

# Q4

## Year-end report 2018

### Summary January – December 2018

- » Rental income increased to SEK 2,607 million (2,363).
- » Profit from property management increased to SEK 1,443 million (1,314).
- » Changes in the fair value of the properties amounted to SEK 2,060 million (1,682) and changes in the fair value of financial instruments to SEK 91 million (135).
- » Profit for the year after tax increased to SEK 3,092 million (2,591).
- » The market value of investment properties was SEK 46,236 million (38,883).
- » During the year, 29 properties (27) were acquired for SEK 3,135 million (2,668) and 10 properties (36) were divested for SEK 867 million (1,587).

### Significant events during the fourth quarter

- » Hemsö extended a lease agreement with Mälardalen University in Västerås. The agreement comprises 34,500 sqm and the lease term is 10 years.
- » Hemsö agreed to develop a secondary school for 1,000 students in Zossen, south of Berlin in Germany. The City of Zossen signed a 20-year lease agreement. The investment amount was SEK 450 million.
- » Hemsö signed a letter of intent with the City of Turku to acquire eight nursing home and health care properties in Turku, Finland. The investment amount was EUR 130 million.
- » In several transactions, Hemsö issued bonds of SEK 2 billion with maturities ranging from 10–25 years.
- » Hemsö acquired a school under construction in Haninge and agreed to develop a nursing home in Halmstad with 54 beds. The investment amount was SEK 320 million.
- » Hemsö acquired the District Court of Helsinki for EUR 200 million. The largest tenant is the Finnish state. The leasable area is 50,000 sqm and the remaining lease term is 12 years. The property will be transferred in the first quarter of 2019.

### Hemsö in summary

	Jan–Dec 2018	Jan–Dec 2017	Oct–Dec 2018	Oct–Dec 2017
Rental income, SEK million	2,607	2,363	673	614
Profit from property management, SEK million	1,443	1,314	346	330
Profit after tax, SEK million	3,092	2,591	1,203	886
Operating cash flow, SEK million	1,383	1,272	329	330
Loan-to-value ratio, %	63.3	62.9	63.3	62.9
Interest-coverage ratio, %	4.9	4.8	5.3	4.6
Market value of investment properties, SEK million	46,236	38,883	46,236	38,883
NOI margin, %	74.5	75.3	69.3	75.0
Economic occupancy rate, %	98.3	98.3	98.3	98.3
Leasable area, tsqm	1,732	1,636	1,732	1,636



## CEO statement

### Stable growth and reduced refinancing risk

Hemsö's stable growth during the year continued into the fourth quarter. For the full-year, both rental income and profit from property management rose 10 per cent to SEK 2,607 million and SEK 1,443 million, respectively, and profit after tax for the period rose 19 per cent to SEK 3,092 million, driven by changes in fair value. The rental duration increased to 9.7 years due to several acquisitions and completed development projects with long-term lease agreements, and extensions of existing major lease agreements. At the same time, the quality of the property portfolio improved and a stronger capital structure was achieved, which reduced refinancing risk.

### Development of a school in Berlin

During the quarter, Hemsö took another big step in Germany with the construction startup of a secondary school in Zossen, south of Berlin. The project is Hemsö's first school project in Germany. The City of Zossen is the tenant and has signed a 20-year lease agreement. The school will accommodate one 1,000 students and is scheduled for completion in the first quarter 2021.

### Hemsö strengthens its presence in Finland

In the fourth quarter, Hemsö concluded agreements for another two major acquisitions in Finland.

Hemsö signed a letter of intent with the City of Turku to acquire eight nursing home and health care properties. The properties are centrally located and leased by the City of Turku. Having the City of Turku as a tenant will help us contribute to the ongoing development of one of Finland's largest cities.

Hemsö also acquired the Helsinki Court House. The property has been customised for the Ministry of Justice and is located in central Helsinki. The Finnish state is the largest tenant with various units under the Finnish Ministry of Justice, including the Helsinki District Court, Helsinki Court of Appeal, the Helsinki

Legal Aid Office and the Prosecutor's Office of Helsinki. The acquisitions will raise the quality of Hemsö's portfolio. The properties have a rental duration of 12 years, and public-sector tenants (the Finnish state and the City of Turku) account for 95 per cent of the rental income.

### Extended loan maturity and fixed-rate period

In several transactions during the year, Hemsö issued bonds of approximately SEK 2 billion with maturities ranging from 10-25 years. The bonds were denominated in both EUR and SEK, and new investors accounted for almost the entire volume issued. Throughout 2018, our focus was to reduce refinancing risk by broadening the company's financing and issuing long-term bonds with fixed rates. That increased our loan maturity and fixed-rate period to 7.9 and 5.9 years, respectively, and broadened our investor base.

The bond market has been turbulent lately. It is also generally difficult to obtain financing with long-term maturities in the Swedish capital market. In this challenging market situation, it becomes clear that Hemsö has created a strong position in Swedish and international capital markets with access to financing that few other property companies can match.

### Major need for social infrastructure

During the year, we started building new schools, nursing homes and health care properties for a total investment volume of SEK 2 billion with a rental duration of more than 20 years and public-sector tenants accounted for 90 per cent of the rental income.

There is a major need for social infrastructure, particularly new nursing homes and schools. This need is mainly driven by demographic shifts and population growth that is not changing, regardless of the global economic situation. This strong need is creating favourable market conditions for continued growth, and Hemsö can help municipalities with their major challenges.

To meet this challenge of creating new social infrastructure while maintaining a stable capital structure, Hemsö's owners contributed equity of SEK 1 billion after the end of the year. The capital contribution from the Third Swedish National Pension Fund and Sagax confirms the long-term approach of our owners and their confidence that the company will play a key role in meeting this challenge. The owners view this as a first capital injection and are prepared to provide further capital in the future should the need arise.

Finally, I would like to thank all of our talented and committed employees and partners for their dedicated efforts over the past year to create an even stronger Hemsö.

Nils Styf, CEO

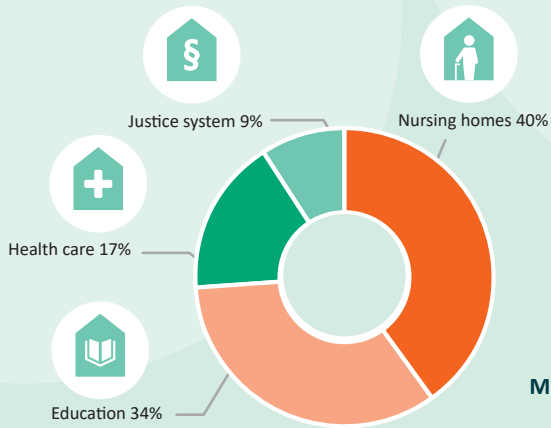
**Vision**  
To be the best property company for public services.

**Business concept**  
To sustainably own, manage and develop properties for public use.

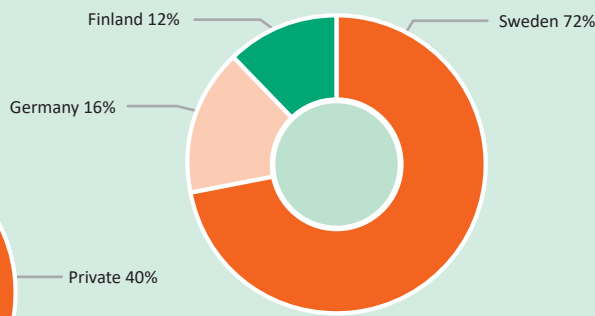
**THIS IS HEMSÖ**

- 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 lease agreements and stable tenants.
- The Third Swedish National Pension Fund is the majority owner.
- The total value of Hemsö's property portfolio is SEK 46.2 billion.
- Hemsö has a credit rating of A- from Standard & Poor's.

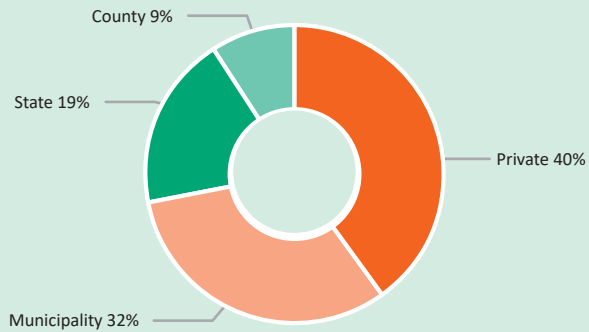
Contracted rent per property category



Market value of investment properties



Contracted rent per customer category



## Income, costs and profit

Profit/loss items relate to the January–December 2018 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 2,607 million (2,363). Rental income rose 19 per cent in Germany and 46 per cent in Finland, mainly due to acquisitions. In Sweden, rental income rose 5 per cent, mainly attributable to acquisitions and completed development projects.

Rental income in the comparable portfolio rose SEK 51 million, or 2.5 per cent, due to rental indexing and renegotiated rental increases.

At period-end, contracted annual rent amounted to SEK 2,750 million (2,492) and economic vacancies to SEK 49 million (42).

The rental duration increased to 9.7 years (9.2) due to completed development projects and renegotiations. The economic occupancy rate remained unchanged and at year-end amounted to 98.3 per cent (98.3).

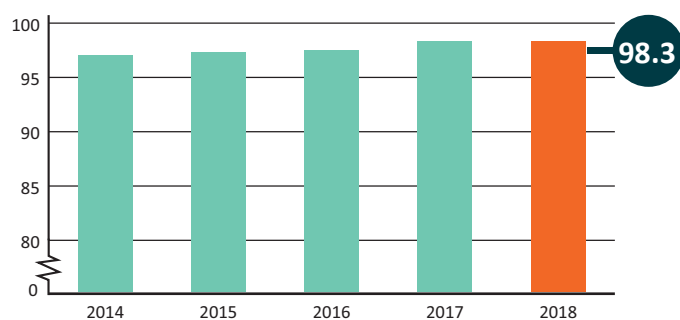
In 2019, lease agreements with an annual rent of SEK 164 million will expire, of which SEK 30 million has already been extended. The remaining lease expiration in 2019 will amount to SEK 134 million, or 4.9 per cent of Hemsö's contracted rental value.

### Property costs

Property costs amounted to SEK 668 million (587), an increase of SEK 81 million, corresponding to 14 per cent.

Costs in the comparable portfolio increased SEK 66 million, or 13 per cent, due to higher costs for planned maintenance.

### Economic occupancy rate, %



### Vacancy changes

SEK million	Jan–Dec 2018
Opening vacancy	42
Terminated leases	26
Adjusted vacancy rent	6
New leases	-25
Acquired	-
Divested	-
<b>Closing vacancy</b>	<b>49</b>

### Lease maturity

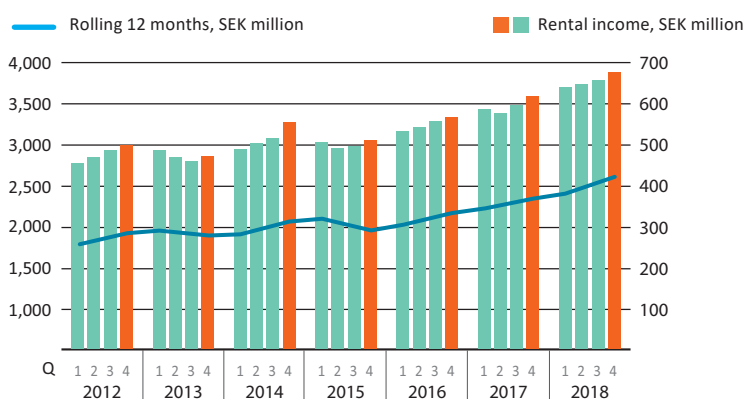
Year	Annual rent, SEK million	Share of annual rent, %
2019	164	5.9
2020	223	8.1
2021	237	8.6
2022	180	6.5
2023	129	4.7
2024	100	3.6
2025	130	4.7
2026	105	3.8
2027	124	4.5
2028	236	8.6
>2028	1,131	41.0
<b>Total</b>	<b>2,759</b>	<b>100</b>

"Annual rent" refers to contracted annual rent before the deduction of discounts of SEK 9 million.

## SEK 2,607 million

### Rental income

### Rental income



### Comparable portfolio

	31 Dec 2018	31 Dec 2017	Change, %
No. of properties	275	275	-
Market value of investment properties, SEK million	31,325	29,545	6.0
Property yield, %	4.8	5.2	-6.6

### Amounts in SEK million

	Jan–Dec 2018	Jan–Dec 2017	Change, %
Rental income	2,075	2,024	2.5
Other income	9	9	-1.0
Operating costs	-345	-322	6.9
Maintenance costs	-180	-140	29.2
Other property costs	-41	-38	8.4
<b>Net operating income</b>	<b>1,518</b>	<b>1,533</b>	<b>-1.1</b>

### Net operating income

Net operating income increased to SEK 1,950 million (1,788). The increase was mainly attributable to acquisitions and completed development projects. The NOI margin was 74.5 per cent (75.3), down 0.8 percentage points year-on-year.

In the comparable portfolio, net operating income declined SEK 15 million, or 1 per cent. The decline was mainly due to higher costs for planned maintenance and snow clearing. The costs for planned maintenance increased due to measures taken to improve the quality of the property portfolio.

### Administration

Administrative expenses for the period amounted to SEK 146 million (130). The year-on-year increase of SEK 16 million was derived from costs related to the implementation of a new support system and higher personnel costs.

### Financial items

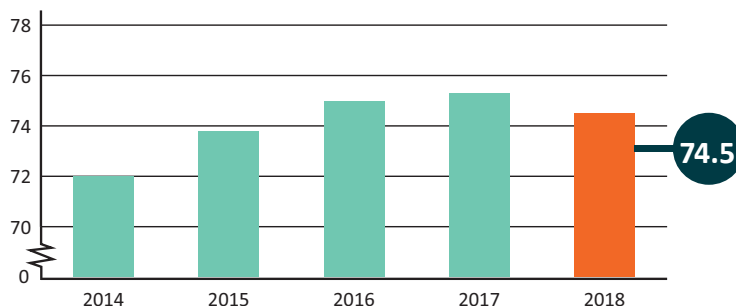
Net financial items amounted to SEK -372 million (-345). The increase in net financial items was due to an increase of SEK 4,154 million in interest-bearing debt, which totalled SEK 29,728 million (25,575). The fixed-rate period increased to 5.9 (5.1), and the average interest rate decreased to 1.3 per cent (1.5).

Net financial items comprised interest expense of SEK -381 million (-343), other financial expenses of SEK -41 million (-43), interest income of SEK 2 million (14) and other financial income of SEK 48 million (27).

## SEK 1,950 million

Net operating income

### NOI margin rolling 12-month period, %



### Profit from property management

Profit from property management totalled SEK 1,443 million (1,314), up 10 per cent. The increase was mainly attributable to a larger property portfolio.

### Change in fair value of investment properties

At year-end, changes in the value of properties amounted to SEK 2,060 million (1,682), of which realised value changes accounted for SEK -28 million (-79) and unrealised value changes for SEK 2,088 million (1,761). Unrealised value changes were attributable to lower yield requirements in Sweden, Germany and Finland, but also to completed development projects and new leaseings. The yield on the entire property portfolio, excluding development properties, was 4.9 per cent (5.2).

The total return was 9.7 per cent (9.8).

### Unrealised value changes

SEK million	Jan–Dec 2018
Property management and development-related value change	988
General market value change	409
<b>Subtotal Sweden</b>	<b>1,397</b>
Property management and development-related value change	31
General market value change	488
<b>Subtotal Germany</b>	<b>519</b>
Property management and development-related value change	22
General market value change	150
<b>Subtotal Finland</b>	<b>172</b>
<b>Total unrealised value changes</b>	<b>2,088</b>

### Calculation of property yield

SEK million	31 Dec 2018
Net operating income according to income statement	1,950
Adjusted for 12-month holding period	82
Adjusted for development properties	-137
<b>Adjusted NOI, 12-month holding period excluding development properties</b>	<b>1,895</b>
Market value of properties according to balance sheet	46,236
Adjusted for development properties	-7,700
<b>Adjusted market value of properties</b>	<b>38,536</b>
<b>Property yield</b>	<b>4.9%</b>

Property value

SEK  
**46.2 billion**

Properties

**365**

Leasable area

**1,732 tsqm**

**SEK 1,443 million**

Profit from property management

**Change in the fair value of the property portfolio**

	SEK million	No.
Market value at the beginning of the period	38,883	346
Acquisitions	3,135	29
Investments in new construction, extension and refurbishment	2,660	
Divestments	-867	-10
Disposals	-44	
Exchange-rate fluctuations	381	
Value change, unrealised	2,088	
<b>Market value at period-end</b>	<b>46,236</b>	<b>365</b>

**Change in the fair value of financial instruments**

Changes in the fair value of financial instruments had a positive impact of SEK 91 million (135) on profit. Changes in the fair value of interest-rate derivatives had a positive impact of SEK 81 million (144) on profit. The change in value was largely due to shorter maturities in the interest-rate derivatives portfolio. During the period, a previously recognised loss of SEK -175 million was realised in connection with Hemsö's early termination of an interest-rate derivative. Foreign exchange derivatives had a positive impact of SEK 10 million (-9) on profit.

**Tax**

Recognised tax for the period amounted to SEK -502 million (-540), of which current tax accounted for SEK -36 million (-63) and deferred tax for SEK -466 million (-477). On 13 June, the Riksdag introduced a change in tax legislation and deferred tax has been recalculated using the tax rate applicable as of 2021. The lower tax rate in Sweden, from 22.0 per cent to 20.6 per cent, had a positive impact of SEK 174 million on profit in relation to deferred tax. 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 73 million (143). Deferred tax liabilities amounted to SEK 3,140 million (2,734). 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 2018	Jan–Dec 2017	Jan–Dec 2018	Jan–Dec 2017	31 Dec 2018	31 Dec 2017
Sweden East	772	688	569	522	14,758	13,238
Sweden West	292	283	196	174	3,837	3,543
Sweden Central/North	587	590	418	437	10,266	8,939
Sweden South	314	309	218	218	4,783	4,500
Germany	325	275	307	260	7,240	4,889
Finland	317	218	242	178	5,352	3,774
<b>Total</b>	<b>2,607</b>	<b>2,363</b>	<b>1,950</b>	<b>1,788</b>	<b>46,236</b>	<b>38,883</b>

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, Sweden West, Sweden Central/North, Sweden South, Germany and Finland.

**Profit**

Profit after tax for the year totalled SEK 3,092 million (2,591), up SEK 501 million year-on-year. The earnings improvement was mainly attributable to increased profit from property management, higher positive changes in fair value and lower tax. Return on equity was 25.8 per cent (26.6).

**Cash flow**

Hemsö's cash flow from operating activities before changes in working capital was SEK 1,430 million (1,341). Changes in working capital had an impact of SEK 0 million (7) on cash flow. Operating cash flow amounted to SEK 1,383 million (1,272). Investing activities had a negative impact of SEK -5,010 million (-3,493) on cash flow, while increased borrowings, redemption of financial instruments and dividends paid had a positive impact of SEK 2,923 million (2,361) on cash flow from financing activities. Overall, cash and cash equivalents declined SEK -657 million (216) 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 63 million (56) and consisted of fees for services to the subsidiaries. Administrative expenses increased to SEK -158 million (-145). Financial items amounted to SEK 322 million (-228). Financial items include profit of SEK 508 million from participations in Group companies and SEK 223 million from sales of shares in subsidiaries. In preceding years, unrealised changes in value related to financial instruments were only recognised in the Group. Due to accounting policy changes that became effective at the beginning of the year, unrealised changes in the fair value of financial instruments must also be recognised in the Parent Company. This resulted in a non-recurring item of SEK -544 million, which was eliminated in the Group. Comprehensive income for the year increased to SEK 485 million (108).

## Property portfolio

Of the total property value of SEK 46,236 million (38,883), 72 per cent (78) was attributable to Sweden, 16 per cent (12) to Germany and 12 per cent (10) to Finland.

At year-end, Hemsö owned properties in 69 municipalities in Sweden, 40 municipalities in Germany and 20 municipalities in Finland. The largest share of the market value of investment properties, 81 per cent, was attributable to properties located in major 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 2018, Hemsö's property portfolio comprised 365 properties (346) with a total leasable area of 1,732 tsqm (1,636).

### Properties acquired and divested

Quarter	No.	Property value, SEK million	Leasable area, sqm
<b>Acquisitions</b>			
Q1	8	913	40,537
Q2	5	214	3,329
Q3	4	255	13,024
Q4	12	1,713	46,026
<b>Total</b>	<b>29</b>	<b>3,135</b>	<b>102,916</b>

Quarter	No.	Property value, SEK million	Leasable area, sqm
<b>Divestments</b>			
Q1	9	804	26,661
Q2	1	62	14,753
Q3	-	-	-
Q4	-	1	-
<b>Total</b>	<b>10</b>	<b>867</b>	<b>41,414</b>

### Property transactions

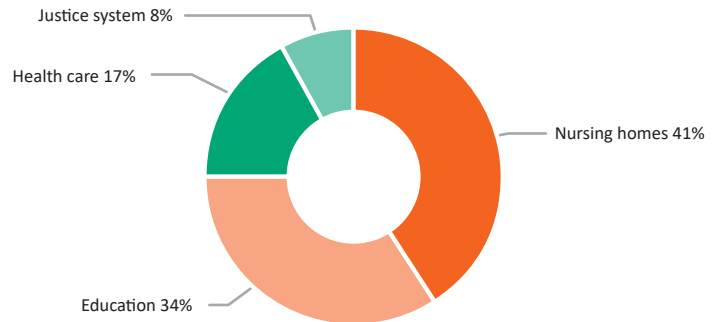
During the period, 29 properties (27) were acquired for SEK 3,135 million (2,668) and 10 properties (36) were divested for SEK 867 million (1,587).

### Investments

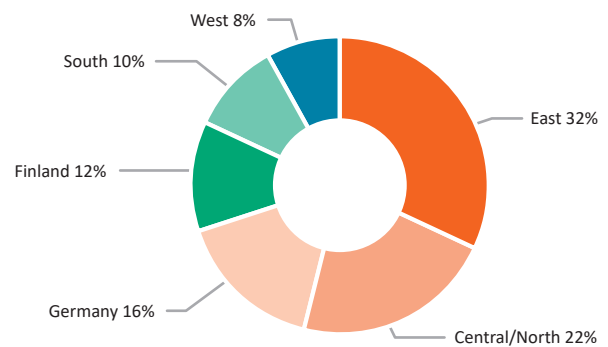
Investments pertain to investments in both existing properties and new construction. Investments in existing properties usually take place in conjunction with new leaseings, with the aim of adapting and modernising the premises and thus increasing the rental value.

During the period, SEK 2,660 million (2,190) was invested. Of this amount, SEK 2,303 million (1,851) was invested in new construction and SEK 357 million (339) pertained to improvements and new leaseings.

Market value of investment properties per property category



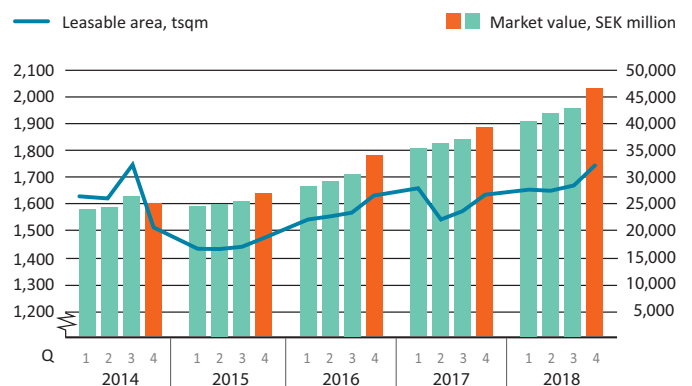
Market value of investment properties per segment



# SEK 46,236 million

Market value of investment properties

Market value and area of investment properties





## Hemsö's property categories

	Nursing homes	Education	Health care	Justice system	Total
No.	176	110	63	16	<b>365</b>
Leasable area, tsqm	760	555	273	144	<b>1,732</b>
Rental duration, years	9.5	12.0	7.0	6.9	<b>9.7</b>
Property value, SEK million	18,954	15,756	7,845	3,681	<b>46,236</b>
Rental income, SEK million	1,080	849	440	238	<b>2,607</b>
Net operating income, SEK million	824	626	310	190	<b>1,950</b>
Economic occupancy rate, %	99.6	98.6	95.1	97.4	<b>98.3</b>
Property yield, %	4.8	4.8	5.5	5.5	<b>4.9</b>

## Tenants

94 per cent of Hemsö's total rental income is derived from taxpayer-funded operations. 13 of the 20 largest tenants are state, municipal or county operators. The share of contracted annual rent with public-sector tenants was 60 per cent, where lease agreements with state operators accounted for 19 per cent, municipal operators for 32 per cent and county operators for 9 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.

**98.3%**  
Economic occupancy rate

In Germany, privately run 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 in Germany amounted to EUR 38 million, of which 18 per cent is secured through pledges.

The largest tenants, each accounting for 4–6 per cent of the total contracted annual rent, are the Swedish Police Authority, Attendo, the Stockholm City Council and AcadeMedia.

## Hemsö's 20 largest tenants

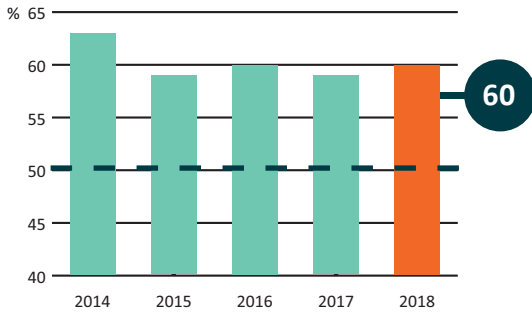
Tenant	Tenant category	Contracted annual rent, SEK million	Share of contracted annual rent, %	No. lease agreements
Swedish Police	State	152	5.5	30
Attendo	Private	129	4.7	73
Stockholm City Council	County	115	4.2	74
Academedia	Private	110	4.0	25
City of Västerås	Municipality	81	2.9	17
Västra Götaland Region	County	81	2.9	71
The Karolinska Institute	State	68	2.5	11
AWO Hessen Süd	Private	67	2.4	8
Norrköping Municipality	Municipality	60	2.2	17
Mälardalen University	State	55	2.0	2
HEWAG	Private	54	1.9	9
Nordrhein-Westfalen	State	52	1.9	1
Gävle Municipality	Municipality	51	1.8	19
Ambea	Private	46	1.8	8
Region Gotland	County	44	1.6	9
Mehiläinen	Private	41	1.5	8
Upplands Väsby Municipality	Municipality	40	1.5	4
The International English School	Private	40	1.5	7
Pori Municipality	Municipality	38	1.4	1
Municipality of Uppsala	Municipality	37	1.3	23
<b>Total</b>		<b>1,361</b>	<b>50</b>	<b>417</b>

## Property frameworks

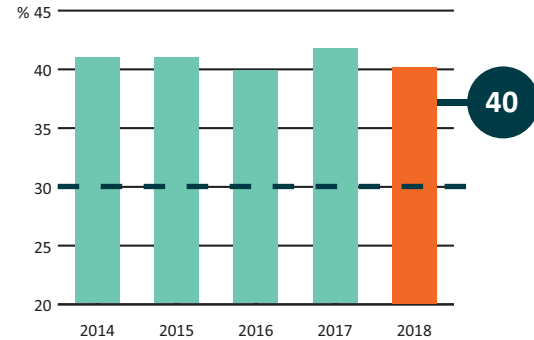
Hemsö has four property frameworks in order to clarify the company's strategy. The aim of these frameworks is to ensure a

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

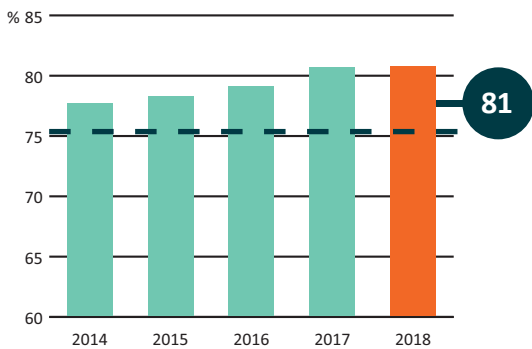
### Public-sector tenants are to account for at least 50 per cent of rental income



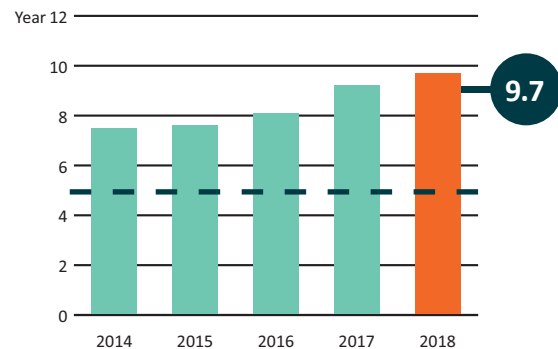
### Nursing homes are to account for at least 30 per cent of rental income



### At least 75 per cent of the properties' value is to be concentrated in urbanised areas



### The rental duration is to exceed 5 years



## Earning capacity

The table reflects Hemsö's earning capacity on a 12-month basis at 31 December 2018. 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 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.

## Property valuation

Hemsö recognises its investment properties at an estimate of fair value, in accordance with IAS 40. At 31 December, the fair

## Earning capacity

SEK million	31 Dec 2018	31 Dec 2017	Change, %
Rental income	2,750	2,492	
Property costs	-673	-577	
<b>Net operating income</b>	<b>2,077</b>	<b>1,915</b>	<b>8.5</b>
Administrative expenses	-146	-132	
Participations in associated companies	6	5	
Financial items	-345	-369	
<b>Profit from property management</b>	<b>1,592</b>	<b>1,419</b>	<b>12.2</b>

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 year-end, the fair value of properties was SEK 46,236 million (38,883).

# Development projects

## Hemsö's five largest ongoing development projects

Municipality	Development projects	Property category	Project area, sqm	Estimated investment, SEK million	Remaining investment, SEK million	Increase in rental value after project, SEK million	Occupancy rate, %	Estimated year of completion
Solna	Patienten 1 <sup>1)</sup>	Health care	21,300	1,849	677	91	84	2020
Stockholm	Princeton 1 <sup>1)</sup>	Health care	22,400	1,397	730	77	1	2021
Västerås	Södra Källtorp	Nursing home	15,200	469	435	29	100	2021
Zossen	Jägerstrasse	Education	16,300	485	483	25	100	2020
Luleå	Anoraken	Nursing home	12,000	287	232	21	100	2020
Norrköping	Sandbyhov	Education	10,200	248	133	19	100	2019
Boden	Björknäsgården	Nursing home	10,100	246	82	20	100	2019
Norrköping	NOD-huset	Health care	6,800	247	231	13	89	2020
Helsinki	University of the Arts	Education	4,100	151	111	13	100	2019
Staffanstorps	Villa Vikhem	Nursing home	4,100	126	41	9	100	2019
Kristianstad	Stafvre	Nursing home	4,400	131	130	9	89	2020
Halmstad	Fyllinge	Nursing home	3,900	107	105	8	100	2020
<b>Total</b>			<b>130,800</b>	<b>5,743</b>	<b>3,390</b>	<b>334</b>		

<sup>1)</sup> Development projects are conducted in companies owned jointly with SveaNor.

## 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 5,743 million, of which the remaining investment amount is SEK 3,390 million. For all ongoing development projects with project volumes of more than SEK 20 million, the remaining investment volume is SEK 3,592 million. During the year, five development projects

were completed for SEK 531 million and the properties were transferred to property management. During the quarter, the construction of two new development projects commenced: the Fyllinge development property, comprising 3,900 sqm with a rental value of SEK 8 million and a rental duration of 15 years (nursing home), and the Zossen school project outside Berlin, comprising 16,300 sqm with a rental value of SEK 25 million and a rental duration of 20 years (education).

## Development projects completed, 2018

Municipality	Development projects	Completed	Property category	Project area, sqm	Investment, SEK million	Rental term, years	Increase in rental value, SEK million	Occupancy rate, %
Tyresö	Villa Basilika	Q1	Nursing home	4,300	157	15	10	100
Sotenäs	Hälsans hus	Q1	Health care	2,600	50	16	3	100
Solna	RWS stage 2	Q2	Education	2,000	76	30	4	100
Enköping	Villa Idun	Q3	Nursing home	4,200	105	16	9	100
Västerås	Widénska	Q4	Education	5,300	143	15	11	100
<b>Total</b>				<b>18,400</b>	<b>531</b>	<b>17</b>	<b>38</b>	



### Widénska, Västerås

Hemsö completed Widénska gymnasiet (an upper-secondary school) in Västerås. The building has a leasable area of 5,300 sqm and the total investment amounted to SEK 143 million.

The new school lies at Vasagatan in Västerås, Sweden, close to Västerås campus of Mälardalen University and the City Library. The school accommodates about 480 students and the City of Västerås has signed a 15-year lease agreement.

## Financing

The overall objective of Hemsö's financing activities is to secure a long-term 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 63.3 per cent (62.9) and the interest-coverage ratio was 4.9 (4.8).

Hemsö issues bonds at Swedish and European capital markets and certificates in the Swedish market. In addition, Hemsö has committed credit facilities 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 liabilities

At year-end, Hemsö's interest-bearing liabilities amounted to SEK 29,728 million (25,575).

During the period, Hemsö issued bonds totalling SEK 4,154 million in the Swedish capital market with maturities ranging from 2–30 years, and EUR 198.5 million in European markets with maturities ranging from 10–25 years. In addition, Hemsö raised loans totalling SEK 1,600 million from the Nordic and the European Investment Bank, respectively, with maturities of eight and 15 years.

During the period, Hemsö repaid a secured bank loan of SEK 1,220 million, bringing secured debt to 0 per cent (3) at 31 December.

In the fourth quarter, Hemsö continued to focus on raising long-term loans with fixed rates to extend the loan maturity and fixed-rate period. During the quarter, bonds of SEK 564 million were issued in the Swedish capital market with maturities ranging from 12–20 years, and EUR 142.5 million in European capital markets with maturities ranging from 10–25 years.

At 31 December, Hemsö had undrawn committed credit facilities totalling SEK 12,700 million (10,720) to reduce the company's refinancing risk and secure access to finance. Cash and cash equivalents amounted to SEK 450 million (1,134) and available liquidity totalled SEK 13,150 million (11,854), bringing the debt-coverage ratio to 165 per cent (166).

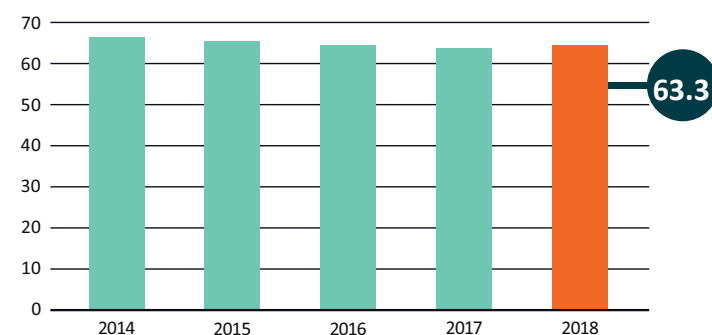
### Sources of funding, SEK million

	Q4 2018	Q4 2017
Bonds, SEK	12,604	11,660
Bonds, EUR	11,075	8,657
<b>Total bonds</b>	<b>23,679</b>	<b>20,317</b>
<i>Of which sustainability bonds</i>	<i>1,000</i>	<i>1,000</i>
Commercial papers	4,449	4,038
European Investment Bank	800	0
Nordic Investment Bank	800	0
Secured loans	0	1,220
<b>Interest-bearing liabilities</b>	<b>29,728</b>	<b>25,575</b>
<i>Of which sustainable financing</i>	<i>2,600</i>	<i>1,000</i>

### Capital structure, SEK million

	Q4 2018	Q4 2017
Interest-bearing liabilities	29,728	25,575
Cash and cash equivalents	450	1,134
<b>Net debt</b>	<b>29,278</b>	<b>24,441</b>
Market value of investment properties	46,236	38,883
<b>Loan-to-value ratio</b>	<b>63.3%</b>	<b>62.9%</b>
<b>Share of secured debt</b>	<b>0.0%</b>	<b>3.1%</b>

### Loan-to-value ratio, %



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 derivatives portfolio was SEK 6,350 million (8,250). At 31 December 2018, the nominal value of Hemsö's outstanding foreign exchange derivatives was SEK 0 million (640). At year-end, currency exposure corresponded to 11.5 per cent (10.8) of the Group's equity.

The average loan maturity was 7.9 years (5.0), and the average fixed-rate period 5.9 years (5.1). The loan maturity was extended during the year due to Hemsö's focus on longer-maturity loans. At period-end, Hemsö's average interest rate was 1.3 per cent (1.5). The change in the average interest rate was due to Hemsö's early termination of derivatives during the period and the raising of new loans with more favourable terms than previously.

After year-end, Hemsö had issued bonds totalling SEK 2,550 million with maturities of approximately three years. After year-end, Hemsö's owners provided SEK 1,000 million in equity in the form of a shareholder contribution.

## SEK 2,600 million

Sustainable financing

### Currency exposure, SEK million

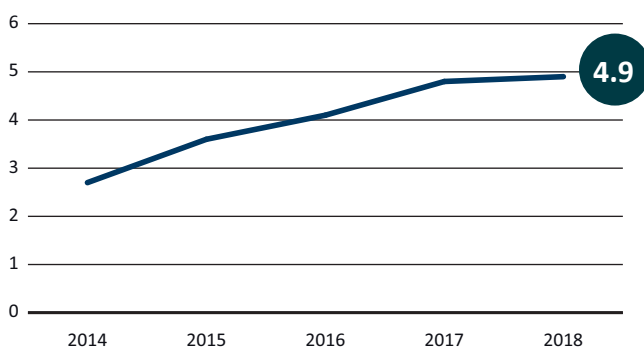
	Q4 2018	Q4 2017
Properties EUR	12,592	8,663
Cash EUR	0	515
<b>Assets EUR</b>	<b>12,592</b>	<b>9,178</b>
Debt EUR	11,075	8,657
<b>Exposure EUR</b>	<b>1,517</b>	<b>521</b>
Currency hedging	0	645
<b>Currency exposure</b>	<b>1,517</b>	<b>1,166</b>
Equity	13,199	10,795
<b>Currency exposure</b>	<b>11.5%</b>	<b>10.8%</b>

### Committed credit facilities, SEK million

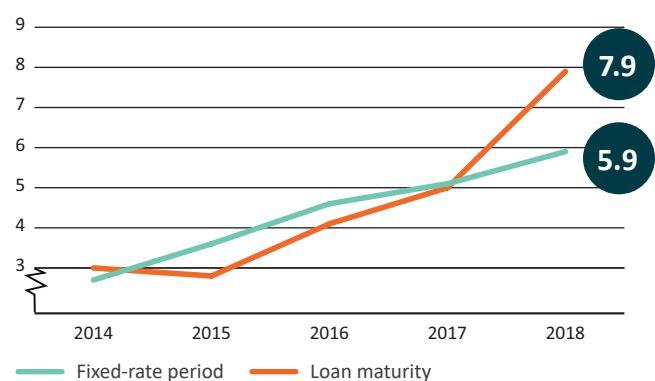
	Q4 2018	Q4 2017
Banks	6,500	6,000
Third Swedish National Pension Fund	4,000	4,000
EIB	2,200	0
Construction credit	0	1,940
<b>Total committed credit facilities</b>	<b>12,700</b>	<b>11,940</b>
<i>Of which undrawn</i>	<i>12,700</i>	<i>10,720</i>
Cash and cash equivalents	450	1,134
<b>Available liquidity</b>	<b>13,150</b>	<b>11,854</b>
Short-term loans	7,994	6,691
Debt-coverage ratio	165%	166%*

\*Excluding undrawn building loans of SEK 720 million

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



### Loan maturities and fixed-rate periods, years



## Summary of financial policy

Financing risk	Policy	Outcome
Loan-to-value ratio	Maximum 70%	63.3%
Loan maturity	Min. 2 years	7.9 years
Debt-coverage ratio	Min. 110%	165%
Share of secured debt	Max. 20%	0.0%
<b>Interest-rate risk</b>		
Interest-coverage ratio	At least 2.0 (rolling 12-month period)	4.9 ggr
Fixed-rate period	Hemsö's average fixed-rate period should range from 3–8 years	5.9 years
Fixed-rate maturity	Max. 40% of fixed-rate periods should mature within 12 months	33%
<b>Counterparty risk</b>		
Financial instruments	Bank with a minimum credit rating of A- (S&P)	Fulfilled
<b>Currency risk</b>		
Currency exposure	Max. 20% (in SEK) of the Group's equity without currency hedging.	11%



## Loan maturities and fixed-rate periods

Year	Credit agree- ments, SEK million	Loan maturity		Fixed-rate period	
		Drawn, SEK million	Share, %	SEK million	Share, %
2019	3,545	3,545	14	9,744	33
2020	11,300	3,300	13	1,349	5
2021	4 804	2,604	10	2,250	8
2022	945	945	4	200	1
2023	3,300	800	3	1,500	5
2024	500	500	2	2,000	7
2025	0	0	0	0	0
2026	5,914	5,914	23	5,114	17
2027	0	0	0	0	0
>2027	7,671	7,671	30	7,571	26
<b>Total</b>	<b>37,979</b>	<b>25,279</b>	<b>100</b>	<b>29,728</b>	<b>100</b>
Commercial papers		4,449			
<b>Total</b>		<b>29,728</b>			

## Quarterly overview

Amounts in SEK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Income statement</b>									
Property income	676	653	650	640	617	594	577	587	571
Property costs	-208	-145	-148	-168	-154	-118	-147	-167	-151
<b>Net operating income</b>	<b>468</b>	<b>508</b>	<b>502</b>	<b>472</b>	<b>463</b>	<b>476</b>	<b>430</b>	<b>420</b>	<b>420</b>
Administrative expenses	-48	-33	-36	-30	-43	-27	-28	-33	-46
Profit from participations in associated companies	6	2	2	1	1	0	-	-	-
<b>Operating profit</b>	<b>426</b>	<b>477</b>	<b>468</b>	<b>443</b>	<b>421</b>	<b>449</b>	<b>402</b>	<b>387</b>	<b>374</b>
Financial items	-80	-96	-102	-93	-91	-93	-77	-84	-90
<b>Profit from property management</b>	<b>346</b>	<b>381</b>	<b>366</b>	<b>350</b>	<b>330</b>	<b>356</b>	<b>325</b>	<b>303</b>	<b>284</b>
Value change, properties	1,166	94	622	178	739	141	415	388	1,735
Value change, financial instruments	-2	63	2	28	33	1	54	47	207
Current tax	11	-4	-39	-4	13	-28	-23	-25	2
Deferred tax	-318	-100	-14	-34	-229	-85	-51	-113	-482
<b>Profit for the period</b>	<b>1,203</b>	<b>434</b>	<b>937</b>	<b>518</b>	<b>886</b>	<b>385</b>	<b>720</b>	<b>600</b>	<b>1,746</b>
Other comprehensive income	-4	-5	5	26	24	-3	10	1	15
<b>Comprehensive income for the period</b>	<b>1,199</b>	<b>429</b>	<b>942</b>	<b>544</b>	<b>910</b>	<b>382</b>	<b>730</b>	<b>601</b>	<b>1,761</b>
<b>Balance sheet</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>	<b>Q4 2016</b>
Investment properties	46,236	42,573	41,597	40,152	38,883	36,671	35,969	35,003	33,629
Other assets	720	929	770	715	660	560	901	561	392
Cash and cash equivalents	450	1,500	1,223	1,132	1,134	849	2,467	1,170	932
<b>Total assets</b>	<b>47,406</b>	<b>45,002</b>	<b>43,590</b>	<b>41,999</b>	<b>40,677</b>	<b>38,080</b>	<b>39,337</b>	<b>36,734</b>	<b>34,953</b>
Equity	13,199	12,053	11,624	11,340	10,795	9,885	9,503	9,329	8,672
Deferred tax liabilities	3,067	2,750	2,651	2,638	2,591	2,355	2,274	2,216	2,103
Derivatives	281	350	512	515	544	560	615	676	723
Interest-bearing liabilities	29,728	28,738	27,786	26,380	25,575	24,497	25,863	23,436	22,483
Non-interest-bearing liabilities	1,131	1,111	1,017	1,126	1,172	783	1,082	1,077	972
<b>Total equity and liabilities</b>	<b>47,406</b>	<b>45,002</b>	<b>43,590</b>	<b>41,999</b>	<b>40,677</b>	<b>38,080</b>	<b>39,337</b>	<b>36,734</b>	<b>34,953</b>
<b>Key ratios</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>	<b>Q4 2016</b>
<b>Financial key ratios</b>									
Loan-to-value ratio, %	63.3	64.0	63.9	62.9	62.9	64.5	64.3	63.6	64.0
Interest-coverage ratio <sup>1</sup>	4.9	4.7	4.7	4.8	4.8	4.7	4.6	4.3	4.1
Operating cash flow, SEK million	329	366	350	338	330	350	311	281	271
Return on equity, % <sup>1</sup>	25.8	25.3	25.8	24.3	26.6	41.3	42.3	36.2	30.4
<b>Property-related key ratios</b>									
Property yield, %	4.9	5.1	5.1	5.2	5.2	5.4	5.4	5.6	5.7
Total return, % <sup>1</sup>	9.7	9.2	9.5	9.0	9.8	13.8	14.0	13.6	12.8
Economic occupancy rate, %	98.3	98.1	98.3	98.1	98.3	98.8	98.7	97.9	97.5
No. of properties	365	353	349	345	346	342	339	362	356
Leasable area, tsqm	1,732	1,679	1,651	1,658	1,636	1,591	1,560	1,663	1,638

1) Calculated on a 12-month rolling outcome

## Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan–Dec 2018	Jan–Dec 2017	Oct–Dec 2018	Oct–Dec 2017
Rental income	2,607	2,363	673	614
Other income	11	12	3	3
Operating costs	-411	-383	-107	-85
Maintenance costs	-197	-161	-85	-57
Other property costs	-60	-43	-16	-12
<b>Net operating income</b>	<b>1,950</b>	<b>1,788</b>	<b>468</b>	<b>463</b>
Administrative expenses	-146	-130	-48	-43
Profit from participations in associated companies	11	1	6	1
<b>Operating profit</b>	<b>1,815</b>	<b>1,659</b>	<b>426</b>	<b>421</b>
Financial items	-372	-345	-80	-91
<b>Profit from property management</b>	<b>1,443</b>	<b>1,314</b>	<b>346</b>	<b>330</b>
Change in the fair value of investment properties	2,060	1,682	1,166	739
Value change, financial instruments	91	135	-2	33
<b>Profit before tax</b>	<b>3,594</b>	<b>3,131</b>	<b>1,510</b>	<b>1,102</b>
Current tax	-36	-63	11	13
Deferred tax	-466	-477	-318	-229
<b>Profit for the period</b>	<b>3,092</b>	<b>2,591</b>	<b>1,203</b>	<b>886</b>
<b>Profit for the period attributable to</b>				
Parent Company shareholders	2,980	2,577	1,180	929
Non-controlling interests	112	14	24	-43
<b>Other comprehensive income</b>				
Profit for the period	3,092	2,591	1,204	886
Translation difference	22	31	-4	24
<b>Comprehensive income for the period</b>	<b>3,114</b>	<b>2,622</b>	<b>1,200</b>	<b>910</b>
<b>Comprehensive income for the period attributable to</b>				
Parent Company shareholders	3,002	2,608	1,176	953
Non-controlling interests	112	14	24	-43



## Group – Condensed statement of financial position

Amounts in SEK million	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>		
Investment properties	46,236	38,883
Participations in associated companies	112	101
Receivables from associated companies	71	47
Other non-current assets	92	32
Other current receivables	445	480
Cash and cash equivalents	450	1,134
<b>TOTAL ASSETS</b>	<b>47,406</b>	<b>40,677</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	13,199	10,795
Deferred tax liabilities	3,067	2,591
Interest-bearing liabilities	21,736	18,884
Non-interest-bearing liabilities	281	544
<b>Total non-current liabilities</b>	<b>25,084</b>	<b>22,019</b>
Interest-bearing liabilities	7,992	6,691
Non-interest-bearing liabilities	1,131	1,172
<b>Total current liabilities</b>	<b>9,123</b>	<b>7,863</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47,406</b>	<b>40,677</b>

## 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 2017	1	6,856	73	1,525	217	8,672
Dividends	-	-	-	-556	-	-556
Contribution from minority interests	-	-	-	-	57	57
Comprehensive income	-	-	31	2,577	14	2,622
<b>Closing equity, 31 Dec 2017</b>	<b>1</b>	<b>6,856</b>	<b>104</b>	<b>3,546</b>	<b>288</b>	<b>10,795</b>
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
<b>Closing equity, 31 Dec 2018</b>	<b>1</b>	<b>6,356</b>	<b>126</b>	<b>6,369</b>	<b>347</b>	<b>13,199</b>

## Group – Condensed statement of cash flows

Amounts in SEK million	Jan–Dec 2018	Jan–Dec 2017	Oct–Dec 2018	Oct–Dec 2017
<b>Operating activities</b>				
Profit from property management	1,443	1,314	346	330
<i>Adjusted for items not included in profit from property management</i>				
Profit/loss from participations in associated companies	-11	-2	-6	-2
Depreciation and amortisation	2	2	0	1
<i>Adjusted for other non-cash items</i>				
Exchange differences, unrealised	27	-13	-30	36
Capital gain/loss	20	82	-7	-
Income tax paid	-51	-42	-11	1
<b>Cash flow before changes in working capital</b>	<b>1,430</b>	<b>1,341</b>	<b>292</b>	<b>366</b>
Increase (+)/decrease (-) in working capital	0	7	289	292
<b>Cash flow from operating activities</b>	<b>1,430</b>	<b>1,348</b>	<b>581</b>	<b>658</b>
<b>Investing activities</b>				
Acquisition of properties	-3,135	-2,668	-1,712	-646
Investments in new construction, extension and refurbishment	-2,660	-2,190	-805	-598
Property divestments	871	1,469	1	-
Investment in financial non-current assets	-86	-102	-63	43
Other non-current assets	-	-2	4	-
<b>Cash flow from investing activities</b>	<b>-5,010</b>	<b>-3,493</b>	<b>-2,575</b>	<b>-1,201</b>
<b>Financing activities</b>				
Interest-bearing liabilities	8,463	8,470	2,029	1,480
Repayment of interest-bearing liabilities	-4,711	-5,565	-1,015	-655
Redemption of financial instruments	-172	-45	-71	17
Contributions from non-controlling interests	-	57	-	-
Dividends paid	-657	-556	-	-
<b>Cash flow from financing activities</b>	<b>2,923</b>	<b>2,361</b>	<b>943</b>	<b>842</b>
<b>Cash flow for the period</b>	<b>-657</b>	<b>216</b>	<b>-1,051</b>	<b>299</b>
Opening balance, cash and cash equivalents	1,134	932	1,500	849
Exchange-rate differences in cash and cash equivalents	-27	-14	1	-14
<b>Closing cash and cash equivalents</b>	<b>450</b>	<b>1,134</b>	<b>450</b>	<b>1,134</b>
<b>OPERATING CASH FLOW</b>	<b>1,383</b>	<b>1,272</b>	<b>329</b>	<b>330</b>

## Parent Company – Condensed income statement

Amounts in SEK million	Jan–Dec 2018	Jan–Dec 2017	Oct–Dec 2018	Oct–Dec 2017
Operating income	63	56	22	6
Administrative expenses	-158	-145	-51	-38
<b>Operating profit</b>	<b>-95</b>	<b>-89</b>	<b>-29</b>	<b>-32</b>
Financial items	322	-228	-51	-101
Value change, financial instruments	-453	-45	-1	17
Appropriations	653	498	653	486
<b>Profit before tax</b>	<b>427</b>	<b>136</b>	<b>572</b>	<b>370</b>
Recognised tax	58	-28	-13	-28
<b>Profit for the period</b>	<b>485</b>	<b>108</b>	<b>559</b>	<b>342</b>
Other comprehensive income	-	-	-	-
<b>Comprehensive income for the period</b>	<b>485</b>	<b>108</b>	<b>559</b>	<b>342</b>

## Parent Company – Condensed balance sheet

Amounts in SEK million	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	1	4
Equipment	1	1
Shares and participations in Group companies	6,233	6,324
Deferred tax assets	57	-
Non-current receivables	16,120	3,355
<b>Total non-current assets</b>	<b>22,412</b>	<b>9,684</b>
<b>Current assets</b>		
Current receivables	11,008	17,273
Cash and cash equivalents	0	906
<b>Total current assets</b>	<b>11,008</b>	<b>18,179</b>
<b>TOTAL ASSETS</b>	<b>33,420</b>	<b>27,863</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	3,073	3,245
<b>Untaxed reserves</b>		
Tax allocation reserve	34	48
<b>Liabilities</b>		
Deferred tax liabilities	25	25
Interest-bearing liabilities	29,728	24,354
Non-interest-bearing liabilities	560	191
<b>Total liabilities</b>	<b>30,313</b>	<b>24,570</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>33,420</b>	<b>27,863</b>

## Other information

### Significant events after period-end

After the end of the period, Hemsö's owners provided a shareholder contribution of SEK 1,000 million. Hemsö also issued bonds totalling SEK 2,550 million with maturities of approximately three years.

### Employees

At year-end, Hemsö had 102 employees of whom 49 were women. Of these employees, 33 worked with asset and property management and 14 with development projects. Other employees worked with administration, accounting, financing, IT, legal affairs, communication, management, HR and transactions. Of all employees, 93 were employed in Sweden, five in Germany and four in Finland.

### Risks and uncertainties

There were no material changes to Hemsö's risks and uncertainties, which are described on pages 74–79 of the 2017 Annual Report.

### Related-party transactions

Hemsö's related-party transactions are set out in Note 27 of Hemsö's 2017 Annual Report. No significant related-party transactions took place during the period.

### 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 24 investment properties through limited partnerships.

Hemsö divested shares in the joint venture Vitartes AB and acquired half of the shares and votes in Vitartes' former subsidiaries Scandinavian Life Science AB and Scandinavian Life Science Två AB. The companies own two properties in Hagastaden.

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

### Accounting policies applied

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated accounts 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 9 Financial Instruments

This standard applies for reporting periods beginning on or after 2018 and supersedes IAS 39 Financial instruments.

The recommendation requires Hemsö to make an assessment of expected credit losses. Hemsö's customers are predominantly public-sector operators who are solvent and pose a low credit risk. The credit loss based on historical outcomes with the associated risk premium does not comprise a material amount and no allowance has been made. This standard does not therefore have any material impact on the Hemsö Group's financial statements.

The Parent Company finances the subsidiaries' property investments with internal loans. The subsidiaries have very high credit-worthiness and no credit loss has ever arisen on receivables from subsidiaries. Since the expected credit loss on the Parent Company's receivables from subsidiaries is considered immaterial, no allowance has been made for expected credit losses in the Parent Company.

Under IFRS 9, unrealised changes in the fair value of financial instruments that were previously recognised in the Group only, must also be recognised in the Parent Company. This resulted in a non-recurring item of SEK -544 million, which was eliminated in the Group.

### IFRS 15 Revenue from Contracts with Customers

This standard applies for periods beginning on or after 2018 and specifies how to recognise revenue from contracts with customers as well as non-monetary exchanges between entities in the same line of business. Since Hemsö's revenue essentially consists of rental and leasing income not covered by IFRS 15 but by IFRS 16, the recommendation has no material effect on the financial statements.

No other new or amended standards or interpretations issued by the IASB have had any effect on this interim report, and the accounting policies otherwise applied are consistent with those described in Note 1 of Hemsö's 2017 Annual Report.

### Impact of new or revised IFRS on or after 1 January 2019

#### IFRS 16 Leases

This standard supersedes IAS 17 and has been applied by Hemsö since 1 January 2019 with no retrospective effect. The recognition for lessors will essentially remain unchanged. For lessees (tenants), the standard will mean that most contracts (lease agreements) will be recognised in the balance sheet. For Hemsö, this will primarily affect the recognition of site leasehold agreements, which are to be recognised in the balance sheet and therefore increase total assets. In addition, leasehold fees will be recognised as interest expense and, therefore, no longer included in net operating income. Hemsö assesses that right-of-use assets and similar lease liabilities will initially amount to approximately SEK 300 million and are expected to impact some financial key ratios, including a -0.1 per cent point change in the equity/assets ratio.

### Signing of the report

Stockholm, 7 February 2019

Nils Styf, Chief Executive Officer

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 a for the period as a percentage of average equity (rolling 12 months). Average equity is calculated as the total of the opening and closing balance, divided by two.

### Loan-to-value ratio

Interest-bearing net debt as a percentage of the market value of the properties.

### 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 value changes and tax.

### Average interest rate

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

### Loan maturity

The average of the remaining term of interest-bearing liabilities, 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 the proportion of associated companies' profit less tax paid.

### Interest-coverage ratio

Net operating income less administrative expenses in relation to net financial items.

### Operating profit

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

### Debt-coverage ratio

Available liquidity excluding undrawn construction credit in relation to short-term borrowings.

### Total return

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.

### Economic occupancy rate

Contracted annual rental income as a percentage of rental value.

### Rental income

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

### Rental duration

The weighted average remaining lease term excluding garage/parking, storage/warehouse 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 dedicated to public services. Secure housing facilities are also included in the public properties concept.

### Major cities

The definition of major cities 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.

### Leasable 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.

### Surplus ratio

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.

<b>Return on equity</b>	<b>Jan–Dec 2018</b>	<b>Jan–Dec 2017</b>
Profit/loss for the year	3,092	2,591
Average equity	11,997	9,734
<b>Return on equity</b>	<b>25.8%</b>	<b>26.6%</b>

<b>Property yield</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Net operating income according to income statement	1,950	1,788
Adjusted for 12-month holding period	82	27
Adjusted for development properties	-137	-104
<b>Adjusted net operating income</b>	<b>1,895</b>	<b>1,711</b>
Market value of investment properties	46,236	38,883
Adjusted for development properties	-7,700	-6,220
<b>Adjusted market value</b>	<b>38,536</b>	<b>32,663</b>
<b>Property yield</b>	<b>4.9%</b>	<b>5.2%</b>

<b>Total return</b>	<b>Jan–Dec 2018</b>	<b>Jan–Dec 2017</b>
Net operating income	1,950	1,788
Value change, properties	2,060	1,682
<b>Total</b>	<b>4,010</b>	<b>3,470</b>
Opening property value	38,883	33,629
Closing property value	46,236	38,883
Adjustment of value change for the year	-2,060	-1,682
<b>Adjusted average property value</b>	<b>41,530</b>	<b>35,415</b>
<b>Total return</b>	<b>9.7%</b>	<b>9.8%</b>

<b>Profit from property management</b>	<b>Jan–Dec 2018</b>	<b>Jan–Dec 2017</b>
Profit before tax	3,594	3,131
Reversal		
<i>Change in fair value of properties</i>	-2,060	-1,682
<i>Change in fair value of derivatives</i>	-91	-135
<b>Profit from property management</b>	<b>1,443</b>	<b>1,314</b>

<b>Interest-coverage ratio</b>	<b>Jan–Dec 2018</b>	<b>Jan–Dec 2017</b>
Operating profit	1,815	1,659
Net financial items	-372	-345
<b>Interest-coverage ratio</b>	<b>4.9</b>	<b>4.8</b>

<b>Operating cash flow</b>	<b>Jan–Dec 2018</b>	<b>Jan–Dec 2017</b>
Profit from property management	1,443	1,314
Profit/loss from participations in associated companies	-11	-2
Depreciation and amortisation	2	2
Income tax paid	-51	-42
<b>Operating cash flow</b>	<b>1,383</b>	<b>1,272</b>

<b>Loan-to-value ratio</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Interest-bearing liabilities	29,728	25,575
Less cash and cash equivalents	-450	-1,134
Net debt	29,278	24,441
Market value of investment properties	46,236	38,883
<b>Loan-to-value ratio</b>	<b>63.3%</b>	<b>62.9%</b>

<b>Debt-coverage ratio</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Cash and cash equivalents	450	1,134
Undrawn committed credit facilities*	12,700	10,000
Available liquidity	13,150	11,134
Short-term loans	7,994	6,691
<b>Debt-coverage ratio</b>	<b>165%</b>	<b>166%</b>

\* Excluding undrawn construction credit

<b>Share of secured debt</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Secured debt	0	1,220
Market value of investment properties	46,236	38,883
<b>Share of secured debt</b>	<b>0.0%</b>	<b>3.1%</b>

**Questions and more information**

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Financial statements and press releases are available on Hemsö's website: [hemso.se](http://hemso.se)

**Financial calendar**

Annual Report	March 2019
Interim report Jan–Mar 2019	29 April 2019
Annual General Meeting	29 April 2019
Half-year report Jan–Jun 2019	12 July 2019
Interim report Jan–Sep 2019	24 October 2019

# HEMSÖ



Nursing homes



Education



Health care



Justice system

