

# Q2

## Half-year report 2018

### Summary January-June 2018

- » Rental income increased to SEK 1,281 million (1,156).
- » Profit from property management increased to SEK 716 million (629).
- » Changes in the fair value of properties amounted to SEK 800 million (802) and changes in the fair value of financial instruments to SEK 30 million (101).
- » Profit after tax for the period totalled SEK 1,455 million (1,320).
- » Market value of investment properties amounted to SEK 41,597 million (35,969).
- » During the period, 13 properties (19) were acquired for SEK 1,167 million (1,847) and 10 properties (36) were divested for SEK 866 million (1,593).

### Significant events during the second quarter

- » Hemsö continued its development of Sandbyhov in Norrköping with a nursing home, school, pre-school and health care clinic. The largest tenant is Norrköping Municipality with a 25-year lease agreement.

- » Two nursing homes with 90 beds that are currently under construction in Turku were acquired. A 12-year lease agreement was signed with Esperia Care for both of the nursing homes.
- » Hemsö is investing SEK 30 million in the development of school playgrounds as part of the Skolgårdsliftet project. The aim of the project is to raise the quality of all school playgrounds in the portfolio.
- » Groundbreaking for the Anoraken nursing home in Luleå. The home will have 144 beds, and a 20-year lease agreement was signed with Luleå Municipality.
- » Standard & Poor's confirmed Hemsö's long-term credit rating of A- with a stable outlook.
- » Hemsö is developing a new nursing home with 60 beds in Kristianstad in partnership with Vardaga, which has signed a 15-year lease agreement.
- » The City of Stockholm allocated a land reservation to Hemsö in Skärholmen with the aim of exploring the potential for building a hospital.
- » Borlänge Municipality awarded Hemsö a contract to develop a new school for 600 students. A 20-year lease agreement will be signed with Borlänge Municipality.

### Hemsö in summary \*

	Jan-Jun 2018	Jan-Jun 2017	Jul 2017-Jun 2018	Jan-Dec 2017
Rental income, SEK million	1,281	1,156	2,488	2,363
Profit from property management, SEK million	716	629	1,401	1,314
Profit after tax, SEK million	1,455	1,320	2,726	2,591
Operating cash flow, SEK million	688	594	1,366	1,272
Loan-to-value ratio, %	63.9	64.3	63.9	62.9
Interest-coverage ratio, %	4.7	4.6	4.7	4.8
Market value of investment properties, SEK million	41,597	35,969	41,597	38,883
Surplus ratio, %	75.5	73.0	76.5	75.3
Economic occupancy rate, %	98.3	98.7	98.1	98.3
Leasable area, tsqm	1,651	1,560	1,651	1,636

\* Definitions and explanations of key figures are available at [hemso.se/en/financial-information/definitions/](http://hemso.se/en/financial-information/definitions/)



## Stable growth

**Hemsö's operations continued to show stable growth in the second quarter. Profit from property management rose 14% and totalled SEK 716 million the first half-year 2018. The growth in profit from property management was mainly driven by completed development projects, acquisitions and a lower average interest rate. Hemsö also performed favourably in an identical portfolio, where net operating income rose 4%, says Nils Styf.**

### Skolgårdslyftet

Hemsö is investing SEK 30 million in the Skolgårdslyftet project. The aim of the project is to raise the quality of the outdoor environments at our schools and pre-schools. The investment will help to improve social sustainability by enhancing and developing the outdoor environment with a focus on children and young people. The objective is to develop the school playgrounds in line with current research on quality outdoor environments. Hemsö currently own approximately 80 pre-schools and comprehensive schools across Sweden.

The research shows that green and varied school playgrounds promote the learning of children and young people, as well as their social and physical development. It enables us, as a property owner, to embrace our social responsibility and contribute to greater social sustainability. The initiative began in 2017 with a review of 13 schools and preschools in Nacka Municipality using a special template to capture important green values.

Sustainable development is central to Hemsö and we are proud to be making this investment on behalf of our children and young people. The initiative represents an important step in the creation of a well-functioning learning environment, as well as a sound workplace for teachers and other staffmembers.

### Groundbreaking ceremony in Luleå

On 30 May, we broke ground together with Luleå Municipality in the Kronan district. The development project comprises the construction of a new nursing home with 144 beds, for which Luleå Municipality has signed a 20-year lease agreement. Hemsö was granted a land-use reservation in 2017 and, in close cooperation with the municipality, has designed a modern nursing home to meet the demand for care services due to the growing number of elderly people in the municipality.

The development project is a good example of how Hemsö cooperates with Swedish municipalities and provides capital and expertise to develop modern nursing homes without burdening future taxpayers with significant debt.

### Construction start for SEK 1.5 billion

During the quarter, new construction and refurbishment projects commenced, with a total investment amount of SEK 1.5 billion. In addition to the development project in Luleå, the new construction and refurbishment related to nursing homes, senior housing, health care clinics and schools in Norrköping, Västerås and Kristianstad, and refurbishment of the University of the Arts in Helsinki. The development projects were 97% pre-let before construction start, with a lease duration of 22 years. 91% of the rental income is derived from public-sector tenants, such as Swedish counties and municipalities and the Finnish state, and the remaining portion is derived from taxpayer-funded private care providers.

### Sustainable financing

Hemsö works actively to broaden its investor base by focusing on longer-maturity loans. Yesterday, Hemsö achieved a milestone in regard to this objective by signing a SEK 3 billion credit facility with the European Investment Bank (EIB). Over the next three years, the facility will enable Hemsö to finance its social infrastructure investments, which are also classified as nearly zero-energy buildings (NZEBs). The loans issued under the facility are unsecured, either in EUR or SEK, and with loan maturity of up to 25 years (15 years without amortization). We are delighted to have entered into a long-term partnership with EIB, whose responsible approach to investment and environmental concerns is well-aligned with Hemsö's long-term business plan to develop sustainable schools and nursing homes.

After the end of the quarter, Hemsö updated its sustainability bond framework. The green and sustainability bond market is evolving and we have now adapted our framework to the new Social Bond Principles issued by the International Capital Market Association (ICMA). In the next few years, Hemsö intends to increase its share of sustainable financing.

Nils Styf, CEO

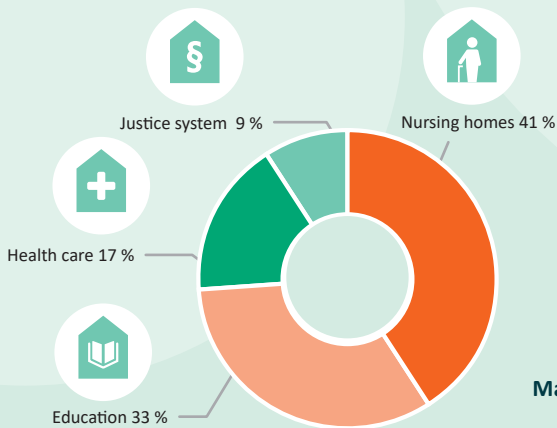
**Vision**  
To be the best property company for public services.

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

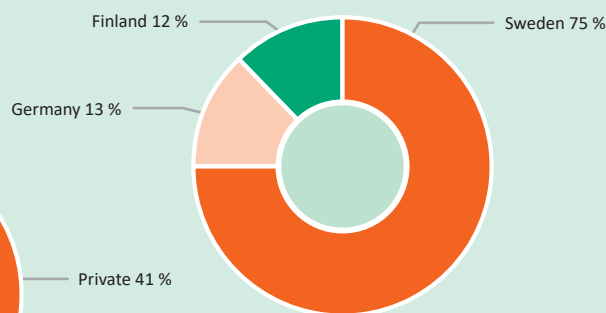
**THIS IS HEMSÖ**

- 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 preferred 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 41.6 billion.
- Hemsö has a credit rating of A- from Standard & Poor's.

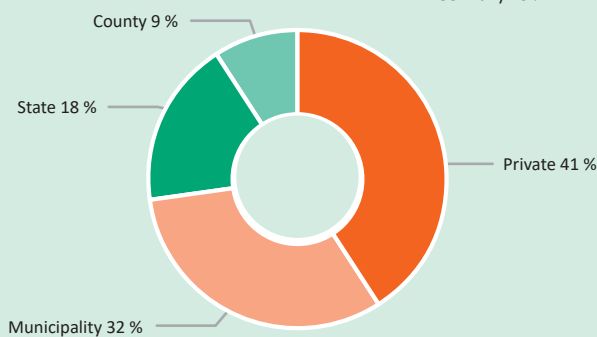
**Contracted rent per property category**



**Market value of investment properties**



**Contracted rent per tenant category**



## Income, costs and profit

Profit/loss items relate to the January-June period of 2018, 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 1,281 million (1,156). Rental income rose 20 per cent in Germany, and 54 per cent in Finland. The increase was mainly due to acquisitions. In Sweden, rental income rose 5 per cent, mainly attributable to acquisitions and completed development projects.

In the comparable portfolio, rental income rose SEK 25 million, or 2.6 per cent, with the largest increase in Germany. In Sweden, lower vacancies and indexation led to higher rental income.

At period-end, contracted annual rent amounted to SEK 2,550 million (2,303) and economic vacancies to SEK 45 million (30), up SEK 3 million since year-end.

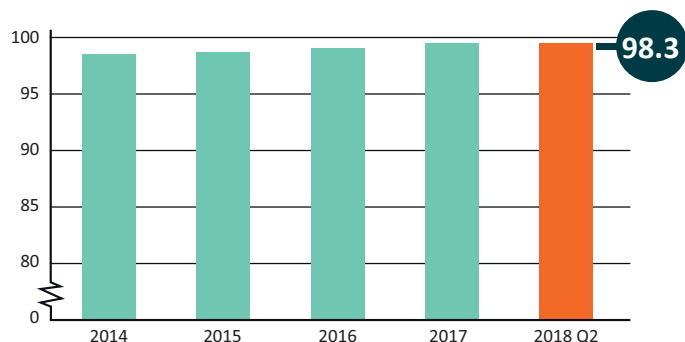
The rental duration increased due to completed development projects and acquisitions, and was 9.1 years (8.7) at period-end. The economic occupancy rate declined to 98.3% (98.7) at period-end.

### Property costs

Property costs amounted to SEK 315 million (314), an increase of SEK 1 million, corresponding to 0.3 per cent.

In the comparable portfolio, costs declined SEK 1 million, corresponding to 0.4%.

### Economic occupancy rate, %



### Vacancy changes

SEK million	Jan-Jun 2018
Opening vacancy	42
Terminated leases	14
New leases	-11
Acquired	-
Divested	-
<b>Closing vacancy</b>	<b>45</b>

### Lease maturity

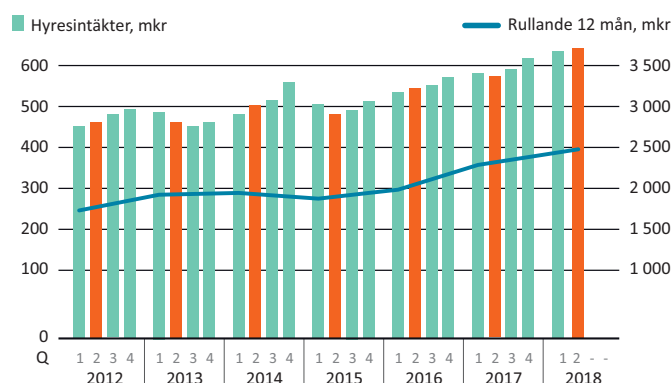
Maturity year	Annual rent, SEK million	Share of annual rent, %
2018	148	6
2019	194	8
2020	219	8
2021	242	9
2022	128	5
>2022	1,629	64
<b>Total</b>	<b>2,560</b>	<b>100</b>

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

## SEK 1,281 million

### Rental income

### Rental income



**Comparable portfolio**

	30 Jun 2018	30 Jun 2017	Change, %
No. of properties	275	275	
Market value of investment properties, SEK million	30,353	28,652	
Valuation yield, %	5.2	5.3	

Amounts in SEK million	Jan-Jun 2018	Jan-Jun 2017	Change, %
Rental income	1,029	1,004	2.6
Other income	7	4	72.6
Operating costs	-191	-185	3.3
Maintenance costs	-55	-61	-9.2
Other property costs	-18	-20	-10.5
<b>Net operating income</b>	<b>772</b>	<b>742</b>	<b>4.4</b>

**Net operating income**

Net operating income increased to SEK 974 million (850). The increase was mainly attributable to acquisitions and completed development projects. Divested properties reduced net operating income by SEK 39 million. The surplus ratio was 75.5 per cent (73.0), up 2,5 percentage points year-on-year.

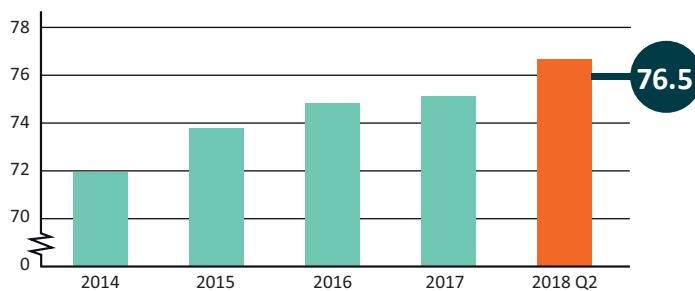
In the comparable portfolio, net operating income declined SEK 30 million, or 4 per cent. The increase was mainly attributable to new leasings, indexation and currency effects.

**Financial items**

Net financial items amounted to an expense of SEK -195 million (-161), of which interest expense accounted for SEK -192 million (-160). The higher interest expense was due to an increase of SEK 1,923 million in interest-bearing debt, which totalled SEK 27,786 million (25,863). The fixed-rate period was reduced to 5.1 year (5.6), while the average interest rate declined to 1.4% (1.6). Remaining net financial items included other financial expenses of SEK -19 million (-16), interest income of SEK 1 million (2) and other financial income of SEK 15 million (13).

# SEK 974 million

Net operating income

**Surplus ratio rolling 12-month period, %****Administration**

Central administrative expenses for the period amounted to SEK 66 million (61). The year-on-year increase of SEK 5 million was mainly attributable to higher employee benefit expenses.

### Profit from property management

Profit from property management totalled SEK 716 million (629), up 14 per cent. The improvement was mainly due to an increase in net operating income derived from a larger property portfolio.

### Change in the fair value of investment properties

At period-end, changes in the fair value of investment properties amounted to SEK 800 million (802), of which realised changes in value accounted for SEK 17 million (-82) and unrealised changes for SEK 783 million (884).

Unrealised changes in value were mainly attributable to lower yield requirements in Sweden, Germany and Finland, but also to completed development projects and new leasings in Sweden. The valuation yield for the entire property portfolio, excluding project properties, amounted to 5.1 per cent (5.4).

### Unrealised changes in value

SEK million	Jan-Jun 2018
Property management and project-related change in value	229
General market value change	272
<b>Subtotal Sweden</b>	<b>501</b>
Property management and project-related change in value	2
General market value change	280
<b>Subtotal Foreign</b>	<b>282</b>
<b>Total unrealised changes in value</b>	<b>783</b>

### Calculation of valuation yield

SEK million	30 Jun 2018
Net operating income according to income statement	1,882
Adjusted for 12-month holding period	52
Adjusted for project properties	-183
<b>Adjusted NOI, 12-month holding period excluding project properties</b>	<b>1,751</b>
Carrying amount of properties according to balance sheet	41,597
Adjusted for project properties	-7,580
<b>Adjusted carrying amount of properties</b>	<b>34,017</b>
<b>Valuation yield</b>	<b>5.1%</b>

Property value  
**SEK 41.6 billion**

Properties  
**349**

Leasable area  
**1,651 tsqm**

**SEK 716 million**

Profit from property management

**Change in value of the property portfolio**

	SEK million	No.
Carrying amount, opening balance	38,883	346
Acquisitions	1,167	13
Investments in new construction, extension and refurbishment	1,206	
Divestments	-866	-10
Exchange-rate fluctuations	424	
Unrealised changes in value	783	
<b>Carrying amount at period-end</b>	<b>41,597</b>	<b>349</b>

**Change in value of financial instruments**

Changes in the fair value of financial instruments had a positive impact of SEK 30 million (101) on profit. Changes in the fair value of interest-rate derivatives had a positive impact of SEK 24 million (101) on profit, of which unrealised change in value amounted to SEK 24 million (109). The unrealised change in value was largely attributable to the shorter maturity date for the interest-rate derivatives portfolio. Foreign exchange derivatives had an impact of SEK 6 million (0) on profit.

**Tax**

Recognised tax for the period amounted to SEK -91 million (-212), of which current tax accounted for SEK -43 million (-48) and deferred tax for SEK -48 million (-164). On June 13 the Riksdag introduced a change in tax legislation. As Hemsö estimates that the main part of the deferred tax will be realized after year 2020 the deferred tax has been recalculated using the tax rate applicable as of 2021. The lower tax rate in Sweden, from 22% to 20.6%, had a positive impact of SEK 142 million on profit in relation to deferred tax. Deferred tax expense mainly consisted of a change in the temporary difference between the carrying and taxable amounts of investment properties, divestment of properties and the recognised unrealised change in the fair value of financial instruments. At period-end, deferred tax assets amounted to SEK 128 million (150). Deferred tax liabilities amounted to SEK 2,779 million (2,425). Deferred tax assets were

netted against deferred tax liabilities in the balance sheet.

**Profit**

Profit after tax for the period amounted to SEK 1,455 million (1,320), up SEK 135 million year-on-year. The earnings improvement was mainly attributable to higher profit from property management and lower tax expense. Return on equity was 25.8 per cent (42.3).

**Cash flow**

Hemsö's cash flow from operating activities before changes in working capital was SEK 725 million (600). Changes in working capital had an impact of SEK -198 million (-103) on cash flow. Operating cash flow was SEK 688 million (594). Investing activities had a negative impact of SEK -1,528 million (-1,428) on cash flow, while increased borrowing and dividends paid had a positive impact of SEK 1,119 million (2,732) on cash flow from financing activities. Overall, cash and cash equivalents rose SEK 118 million (1,801) 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 28 million (34) and consisted of fees for services to the subsidiaries. Administrative expenses decreased to SEK -71 million (-75). Financial items amounted to SEK 470 million (-118). Financial items include profit of SEK 509 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 changes in accounting policies 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 change in policy had a negative impact of SEK -513 million on profit before tax, of which SEK -544 million relates to a non-recurring item that was eliminated in the Group. Total comprehensive income for the period increased to SEK 19 million (-167).

**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-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	30 Jun 2018	30 Jun 2017
Sweden East	384	337	288	246	13,855	12,159
Sweden West	142	147	95	86	3,690	3,397
Sweden North	297	292	214	212	9,229	8,523
Sweden South	157	156	111	107	4,397	4,279
Germany	156	130	149	123	5,319	4,286
Finland	144	94	117	77	5,107	3,325
<b>Total</b>	<b>1,281</b>	<b>1,156</b>	<b>974</b>	<b>850</b>	<b>41,597</b>	<b>35,969</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 North, Sweden South, Germany and Finland.

## Property portfolio

Of the total property value of SEK 41,597 million (35,969), 75 per cent (79) was attributable to Sweden, 13 per cent (12) to Germany and 12 per cent (9) to Finland.

At period-end, Hemsö owned properties in 67 municipalities in Sweden, 35 municipalities in Germany and 20 municipalities in Finland. The largest share of the market value of investment properties, 82 per cent, was attributable to properties located in urbanised areas 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 and education.

At 30 June 2018, Hemsö's property portfolio comprised 349 properties (339) with a total leasable area of 1,651 tsqm (1,560).

### Properties acquired and divested

Quarter	No.	Property value, SEK million	Leasable area, sqm
<b>Acquisitions</b>			
Q1	8	913	40,537
Q2	5	254	3,329
<b>Total</b>	<b>13</b>	<b>1,167</b>	<b>43,866</b>
<b>Divestments</b>			
Q1	9	804	26,661
Q2	1	62	14,753
<b>Total</b>	<b>10</b>	<b>866</b>	<b>41,414</b>

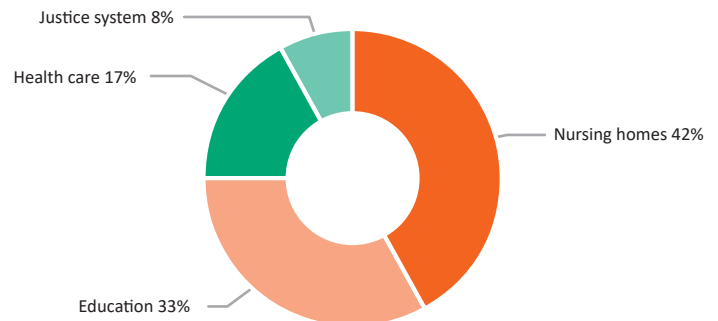
### Property transactions

During the period, 13 properties (19) were acquired for SEK 1,167 million (1,847) and 10 properties (36) were divested for SEK 866 million (1,593).

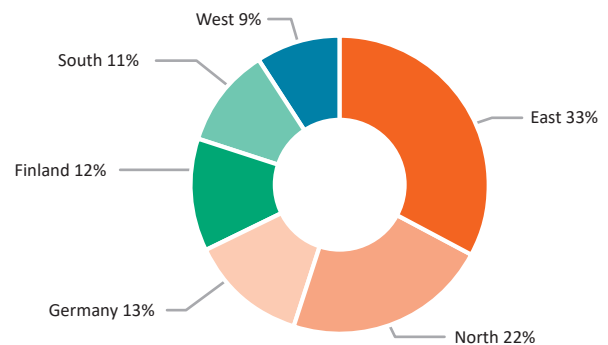
### Investments

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 1,206 million (1,049) was invested. Of this amount, SEK 1,078 million (915) was invested in new construction, and SEK 128 million (134) pertained to maintenance and new leaseings.

### The market value of investment properties per property category



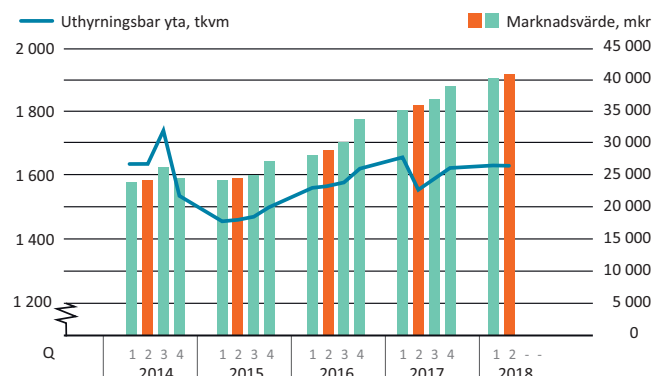
### The market value of investment properties per segment



# SEK 41,597 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.	172	103	62	12	<b>349</b>
Leasable area, tsqm	738	524	268	121	<b>1,651</b>
Rental duration, years	9.4	11.0	6.3	6.4	<b>9.1</b>
Property value, SEK million	17,328	13,725	7,194	3,350	<b>41,597</b>
Rental income, SEK million	528	421	219	113	<b>1,281</b>
Net operating income, SEK million	411	320	153	90	<b>974</b>
Economic occupancy rate, %	99.2	98.7	95.1	99.1	<b>98.3</b>
Valuation yield, %	5.0	5.0	5.9	5.6	<b>5.1</b>

## Tenants

94 per cent of Hemsö's total rental income is derived from taxpayer-funded operations. 14 of the 20 largest tenants are state, municipal or county operators. The share of contracted annual rent with public-sector tenants was 59 per cent, where lease agreements with state operators accounted for 18 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 30 million, of which 23 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, AcadeMedia and the City of Västerås.

## Hemsö's 20 largest tenants

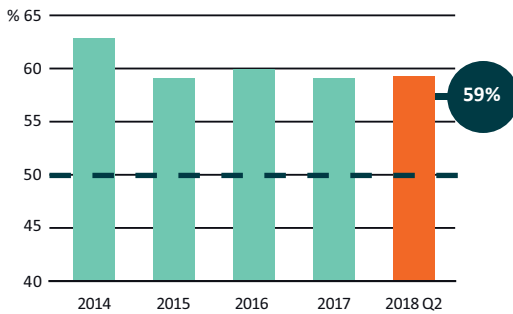
Tenant	Tenant category	Contracted annual rent, SEK million	Share of contracted annual rent, %	No. lease agreements
Swedish Police	State	150	5.9	30
Attendo	Private	126	4.9	66
Stockholm County	County	115	4.5	76
Academedia	Private	109	4.3	24
City of Västerås	Municipality	69	4.3	16
AWO (Germany)	Private	67	2.7	8
The Karolinska Institute	State	67	2.6	11
Västra Götaland Region	County	64	2.6	67
Norrköping Municipality	Municipality	63	2.5	20
HEWAG (Germany)	Private	54	2.5	9
Mälardalen University	State	53	2.1	2
Gävle Municipality	Municipality	50	2.1	19
Region Gotland	County	43	1.9	9
Municipality of Upplands Väsby	Municipality	40	1.7	4
The International English School	Private	39	1.6	7
Ambea	Private	39	1.5	5
Pori Municipality (Finland)	Municipality	37	1.5	1
Municipality of Uppsala	Municipality	37	1.5	22
Municipality of Nacka	Municipality	36	1.4	14
Royal Swedish Institute of Technology	State	36	1.4	1
<b>Total</b>		<b>1,293</b>	<b>53.4</b>	<b>411</b>

## Property frameworks

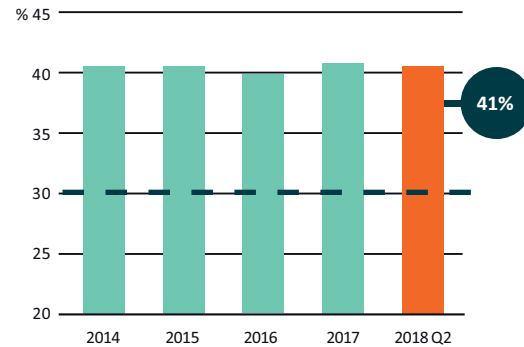
Hemsö has four property frameworks in order to clarify the company's strategy. The aim of these frameworks is to ensure a

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

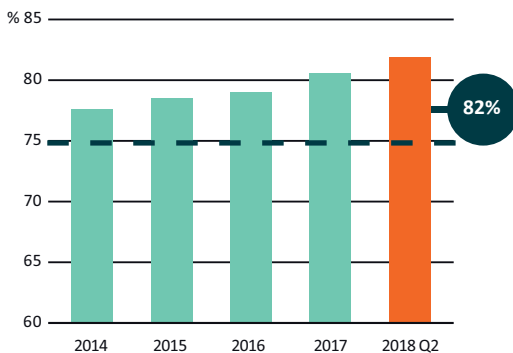
### Public-sector tenants are to account for at least 50 per cent of rental income



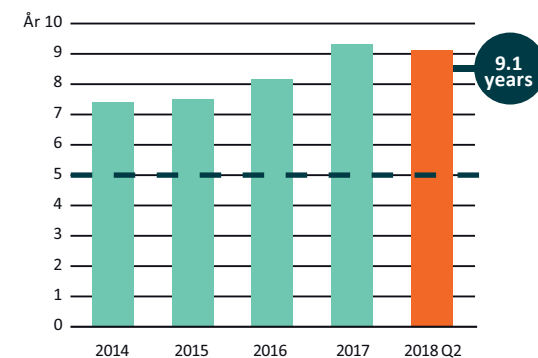
### Nursing homes are to account for at least 30 per cent of rental income



### 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 an annual basis at 30 June 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.

Central 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 expenses. Profit from participations in associated companies is calculated using the same assumptions as for Hemsö, with consideration for the size of the participation.

## Earning capacity

SEK million	30 Jun 2018	30 Jun 2017	Change, %
Rental income	2,550	2,303	
Property costs	-583	-553	
<b>Net operating income</b>	<b>1,967</b>	<b>1,750</b>	<b>12.4</b>
Central administrative expenses	-136	-190	
Profit from participations in associated companies	5	0	
Financial items	-378	-402	
<b>Profit from property management</b>	<b>1,458</b>	<b>1,158</b>	<b>25.9</b>

## Property valuation

Hemsö recognises its investment properties at an estimate of fair value, in accordance with IAS 40. At 30 June, 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 41,597 million (35,969).

# Development projects

## Ongoing development projects over SEK 100 million

Municipality	Development projects	Property category	Project area, sqm	Estimated investment, SEK million	Remaining investment, SEK million	Increase rental value, SEK million	Occupancy rate, %	Estimated year of completion
Solna	Patienten 1 <sup>1)</sup>	Health care	21,000	1,787	883	82	68	2020
Stockholm	Princeton 1 <sup>1)</sup>	Health care	20,000	1,397	823	77	0	2021
Västerås	Södra Källtorp	Nursing home	19,500	490	484	37	100	2020
Luleå	Anoraken 1	Nursing home	12,000	267	222	21	100	2020
Norrköping	Sandbyhov	Education	10,300	248	227	19	100	2019
Boden	Björknäs	Nursing home	10,700	246	169	20	100	2020
Helsinki	Univ. of the Arts	Education	5,900	152	139	8	100	2019
Västerås	Widénska	Education	5,200	141	61	10	100	2019
Staffanstorps	Villa Vikhem	Nursing home	4,100	135	83	9	100	2019
Kristianstad	Stafvre 11	Nursing home	4,400	135	135	9	89	2020
Enköping	Villa Idun	Nursing home	4,200	110	15	9	100	2018
<b>Total</b>			<b>117,300</b>	<b>5,108</b>	<b>3,241</b>	<b>301</b>		

<sup>1)</sup> The 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 5,108 million, of which the remaining investment amount is SEK 3,241 million. For all ongoing development projects with project volumes of

more than SEK 20 million, the remaining investment volume is SEK 3,419 million. During the quarter, one project was completed for SEK 77 million and the property was transferred to property management.

## Development projects completed, 2018

Municipality	Property	Completed	Property category	Project area, sqm	Estimated investment, SEK million	Rental duration, years	Rental value increase value, SEK million	Occupancy rate, %
Tyresö	Krusmyntan 1	Q1	Nursing home	4,300	156	15	10	100
Sotenäs	Gravarne 3:139	Q1	Health care	2,600	48	16	3	100
Solna	Älgörten 1	Q2	Education	2,000	77	30	4	100
<b>Total</b>				<b>8,900</b>	<b>281</b>	<b>18</b>	<b>17</b>	

### Älgörten 1, Solna

The second stage of Älgörten 1 in Järvastaden, Solna, comprising a preschool, was completed during the quarter.

The preschool is run by the Raoul Wallenberg School, which opened in August 2017. The school comprises a preschool, years 1-6 and has a total of 500 students. The school playground has been designed in accordance with Hemsö's *Skolgårdslyftet* development project, which aims to improve social sustainability by enhancing and developing the outdoor environment of our schools to support the learning and development of children and young people.



## Financing

The overall objective of Hemsö's financing activities is to secure a long-term stable capital structure, and the lowest possible net financing cost within 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 period-end, the loan-to-value ratio was 63.9 per cent (64.3) and the interest-coverage ratio was 4.7 (4.6).

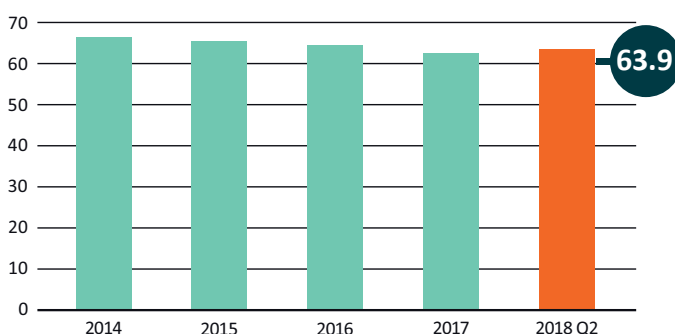
Hemsö issues bonds in Swedish and European capital markets and commercial papers in the Swedish market. In addition, Hemsö has loan commitments from Nordic banks and the Third Swedish National Pension Fund, which diversify the company's funding sources. Hemsö has a credit rating of A- from Standard & Poor's.

### Interest-bearing liabilities

At period-end, Hemsö's interest-bearing liabilities amounted to SEK 27,786 million (25,863). During the period, Hemsö issued bonds totalling SEK 2,950 million and maturities of 2-20 years on the Swedish capital market. In addition, Hemsö issued a bond of EUR 56 million with a 15-year maturity on the EUR market. Outstanding commercial papers increased and amounted to SEK 4,690 million (4,233).

Hemsö works actively to buy back bonds as they approach maturity to minimise the company's refinancing risk. During the period, Hemsö bought back bonds totalling SEK 802 million (0). During the period, Hemsö repaid a secured bank loan of

### Loan-to-value ratio, %



### Sources of funding, SEK million

	30 Jun 2018	30 Jun 2017
Bonds, SEK	12,656	9,270
Bonds, EUR	9,640	9,722
<b>Total Bonds</b>	<b>22,296</b>	<b>18,992</b>
<i>Of which sustainability bonds</i>	<i>1,000</i>	<i>1,000</i>
Commercial papers	4,690	4,233
Nordic Investment Bank	800	0
Secured loans	0	2,637
<b>Interest-bearing liabilities</b>	<b>27,786</b>	<b>25,862</b>
<i>Of which sustainable financing</i>	<i>1,800</i>	<i>1,000</i>

# SEK 1,800 million

Sustainable financing

### Capital structure, SEK million

	30 Jun 2018	30 Jun 2017
Interest-bearing liabilities	27,786	25,862
Cash	1,223	2,717
<b>Net debt</b>	<b>26,563</b>	<b>23,145</b>
Market value of investment properties	41,597	35,969
<b>Loan-to-value ratio</b>	<b>63.9%</b>	<b>64.3%</b>
<b>Share of secured debt</b>	<b>0%</b>	<b>7.3%</b>

SEK 1,220 million and raised a loan of SEK 800 million with the Nordic Investment Bank, bringing secured loans to 0 per cent (7) at 30 June.

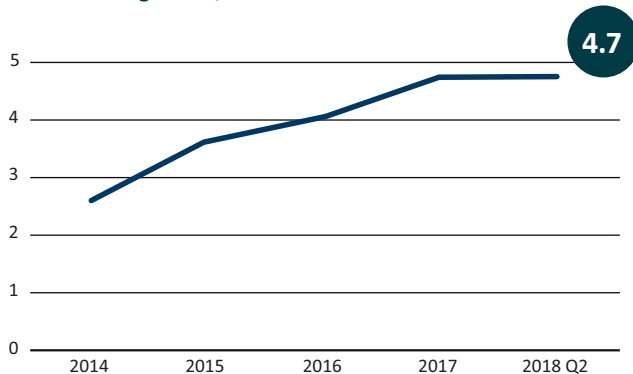
Hemsö has loan commitments totalling SEK 10,500 million (11,635) to reduce the company's refinancing risk, and to secure access to capital.

At 30 June 2018, all loan commitments were unused. Cash and cash equivalents amounted to SEK 1,223 million (2,717) and available liquidity totalled SEK 11,723 million (14,352), bringing the debt-coverage ratio to 164 per cent (173).

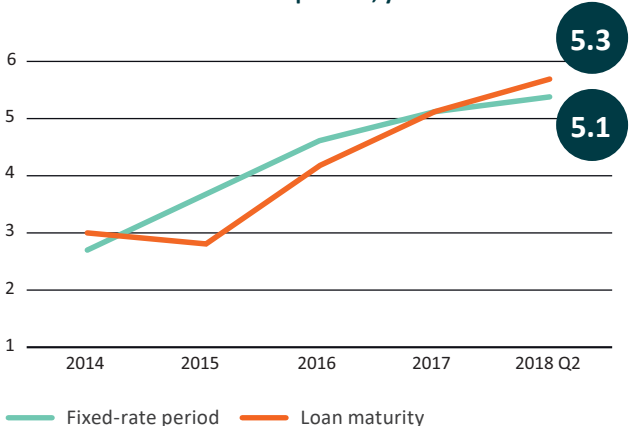
Hemsö uses interest-rate derivatives to manage its interest-rate risk and foreign exchange derivatives to manage its currency risk. At period-end, the nominal value of the interest-rate derivatives portfolio was SEK 9,500 million (7,580). At 30 June 2018, Hemsö had no foreign exchange derivatives outstanding. At period-end, currency exposure corresponded to 7 per cent (7) of the Group's equity.

The loan maturity was 5.3 years (5.2), and the fixed-rate period was 5.1 years (5.6). The loan maturity was extended during the year due to Hemsö's focus on longer-maturity loans. This was offset by a larger certificates portfolio and that the debt maturity grows shorter over time. At period-end, Hemsö's average interest rate was 1.4 per cent (1.6).

### Interest-coverage ratio, %



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



### Currency exposure, SEK million

	30 Jun 2018	30 Jun 2017
Properties EUR	10,425	7,611
Cash EUR	24	1,876
<b>Assets EUR</b>	<b>10,449</b>	<b>9,487</b>
Debt EUR	9,640	9,722
<b>Exposure EUR</b>	<b>809</b>	<b>-235</b>
Currency hedging	0	857
<b>Currency exposure</b>	<b>809</b>	<b>622</b>
Equity	11,624	9,503
<b>Currency exposure</b>	<b>7.0%</b>	<b>6.5%</b>

### Credit commitments, SEK million

	30 Jun 2018	30 Jun 2017
Banks	6,500	6,500
Third Swedish National Pension Fund	4,000	4,000
Construction credit	0	2,640
<b>Total loan commitments</b>	<b>10,500</b>	<b>13,140</b>
<i>Of which unused</i>	<i>10,500</i>	<i>11,635</i>
Cash	1,223	2,717
<b>Available liquidity</b>	<b>11,723</b>	<b>14,352</b>
Short-term loans	7,140	7,634
Debt-coverage ratio	164%	173%*

\* Excluding unutilised construction credit of SEK 1,219 million

After period-end, Hemsö signed a SEK 3 billion credit facility with the European Investment Bank (EIB). The credit facility is part of Hemsö's strategy to diversify the company's financing by focusing on longer-maturity loans. Over the next three years, Hemsö will be able to raise loans with maturities of up to 25 years (15 year interest-only). The facility will be used to finance investments in social infrastructure, which are also classified as nearly zero-energy buildings (NZEBS).

In early July, Hemsö also completed its update of the company's Sustainability Bond Framework, entailing that Hemsö may now expand its sustainable financing on Swedish and European capital markets.

## Summary of financial policy

Financing risk	Policy	Outcome
Loan-to-value ratio	Max. 70%	63.9%
Loan maturity	Min. 2 years	5.3 years
Debt-coverage ratio	Min. 110%	164%
Share of secured debt	Max. 20%	0%

Interest-rate risk		
Interest-coverage ratio	At least 2.0 times (rolling 12-month period)	4.7
Fixed-rate period	Average fixed-rate period, 3-8 years	5.1 years
Fixed-rate maturity	Max. 40% of fixed-rate periods should mature within 12 months	28%

Counterparty risk		
Financial instruments	Bank with a minimum credit rating of A- (S&P)	Fulfilled

Currency risk		
Currency exposure	Max. 20% (in SEK) of the Group's equity without currency hedging.	7%



Villa Vikhem,  
Staffanstorp



Widénska  
gymnasiet,  
Västerås

## Loan maturities and fixed-rate periods

Maturity year	Credit agree- ments, SEK million	Loan maturity		Fixed-rate period	
		Utilised, SEK million	Share, %	SEK million	Share, %
2018	1,000	1,000	4	6,518	23
2019	10,802	3,802	16	1,490	5
2020	5,800	3,300	14	2,147	8
2021	2,604	2,604	11	3,050	11
2022	400	400	2	1,300	5
2023	1,800	800	3	1,500	5
2024	500	500	2	2,000	7
2025	-	-	-	-	-
2026	5,929	5,929	26	5,123	19
>2026	4,761	4,761	22	4,658	17
<b>Total</b>	<b>33,596</b>	<b>23,096</b>	<b>100</b>	<b>27,786</b>	<b>100</b>
Commercial papers		4,690			
<b>Total</b>		<b>27,786</b>			

## Quarterly overview

Amounts in SEK million	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
<b>Income statement</b>									
Property income	650	640	617	594	577	587	571	558	540
Property costs	-148	-168	-154	-118	-147	-167	-151	-111	-132
<b>Net operating income</b>	<b>502</b>	<b>472</b>	<b>463</b>	<b>476</b>	<b>430</b>	<b>420</b>	<b>420</b>	<b>447</b>	<b>408</b>
Central administrative expenses	-36	-30	-43	-27	-28	-33	-46	-42	-48
Profit from participations in associated companies	2	1	1	0	-	-	-	-	-
Financial items	-102	-93	-91	-93	-77	-84	-90	-90	-94
<b>Profit from property management</b>	<b>366</b>	<b>350</b>	<b>330</b>	<b>356</b>	<b>325</b>	<b>303</b>	<b>284</b>	<b>315</b>	<b>266</b>
Change in value, properties	622	178	739	141	415	388	1,735	91	189
Change in value, financial instruments	2	28	33	1	54	47	207	-5	-154
Current tax	-39	-4	13	-28	-23	-25	2	-16	-18
Deferred tax	-14	-34	-229	-85	-51	-113	-482	-69	-36
<b>Profit for the period</b>	<b>937</b>	<b>518</b>	<b>886</b>	<b>385</b>	<b>720</b>	<b>600</b>	<b>1,746</b>	<b>316</b>	<b>247</b>
Other comprehensive income	5	26	24	-3	10	1	15	28	20
<b>Comprehensive income for the period</b>	<b>942</b>	<b>544</b>	<b>910</b>	<b>382</b>	<b>730</b>	<b>601</b>	<b>1,761</b>	<b>344</b>	<b>267</b>
<b>Balance sheet</b>									
Investment properties	41,597	40,152	38,883	36,671	35,969	35,003	33,629	30,186	28,763
Other assets	770	715	660	560	901	561	392	296	358
Cash and bank balances	1,223	1,132	1,134	849	2,467	1,170	932	2,957	606
<b>Total assets</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>33,439</b>	<b>29,727</b>
Equity	11,624	11,340	10,795	9,885	9,503	9,329	8,672	6,831	6,494
Deferred tax liabilities	2,651	2,638	2,591	2,355	2,274	2,216	2,103	1,619	1,549
Derivatives	512	515	544	560	615	676	723	1,055	1,074
Interest-bearing liabilities	27,786	26,380	25,575	24,497	25,863	23,436	22,483	23,074	19,853
Non-interest-bearing liabilities	1,017	1,126	1,172	783	1,082	1,077	972	860	757
<b>Total equity and liabilities</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>33,439</b>	<b>29,727</b>
<b>Key ratios</b>									
<b>Financial key ratios</b>									
Loan-to-value ratio, %	63.9	62.9	62.9	64.5	64.3	63.6	64.0	66.5	66.8
Interest-coverage ratio <sup>1</sup>	4.7	4.8	4.8	4.7	4.6	4.3	4.1	3.9	4.0
Operating cash flow, SEK million	350	338	330	350	311	281	271	305	260
Return on equity, % <sup>1</sup>	25.8	24.3	26.6	41.3	42.3	36.2	30.4	17.5	15.9
<b>Property-related key ratios</b>									
Valuation yield, %	5.1	5.2	5.2	5.4	5.4	5.6	5.7	6.0	6.0
Total return, % <sup>1</sup>	9.5	9.0	9.8	13.8	14.0	13.6	12.8	8.5	8.3
Economic occupancy rate, %	98.3	98.1	98.3	98.8	98.7	97.9	97.5	97.5	97.0
No. of properties	349	345	346	342	339	362	356	333	330
Leasable area, tsqm	1,651	1,658	1,636	1,591	1,560	1,663	1,638	1,587	1,569

1) Calculated on a 12-month rolling outcome

## Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan-Jun 2018	Jan-Jun 2017	Apr-Jun 2018	Apr-Jun 2017	Jul 2017-Jun 2018	Jan-Dec 2017
Rental income	1,281	1,156	646	573	2,488	2,363
Other income	8	8	4	4	12	12
Operating costs	-225	-224	-99	-95	-384	-383
Maintenance costs	-63	-68	-34	-41	-155	-161
Other property costs	-27	-22	-15	-11	-49	-43
<b>Net operating income</b>	<b>974</b>	<b>850</b>	<b>502</b>	<b>430</b>	<b>1,912</b>	<b>1,788</b>
Central administrative expenses	-66	-61	-36	-28	-135	-130
Profit from participations in associated companies	3	-	2		4	1
<b>Operating profit</b>	<b>911</b>	<b>790</b>	<b>468</b>	<b>402</b>	<b>1,781</b>	<b>1,659</b>
Financial items	-195	-161	-102	-77	-380	-345
<b>Profit from property management</b>	<b>716</b>	<b>629</b>	<b>366</b>	<b>325</b>	<b>1,401</b>	<b>1,314</b>
<b>Changes in value</b>						
Investment properties	800	802	622	415	1,680	1,682
Financial instruments	30	101	2	54	64	135
<b>Profit before tax</b>	<b>1,546</b>	<b>1,532</b>	<b>990</b>	794	3,145	<b>3,131</b>
Current tax	-43	-48	-39	-23	-58	-63
Deferred tax	-48	-164	-14	-51	-361	-477
<b>Profit for the period</b>	<b>1,455</b>	<b>1,320</b>	<b>937</b>	<b>720</b>	<b>2,726</b>	<b>2,591</b>
<b>Profit for the period attributable to</b>						
Parent Company shareholders	1,411	1,266	898	690	2,722	2,577
Non-controlling interests	44	54	39	30	4	14
<b>Other comprehensive income</b>						
Profit for the period	1,455	1,320	937	720	2,726	2,591
Translation difference	31	10	5	10	52	31
<b>Comprehensive income for the period</b>	<b>1,486</b>	<b>1,330</b>	<b>942</b>	<b>730</b>	<b>2,778</b>	<b>2,622</b>
<b>Total comprehensive income for the period attributable to</b>						
Parent Company shareholders	1,442	1,276	903	700	2,774	2608
Non-controlling interests	44	54	39	30	4	14



## Group – Condensed statement of financial position

Amounts in SEK million	30 Jun 2018	30 Jun 2017	31 Dec 2017
<b>ASSETS</b>			
Investment properties	41,597	35,969	38,883
Participations in associated companies	104	-	101
Receivables from associated companies	71	-	47
Other non-current assets	34	71	32
Current receivables	561	580	480
Cash and cash equivalents	1,223	2,717	1,134
<b>TOTAL ASSETS</b>	<b>43,590</b>	<b>39,337</b>	<b>40,677</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	11,624	9,503	10,795
Deferred tax liabilities	2,651	2,274	2,591
Interest-bearing liabilities	20,646	18,230	18,884
Non-interest-bearing liabilities	512	615	544
<b>Total non-current liabilities</b>	<b>23,809</b>	<b>21,119</b>	<b>22,019</b>
Interest-bearing liabilities	7,140	7,633	6,691
Non-interest-bearing liabilities	1,017	1,082	1,172
<b>Total current liabilities</b>	<b>8,157</b>	<b>8,715</b>	<b>7,863</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>43,590</b>	<b>39,337</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, 1 Jan-30 Jun 2017	-	-	10	1,266	54	1,330
<b>Closing equity, 30 Jun 2017</b>	<b>1</b>	<b>6,856</b>	<b>83</b>	<b>2,235</b>	<b>328</b>	<b>9,503</b>
Comprehensive income, 1 Jul-31 Dec 2017	-	-	21	1,311	-40	1,292
<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	-	-657	-	-	-	-657
Comprehensive income	-	-	31	1,411	44	1,486
<b>Closing equity, 30 Jun 2018</b>	<b>1</b>	<b>6,199</b>	<b>135</b>	<b>4,957</b>	<b>332</b>	<b>11,624</b>

## Group – Condensed statement of cash flows

Amounts in SEK million	Jan-Jun 2018	Jan-Jun 2017	Apr-Jun 2018	Apr-Jun 2017	Jul 2017-Jun 2018	Jan-Dec 2017
<b>Operating activities</b>						
Profit from property management	716	629	366	326	1,401	1,314
<i>Adjusted for items not included in profit from property management</i>						
Profit/loss from participations in associated companies	-3	-	-2	-	-5	-2
Depreciation and amortisation	1	1	1	0	2	2
<i>Adjusted for other non-cash items</i>						
Exchange-rate differences, unrealised	54	-73	-1	-68	114	-13
Capital gain/loss	-17	79	-2	76	-14	82
Income tax paid	-26	-36	-15	-14	-32	-42
<b>Cash flow before changes in working capital</b>	<b>725</b>	<b>600</b>	<b>347</b>	<b>320</b>	<b>1,466</b>	<b>1,341</b>
Increase (+)/decrease (-) in working capital	-198	-103	-141	-38	-133	-38
<b>Cash flow from operating activities</b>	<b>527</b>	<b>497</b>	<b>206</b>	<b>282</b>	<b>1,333</b>	<b>1,303</b>
<b>Investing activities</b>						
Acquisition of properties	-1,167	-1,847	-254	-1,311	-1,988	-2,668
Investments in new construction, extension and refurbishment	-1,205	-1,049	-630	-531	-2,346	-2,190
Property divestments	870	1,469	66	1,414	870	1,469
Investment in financial non-current assets	-23	-	-24	-	-125	-102
Other non-current assets	-3	-1	-3	-1	-4	-2
<b>Cash flow from investing activities</b>	<b>-1,528</b>	<b>-1,428</b>	<b>-845</b>	<b>-429</b>	<b>-3,593</b>	<b>-3,493</b>
<b>Financing activities</b>						
Interest-bearing liabilities	4,988	5,481	2,393	4,256	7,977	8,470
Amortisation of interest-bearing liabilities	-3,212	-2,250	-1,007	-1,991	-6,527	-5,565
Contributions from non-controlling interests	-	57	-	1	0	57
Dividends paid	-657	-556	-657	-556	-657	-556
<b>Cash flow from financing activities</b>	<b>1,119</b>	<b>2,732</b>	<b>729</b>	<b>1,710</b>	<b>793</b>	<b>2,406</b>
<b>Cash flow for the period</b>	<b>118</b>	<b>1,801</b>	<b>90</b>	<b>1,563</b>	<b>-1,467</b>	<b>216</b>
Opening balance, cash and cash equivalents	1,134	932	1,132	1,170	2,717	932
Exchange-rate differences in cash and cash equivalents	-29	-16	1	-16	-27	-14
<b>Closing cash and cash equivalents</b>	<b>1,223</b>	<b>2,717</b>	<b>1,223</b>	<b>2,717</b>	<b>1,223</b>	<b>1,134</b>
<b>Operating cash flow</b>	<b>688</b>	<b>594</b>	<b>350</b>	<b>312</b>	<b>1,366</b>	<b>1,272</b>

## Parent Company – Condensed income statement

Amounts in SEK million	Jan-Jun 2018	Jan-Jun 2017	Jul 2017-Jun 2018	Jan-Dec 2017
Operating income	28	34	50	56
Central administrative expenses	-71	-75	-141	-145
<b>Operating profit</b>	<b>-43</b>	<b>-41</b>	<b>-91</b>	<b>-89</b>
Financial items	470	-118	359	-228
Change in value, financial instruments	-513	-8	-550	-45
Appropriations	-	-	498	498
<b>Profit before tax</b>	<b>-86</b>	<b>-167</b>	<b>216</b>	<b>136</b>
Recognised tax	105	-	78	-28
<b>Profit for the period</b>	<b>19</b>	<b>-167</b>	<b>294</b>	<b>108</b>
<b>Other comprehensive income</b>				
Other comprehensive income	-	-	-	-
<b>Comprehensive income for the period</b>	<b>19</b>	<b>-167</b>	<b>294</b>	<b>108</b>

## Parent Company – Condensed balance sheet

Amounts in SEK million	30 Jun 2018	30 Jun 2017	31 Dec 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	5	3	4
Equipment	1	1	1
Shares and participations in Group companies	6,209	6,009	6,324
Deferred tax assets	105	-	-
Non-current receivables	3,393	4,349	3,355
<b>Total non-current assets</b>	<b>9,713</b>	<b>10,362</b>	<b>9,684</b>
<b>Current assets</b>			
Current receivables	21,443	13,874	17,273
Cash and cash equivalents	0	2,546	906
<b>Total current assets</b>	<b>21,443</b>	<b>16,420</b>	<b>18,179</b>
<b>TOTAL ASSETS</b>	<b>31,156</b>	<b>26,782</b>	<b>27,863</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	2,608	2,971	3,245
<b>Untaxed reserves</b>			
Tax allocation reserve	48	13	48
<b>Liabilities</b>			
Deferred tax liabilities	25	29	25
Interest-bearing liabilities	27,786	23,225	24,354
Non-interest-bearing liabilities	689	544	191
<b>Total liabilities</b>	<b>28,500</b>	<b>23,798</b>	<b>24,570</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>31,156</b>	<b>26,782</b>	<b>27,863</b>

## Other information

### Events after period-end

In early July, Hemsö signed a SEK 3 billion credit facility with the European Investment Bank. Over the next three years, Hemsö will be able to raise loans with maturities of up to 25 years.

Hemsö also updated its sustainability bond framework, entailing that Hemsö may now expand its sustainable financing on Swedish and European capital markets.

### Employees

At period-end, Hemsö had 107 employees, of whom 51 were women. Of these employees, 37 worked with asset and property management and 12 with development projects. Other employees worked with administration, accounting, financing, IT, legal affairs, communication, management, HR and transactions. Of all employees, 99 are employed in Sweden, four in Germany and three 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. In accordance with the proposal in the 2017 Annual Report, dividends totalling SEK 657 million were paid out to shareholders. No other significant related-party transactions took place during the period.

### Jointly owned companies

In addition to the Group's wholly owned property portfolio, Hemsö owns shares in a number of companies held jointly with SveaNor and the Third Swedish National Pension Fund. These jointly owned companies are included in the company's consolidated accounts.

Hemsö holds half of the shares and votes in the jointly owned company Vitartes AB, and its subsidiary. The remaining shares are owned by SveaNor Holding AB. Vitartes is also a development company, focused on life sciences properties.

Hemsö also co-owns a joint venture, Hemsö Norden KB, with the Third Swedish National Pension Fund. Hemsö Norden KB currently owns 23 investment properties through limited partnerships.

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 currently 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 that Hemsö makes an assessment of expected credit loss. Since Hemsö's customers are predominantly public-sector operators, solvent and pose a low credit risk, the standard is not expected to have any material effect on Hemsö's financial statements.

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 change in policy had a negative impact of SEK -513 million on Parent Company profit before tax, of which SEK -544 million relates to a non-recurring item that 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 half-year 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 will apply for annual reporting periods beginning on or after 1 January 2019. 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 depreciation of the right of use and as interest expense and, therefore, no longer be included in net operating income. Since Hemsö holds a limited number of site leaseholds, the company does not expect the recommendation to have any material impact on the financial statements.

## Signing of the report

The Board of Directors and Chief Executive Officer hereby certify that this half-year report provides a true and fair overview of the development of the Parent Company and Group's opera-

tions, position and earnings and describes significant risks and uncertainties faced by the company and Group companies.

Stockholm, 13 July 2018

Pär Nuder  
*Chairman of the Board*

Åsa Bergström  
*Board member*

Bengt Hellström  
*Board member*

Kersin Hessius  
*Board member*

David Mindus  
*Board member*

Johan Thorell  
*Board member*

Nils Styf  
*CEO*

This report has not been reviewed by the company's auditors.

# Definitions

Hemsö presents some financial measures in interim and annual reports that are not defined under IFRS. The company believes that these measures provide valuable supplemental information to investors and the company's 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. Detailed definitions and explanations of key ratios are also available at [hemso.se/en/financial-information/definitions/](http://hemso.se/en/financial-information/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 carrying amount of the properties.

### Available liquidity

Cash and cash equivalents and short-term investments plus unutilised loan commitments.

### Profit from property management

Profit before changes in value and tax.

### Average interest rate

The weighted interest rate on interest-bearing liabilities with consideration for interest-rate derivatives and loan commitments on the closing date.

### Loan maturity

The average of the remaining term of interest-bearing liabilities, taking loan commitments 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 participations in associated companies less central administrative expenses.

### Debt-coverage ratio

Available liquidity in relation to short-term borrowings.

### Total return

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

## Property-related definitions

### Valuation yield

Net operating income for the past 12 months, adjusted for the holding period and currency of the properties during the period, in relation to the carrying amount of the properties at period-end, excluding project properties.

### 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, stores/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 project 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.

### Project property

A property or well-defined part of a property that has been vacated in order to convert and develop the property. A project 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 project 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.

**Questions and more information**

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CFO, Rutger Källén, phone +46 (0)8-501 170 35

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

**Financial calendar**

Interim report Jan-Sep 2018

19 October 2018

# HEMSÖ



Nursing homes



Education



Health care



Justice system

