 2020

A number of new and revised IFRSs have not yet come into effect. These are not expected to have any material effect on Hemsö's financial statements.

Signing of the report

Stockholm, 6 February 2020

Nils Styf, CEO

This report has not been audited.

Definitions

Financial definitions

Share of secured debt

Interest-bearing secured debt in relation to the market value of investment properties.

Return on equity

Profit after tax for the period in relation to average equity (rolling 12 month period). Average equity is calculated as the total of the opening and closing balance, divided by two.

Loan-to-value ratio

Interest-bearing net debt in relation to the market value of the properties plus investments in associated companies.

Property yield

Net operating income over the past 12 months, adjusted for the holding period and currency of the properties during the period, in relation to the market values of the properties at period-end, excluding development properties.

Available liquidity

Cash and cash equivalents and short-term investments plus undrawn committed credit facilities.

Profit from property management

Profit before changes in value and tax.

Average interest rate

The weighted interest rate on the interest-bearing debt with consideration for interest-rate derivatives and committed credit facilities on the closing date.

Loan maturity

The average of the remaining maturities of the interest-bearing debt, taking committed credit facilities into account.

Short-term borrowings

Loan maturities within 12 months.

MTN programme and EMTN programme

Swedish and European bond programmes, respectively.

Operating cash flow

Profit from property management after reversal of depreciation and profit from participations in associated companies less tax paid.

Interest-coverage ratio

Operating profit in relation to financial items.

Interest-bearing debt

Interest-bearing liabilities, excluding interest-bearing debt and right-of-use assets.

Operating profit

Net operating income plus profit from participations in associated companies less central administrative expenses.

Debt-coverage ratio

Available liquidity in relation to short-term borrowings.

Total yield

The sum of net operating income and value changes in relation to average property value, adjusted for value changes over a rolling 12-month period.

Property-related definitions

Net operating income

Rental income less operating and maintenance costs, property tax and leasehold fees. As of 1 January 2019, leasehold fees are no longer included in net operating income.

Economic occupancy rate

Contracted annual rental income in relation to rental value.

Rental income

Rental income for the period less vacancies, discounts and rental losses.

Rental duration

The weighted average remaining term of rental agreements excluding garage/parking, storage and housing rented to private individuals.

Rental value

Contracted annual rental income plus vacancy rent.

Comparable portfolio

The properties owned throughout the entire period and entire comparative period and not classified as development properties during these periods.

Contracted annual rent

Contracted annual rental income less discounts and rental losses.

Net investments

Total of purchasing, including stamp duty and other direct transaction costs and investments in projects, less the selling price of properties sold and the selling price of properties sold via companies and direct transaction costs.

Development property

A property or well-defined part of a property that has been vacated in order to convert and develop the property. A development property also refers to a building under construction, or a property with an investment amounting to at least 20 per cent of its market value. A development property is reclassified to completed property on 1 January of the year after completion.

Properties for public use

A property that is predominantly used for taxpayer-funded operations and is purpose-built for public services. Secure housing facilities are also included in the public properties concept.

Greater cities

The definition of metropolitan areas in Sweden, Finland and Germany according to Statistics Sweden and the OECD: In Sweden and Finland, municipalities with a population of 100,000 or more, and in Germany, with a population of 200,000 or more.

Lettable area

The areas of the properties for which tenants can be debited rent at period-end.

Rent based on vacancy rate

Rental value of vacancy rent as a percentage of total rental value.

Vacancy rent

Estimated market rent for vacant premises in "as-is" condition.

NOI margin

Net operating income in relation to the sum of property income and other income.

Key ratio calculations

Hemsö presents some financial measures in interim and annual reports that are not defined under IFRS. The company believes that these measures provide useful supplemental information for investors and company management since they enable

evaluation of the company's earnings and financial position. Since financial measures are calculated differently by different companies, they are not always comparable with the measures used by other companies. Amounts in SEK million.

Return on equity	Jan-Dec 2019	Jan-Dec 2018
Profit for the year	3,111	3,092
Average equity	14,957	11,997
Return on equity	20.8%	25.8%

Property yield	31 Dec 2019	31 Dec 2018
Net operating income according to income statement	2,276	1,950
Adjusted for 12-month holding period	-11	82
Adjusted for development properties	-87	-137
Adjusted net operating income	2,178	1,895
Market value of investment properties	55,027	46,236
Adjusted for development properties	-8,888	-7,700
Adjusted market value	46,139	38,536
Property yield	4.7%	4.9%

Total yield	Jan-Dec 2019	Jan-Dec 2018
Net operating income	2,276	1,950
Value change, properties	2,037	2,060
Total	4,313	4,010
Opening property value	46,236	38,883
Closing property value	55,027	46,236
Adjustment of value change for the year	-2,037	-2,060
Adjusted average property value	49,613	41,530
Total yield	8.7%	9.7%

Profit from property management	31 Dec 2019	31 Dec 2018
Profit before tax	3,732	3,594
Reversal		
<i>Value changes, properties</i>	-2,037	-2,060
<i>Value changes, derivatives</i>	25	-91
Profit from property management	1,720	1,443
Interest-coverage ratio	Jan-Dec 2019	Jan-Dec 2018
Operating profit	2,139	1,815
Financial items	-419	-372
Interest-coverage ratio	5.1	4.9
Operating cash flow	Jan-Dec 2019	Jan-Dec 2018
Profit from property management	1,720	1,443
Profit/loss from participations in associated companies	2	-11
Depreciation	12	2
Tax paid	-106	-51
Operating cash flow	1,628	1,383
Loan-to-value ratio	31 Dec 2019	31 Dec 2018
Interest-bearing debt	35,542	29,728
Cash and cash equivalents	-988	-450
Current investments	0	-
Net debt	34,554	29,278
Market value of investment properties	55,027	46,236
Investments in associated companies	635	183
Total	55,662	46,419
Loan-to-value ratio	62.1%	63.1%
Debt-coverage ratio	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	988	450
Current investments	0	-
Undrawn committed credit facilities	12,661	12,700
Available liquidity	13,649	13,150
Short-term borrowings	7,898	7,994
Debt-coverage ratio	173%	165%
Share of secured debt	31 Dec 2019	31 Dec 2018
Secured debt outstanding	0	0
Market value of investment properties	55,027	46,236
Share of secured debt	0.0%	0.0%

Questions and more information

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Financial statements and press releases are available on
Hemsö's website: hemso.se

Financial calendar

Annual Report	March 2020
Interim report Jan-Mar 2020	27 April 2020
Annual General Meeting	27 April 2020
Half-year report Jan-Jun 2020	10 July 2020
Interim report Jan-Sep 2020	27 Oct 2020

