

Half-year report January – June 2017

Summary January-June 2017

- » Rental income amounted to SEK 1,156 million (1,070).
- » Profit from property management amounted to SEK 629 million (512).
- » Changes in value of properties amounted to SEK 802 million (245). Changes in value of financial instruments amounted to SEK 101 million (-410).
- » Profit after tax for the period amountd to SEK 1,320 million (281).
- » Market value of investment properties amounted to SEK 35,969 million (28,763).
- » During the period, 19 properties (15) were acquired for SEK 1,847 million (1,424), and 36 properties (3) were divested for SEK 1,593 million (27).

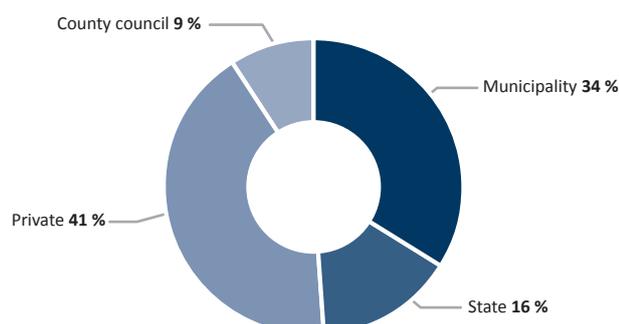
Significant events during the quarter

- » The sale of 35 properties that Hemsö agreed in December 2016 with Samhällsbyggnadsbolaget was completed.
- » The Municipality of Umeå awarded Hemsö a land-use agreement to develop the area around Östra Station in Umeå.
- » An educational property was acquired in Lund for SEK 150 million.
- » Hemsö took possession of the Pori University of Applied Sciences when the construction was completed. The investment amounted to SEK 550 million.
- » Three nursing homes were acquired in Germany for SEK 289 million.
- » Hemsö received the “Investor of the year” award at the annual nursing and elderly care trade fair AltenheimExpo 2017 in Berlin.
- » Bonds of EUR 385 million were issued with loan maturities of 12 to 15 years which extended the interest and maturity profile.
- » Åsa Bergström was elected as a new Board member at the AGM.

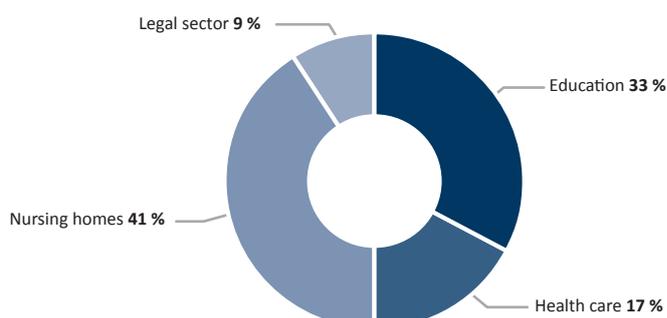
Hemsö in summary

	Jan-Jun 2017	Jan-Jun 2016	Jul 2016-Jun 2017	Jan-Dec 2016
Rental income, SEK million	1,156	1,070	2,275	2,189
Profit from property management, SEK million	629	512	1,228	1,111
Profit after tax, SEK million	1,320	281	3,382	2,343
Cash flow from operations before changes in working capital, SEK million	600	442	1,142	984
Loan-to-value ratio, %	64.3	66.8	64.3	64.0
Interest-coverage ratio, times	4.6	3.9	4.6	4.1
Market value of investment properties, SEK million	35,969	28,763	35,969	33,629
Surplus ratio, %	73.0	73.0	74.9	75
Economic occupancy rate, %	98.7	97.4	98.7	97.5
Leasable area, tsqm	1,560	1,569	1,560	1,638

Contracted rent per customer category



Contracted rent per property category



CEO statement

The stable trend of Hemsö's portfolio during the second quarter is a result of its long-term business model. The increase of the occupancy rate to 98.7 per cent and the average lease term to 8.7 years are clear proof of that.

Activity in the property markets is at a very high level, resulting in lower yield requirements. In the Swedish market, which is most exposed to competition, we have, since year-end, only made a couple of smaller acquisitions. Instead, the focus has been on new development projects, mainly schools and nursing homes. In a market that tends to focus mostly on speculation and quick deals, Hemsö is instead focusing on long-term sustainable property values.

Current public debate largely focuses on the need for residential construction, while the issue of public services is often overshadowed. For example, we have seen several cases where schools were undersized or forgotten completely in new development areas. Hemsö wants to emphasise the importance of planning for public services at an early stage and is working actively together with municipalities to create the required social infrastructure.

One of our most interesting ongoing sustainability projects is to improve school environments. The outdoor environment is as important as the indoor environment for our school children. School grounds should invite play and activity for the well-being of children. We are making an inventory of a large number of school grounds and are using research from the Alnarp model to draw up an action plan to improve the school environment. We have already used the Alnarp model when we planned the green school grounds in St Larsparken in Lund.



In Germany, we acquired three modern nursing homes. Hemsö is becoming a major, well-reputed player in the nursing-home market in Germany. We received confirmation of this when we were given the "Investor of the year" award at the major nursing and elderly care trade fair *AltenheimExpo* in Berlin. The award is given to companies that are considered financially successful, strategically solid, innovative and forward-looking, and that can be viewed as role models in the segment.

The financing market remains strong and this enabled us to issue bonds, with maturities of up to 15 years on favourable terms. This is part of a deliberate strategy to extend the maturity profile in our debt portfolio and create greater predictability for our future interest expenses. We will continue to work to reduce the refinancing risk and create even greater predictability moving forward.

Predictability and stability are two cornerstones for Hemsö's operations and we will continue to work tirelessly on this path.

Nils Styf, CEO

Vision

To be the best property company for social infrastructure.

Mission

To sustainably own, manage and develop properties for social infrastructure.

Financial target

Average return on equity of 15 per cent over a five year period.

About Hemsö

Hemsö is Sweden's leading private owner of properties for public use. The business is based on sustainably owning, managing and developing properties for nursing homes, education, health care and the judicial system. Hemsö owns properties in Sweden, Germany and Finland. Our vision is to be the best property company for social infrastructure. This involves generating added value for our customers and being the

preferred property partner for municipalities, county councils and private operators. The hallmarks of Hemsö's business are longterm leases and stable tenants. The Third Swedish National Pension Fund is the majority owner. The total value of Hemsö's property portfolio is SEK 36.0 billion. Hemsö has a credit rating of A- from Standard & Poor's.

Income, costs and profit

Profit and loss items relate to the January-June 2017 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 1,156 million (1,070). Rental income rose 27 per cent in Germany, and 42 per cent in Finland. The increase was mainly the result of completed acquisitions. In Sweden, rental income rose 4 per cent, primarily attributable to completed development projects.

Rental income in the comparable portfolio increased SEK 7 million, representing 0.8 per cent. The increase was attributable to Germany and Finland. In Sweden lower vacancies increased the rental income, but was reduced due to the financial settlement regarding the Hälsan 3 property in Jönköping, whereby a rental loss of SEK 7 million was charged.

At period-end, contracted annual rent amounted to SEK 2,303 million (2,163) and economic vacancies to SEK 30 million (58), down SEK 30 million since year-end. The economic occupancy rate was 98.7 per cent (97.0).

The weighted average remaining lease term increased to 8.7 years (7.8).

Property costs

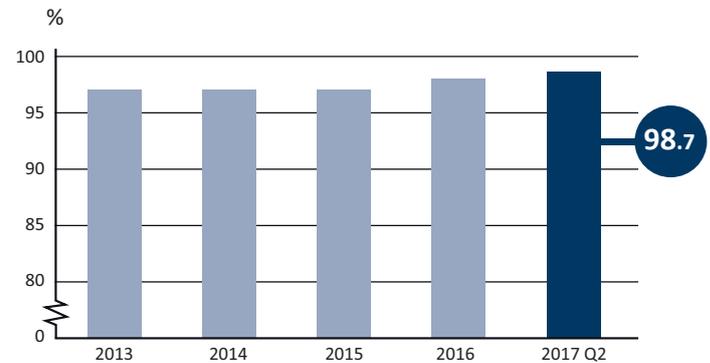
Property costs amounted to SEK 314 million (290), up SEK 24 million. The increase was mainly attributable to a larger property portfolio and that more planned maintenance has been done than last year.

Costs in the comparable portfolio increased SEK 17 million, mainly due to higher costs for maintenance.

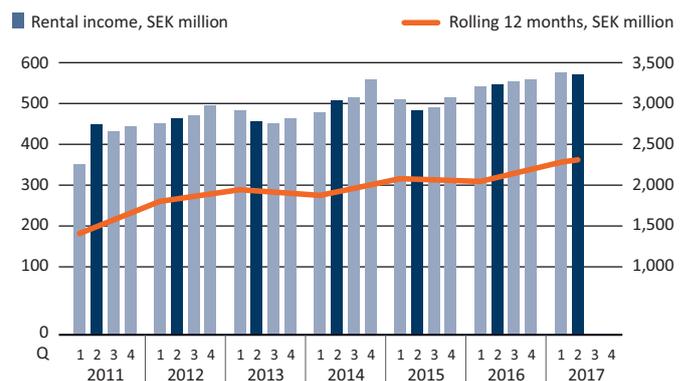
SEK 629 million

Profit from property management for the period

Economic occupancy rate, %



Rental income



Vacancy changes

SEK million	Jan-Jun 2017
Opening vacancy	60
Terminated leases	6
New leases	-14
Acquired	1
Divested	-23
Closing vacancy	30

Maturity structure of leases

Maturity year	Annual rent, SEK million	Share of annual rent, %
2017	61	2.7%
2018	260	11.3%
2019	199	8.6%
2020	254	10.9%
2021	155	6.7%
>2021	1,392	59.8%
Total	2,321	100.0%

Comparable portfolio

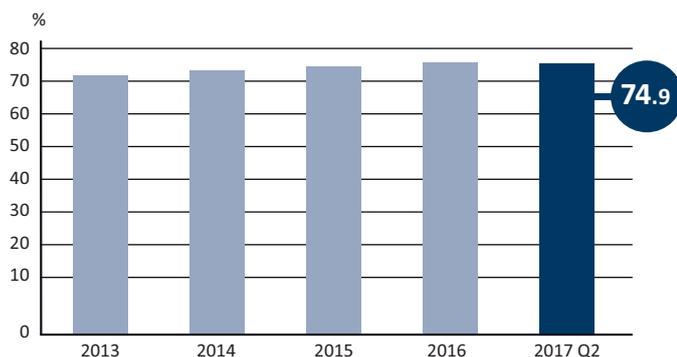
	30 Jun 2017	30 Jun 2016	Change, %
No. of properties	253	253	-
Market value of investment properties, SEK million	24,795	22,634	9.5
Yield, %	5.4	5.8	-8.2
Amounts in SEK million	Jan-Jun 2017	Jan-Jun 2016	Change, %
Rental income	884	877	0.8
Other income	4	5	-20.6
Operating costs	-168	-163	3.0
Maintenance costs	-57	-49	17.0
Other property costs	-17	-13	29.5
Net operating income	646	657	-1.6

Pertains to properties owned throughout the entire period, from 1 January 2016 until 30 June 2017.

Net operating income

Net operating income increased to SEK 850 million (785). The increase was primarily attributable to acquisitions and completed development projects. The surplus ratio was 73.0 per cent and is unchanged compared to last year.

In the comparable portfolio, net operating income declined SEK 11 million, or 2 per cent. The decline was mainly due to a rental loss of SEK 7 million derived from the Hälsan 3 property in Jönköping and higher costs for maintenance.

Surplus ratio rolling 12 months, %**Administration**

Central administrative expenses for the period amounted to SEK 61 million (94). The total year-on-year decline of SEK 33 million was mainly attributable to a higher proportion of administrative expenses being classified as property costs in order to adapt the presentation of financial statements to industry-wide standards, but also to an overall decline in expenses for personnel and consultants.

Financial items

Net financial items amounted to an SEK -161 million (-179), of which interest expense accounted for SEK 160 million (-162). Despite an increase to SEK 25,863 million (19,853) in interest bearing debt and an extended interest and debt maturity profile, interest expense decreased by SEK 2 million, due to a lower average interest rate. Remaining net financial items included other financial expenses of SEK -16 million (-18), interest income of SEK 2 million (1) and other financial income of SEK 13 million (-).

Profit from property management

Profit from property management amounted to SEK 629 million (512). The improvement was attributable to increased net operating income due to a larger property portfolio and lower central administrative expenses and lower net financial items.

Change in value of investment properties

At period-end, change in value of investment properties amounted to SEK 802 million (245), of which realised change in value amounted to SEK -82 million (1) and unrealised change in value to SEK 884 million (244). Unrealised change in value was mainly attributable to lower yield requirements in Germany, Finland and Sweden, but also to completed development projects and new lettings. The yield on the entire property portfolio, excluding project properties, was 5.4 per cent (6.0).

Calculation yield

MSEK	30 June 2017
NOI according to statement of comprehensive income	1,717
Adjustment to 12 months holding period	21
Adjustment for development properties	-168
Adjusted NOI, 12 months holding period excluding development properties	1,570
Carrying amount of properties according to statement of financial position	35,969
Adjustment for development properties	-6,998
Adjusted Carrying amount of properties	28,971
Yield	5.4%

Unrealised change in value

SEK million	Jan-Jun 2017
Change in value from property management and developments	234
General market value changes	209
Subtotal Sweden	443
Change in value from property management and developments	-
General market value changes	441
Other	-
Subtotal Foreign	441
Total unrealised change in value	884

Change in value of property portfolio

	SEK million	Number
Carrying amount at beginning of the year	33,629	356
Acquisitions	1,847	19
Investments in new construction, extension and refurbishment	1,049	
Divestment/disposal	-1,593	-36
Exchange-rate fluctuations	153	
Unrealised change in value	884	
Carrying amount at period-end	35,969	339

Change in value of financial instruments

Change in the value of financial instruments had a positive impact of SEK 101 million (-410) on profit, of which unrealised change in value amounted to SEK 109 million (-395) and realised change in value to SEK -8 million (-15). The unrealised change in value is an effect of higher market interest rates and shorter duration in the derivatives portfolio.

Tax

Recognised tax for the period amounted to SEK -212 million (-66), of which current tax accounted for SEK -48 million (-35) and deferred tax for SEK -164 million (-31).

Deferred tax expense mainly consisted of changes in the temporary difference between the carrying and taxable amounts of investment properties, divestments of properties and of the recognised change in value of financial instruments.

At period-end, deferred tax assets amounted to SEK 150 million (245) and pertained to a temporary difference of SEK 135 million (236) on the change in value of financial derivatives and loss carryforwards of SEK 15 million (8). Deferred tax liabilities amounted to SEK 2,425 million (1,794) and were largely attributable to temporary differences related to investment properties. Changes in deferred tax liabilities are due to changes in the market values of properties combined with tax depreciation and divestment of properties. Deferred tax assets were netted against deferred tax liabilities in the balance sheet.

Profit

Profit after tax for the period totalled SEK 1,320 million (281), representing a year-on-year increase of SEK 1,039 million. The earnings improvement was mainly due to valuation increases of SEK 802 million (245) for properties and SEK 101 million (-410) for financial instruments.

The total return was 14.0 per cent (8.3) and return on equity 42.3 per cent (15.9).

Cash flow

Hemsö's cash flow from operating activities before changes in working capital was SEK 600 million (442). Changes in working capital had an impact of SEK -103 million (181) on cash flow. Investing activities had an impact of SEK -1,428 million (-1,929) on cash flow, while increased borrowing had a positive impact of SEK 2,732 million (1,766) on cash flow from financing activities. Overall, cash and cash equivalents increased SEK 1,785 million (449) 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 34 million (52) and consisted of fees for services to the subsidiaries. Administrative expenses decreased to SEK -75 million (-91). Financial items amounted to SEK -118 million (1,167). Last year's comparison figures include dividend from subsidiaries of SEK 1,255 million. Total comprehensive income for the period decreased to SEK -167 million (1,114).

Segment information

Amounts in SEK million	Profit items per segment				Asset items per segment	
	Rental income		Net operating income		Market value of investment properties	
	Jan-Jun 2017	Jan-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	30 jun 2017	30 jun 2016
Sweden East	337	296	246	221	12,159	9,132
Sweden West	147	167	86	102	3,397	3,657
Sweden North	292	283	212	209	8,523	7,378
Sweden South	156	155	107	100	4,279	4,008
Germany	130	102	123	99	4,286	2,831
Finland	94	67	76	54	3,325	1,757
Total	1,156	1,070	850	785	35,969	28,763

The identification of segments is based on internal reporting. The Chief Executive Officer mainly 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 property value of SEK 35,969 million (28,763), 79 per cent (84) is attributable to Sweden, 12 per cent (10) to Germany and 9 per cent (6) to Finland.

At period-end, Hemsö owned properties in 68 municipalities in Sweden, 31 municipalities in Germany and 20 municipalities in Finland. The largest proportion of the market value of investment properties, 78 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 legal sector. The properties in Germany are exclusively nursing homes.

At 30 June 2017, Hemsö's property portfolio comprised 339 properties (330) with a total lettable area of 1,560 tsqm (1,569).

SEK 35,969 million

Total property value

Hemsö's five largest ongoing development projects

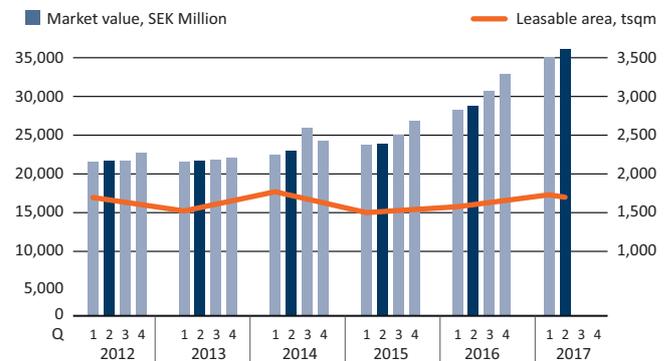
Municipality	Property	Property category	Project area, tsqm	Estimated investment, SEK million	Remaining investment, SEK million	Increase in rental value after project, SEK million	Leasing rate, %	Estimated year of completion
Solna	Patienten 1 ¹	Health care	21,000	1,627	1,259	82	68	2020
Stockholm	Princeton 1 ¹	Health care	20,000	1,393	992	77	0	2021
Huddinge	Medicinaren 25 ¹	Education	19,000	829	192	61	81	2017
Solna	Älgörten 1	Education	5,252	200	30	12	100	2017
Landskrona	Borstahusen	Education	5,700	180	27	14	100	2017
Total			70,952	4,229	2,500	246		

¹The projects are being conducted in companies jointly owned with SveaNor.

Investments

Investments pertain to investments in both existing properties and new construction. Investments in existing properties usually take place in conjunction with new lettings, with the aim of adapting and modernising the premises and thus increasing the rental value. During the period, investments amounted to SEK 1,049 million (524). Of this amount, SEK 915 million (400) pertained to new production, and SEK 134 million (124) to maintenance and new lettings.

Market value and area of investment properties



Property transactions

During the period, 19 properties (15) were acquired for SEK 1,847 million (1,424). During the period, 36 properties (3) were divested for SEK 1,593 million (27).

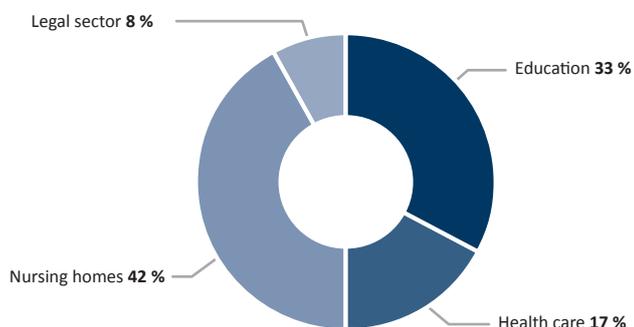
Properties acquired and divested

Quarter	Number	Property value, SEK million	Leasable area, sqm
Acquisitions			
Q1	7	536	16,952
Q2	12	1,311	63,427
Total	19	1,847	80,379
Divestments			
Q1	1	60	4,883
Q2	35	1,533	174,109
Total	36	1,593	178,992

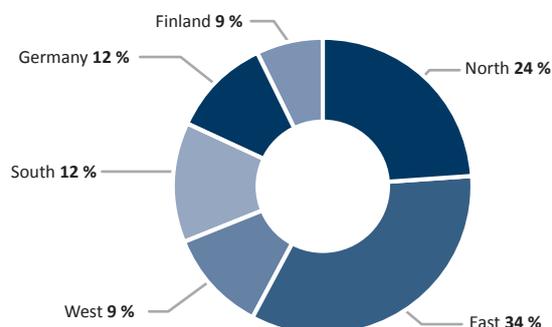
Projects

Hemsö has many ongoing projects, particularly in relation to constructing new schools and nursing homes. The five largest projects comprise a total investment of SEK 4,229 million, of which the remaining investment amount is SEK 2,500 million. A total of 269 projects are ongoing, with a remaining investment amount of SEK 3,215 million.

Market value of investment properties per property category



Market value of investment properties per segment



Hemsö's property categories

	Nursing homes	Education	Health care	Legal sector	Total
Number	166	101	63	9	339
Leasable area, tsqm	697	501	256	106	1,560
Duration of rents, years	9.1	10.6	4.6	7.4	8.7
Property value, SEK million	15,020	11,733	6,240	2,976	35,969
Rental income, SEK million	479	374	201	102	1,156
Net operating income, SEK million	367	278	124	81	850
Economic occupancy rate, %	99.7	98.4	96.9	99.0	98.7
Yield, %	5.3	5.5	5.7	5.5	5.4

Tenants

95 per cent of Hemsö's total rental income is derived from tax financed tenants. 14 of the 20 largest tenants are state, municipalities or county councils. The proportion of contracted annual rent with public counterparties amounted to 59 per cent, where lease agreements with the state accounted for 16 per cent, municipalities for 34 per cent and county councils for 9 per cent. In Sweden, all privately run education, health-care and elderly-care operations are tax financed via school, health care and care voucher schemes. In Finland, private operators receive funding through a system similar to Swedish schemes.

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 pledge an operator's entitlement to contributions from the German municipality. Contracted annual rent in Germany amounted to EUR 27 million, of which 20 per cent is pledged.

The largest tenants, all with an approximate 5 per cent share of the total contracted annual rent, are the Swedish Police Authority, Attendo, AcadeMedia and the Stockholm City Council.

Hemsö's 10 largest tenants

Tenant	Tenant category	Contracted annual rent, SEK million	Percentage of contracted annual rent, %	No. of lease agreements
Polismyndigheten	State	135	5.8	25
AcadeMedia	Private	113	4.9	25
Stockholms Läns Landsting	County council	112	4.8	76
Attendo	Private	109	4.7	63
Norrköpings kommun	Municipality	60	2.6	23
Västra Götalandsregionen	County council	60	2.6	67
Mälardalens högskola	State	53	2.3	2
Västerås stad	Municipality	52	2.2	15
AWO (Germany)	Private	51	2.2	6
HEWAG (Germany)	Private	51	2.2	9
Total		796	34.3	311

Property frameworks

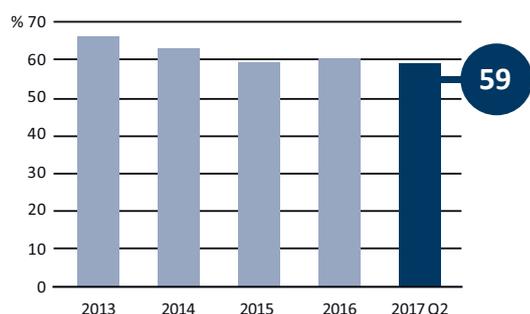
Due to Hemsö's growth in Finland and Germany, the "Proportion of property value in Swedish metropolitan areas" property framework has been replaced. From 2017, at least 75 per cent of the total property value should be located in major cities. For

more information, refer to the definitions on page 16.

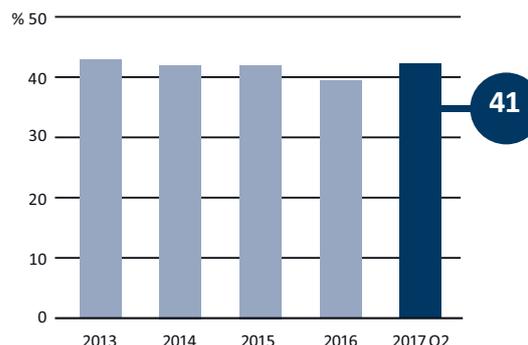
At 30 June, the proportion of property value in major cities was 78 per cent.

Property portfolio

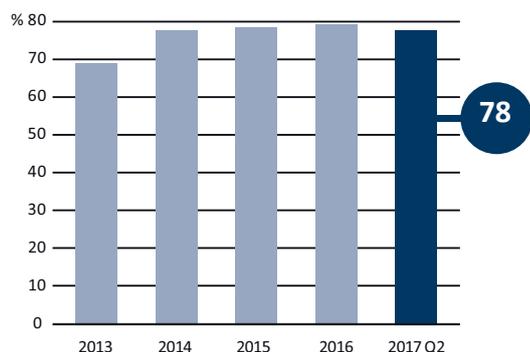
Public-sector tenants are to account for at least 50 per cent of rental income.



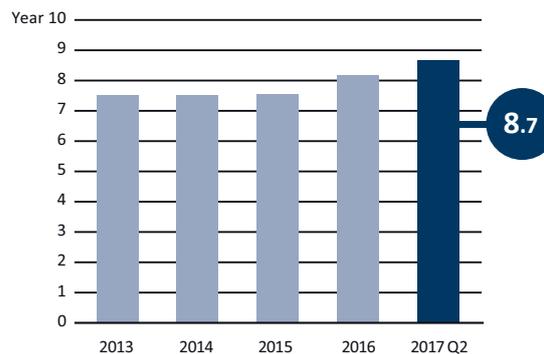
Nursing homes are to account for at least 30 per cent of rental income.



At least 75 per cent of the property value is to be concentrated to major cities.



The average lease term is to exceed five years.



Earnings capacity

The table to the right shows Hemsö's 12-month earnings capacity at 30 June 2017. It is important to note that this should not be considered a forecast for the next 12 months as it does not include any assessment of future vacancies, rental trends or changes in operating costs or upcoming divestments/acquisitions of properties. Rental value is based on contracted rental income on an annual basis plus assessed market rent for vacant premises. Property costs are based on actual results over the past 12 months adjusted for the holding period.

Current earnings capacity

SEK million	30 June 2017
Rental value	2,351
Vacancy	-30
Rebate	-18
Contracted annual rent	2,303
Property expenses	-553
Net operating income	1,750

Property valuation

Hemsö recognises the fair value of its investment properties in Sweden in accordance with IAS 40, and at 30 June, the value of all Swedish properties had been internally assessed. Property valuations are conducted quarterly. To verify the internal valuation, most of the property portfolio is externally assessed every

year. The value of Hemsö's property portfolios in Germany and Finland is determined by external valuation. The valuation method complies with Level 3 of the fair value hierarchy in IFRS 13. At period-end, the fair value of properties was SEK 35,969 million (28,763).

Financing

Hemsö aims for a balanced risk profile, entailing a maximum loan-to-value ratio of 70 per cent and a minimum interest-coverage ratio of 2.0 times. At period-end, the loan-to-value ratio was 64.3 per cent (66.8) and the interest-coverage ratio was 4.6 times (3.9).

At 30 June 2017, Hemsö's total assets amounted to SEK 39,337 million (29,727), of which the value of Hemsö's properties accounted for SEK 35,969 million (28,763), cash and cash equivalents for SEK 2,717 million (606) of which short term investments amounted to SEK 250 million (0). Other assets amounted to SEK 651 million (358). The assets were financed through equity of SEK 9,503 million (6,494), deferred tax liabilities of SEK 2,274 million (1,549), interest-bearing liabilities of SEK 25,863 million (19,853) including loans from minority interests of SEK 1 million (39) and other liabilities of SEK 1,697 million (1,831).

Interest-bearing liabilities

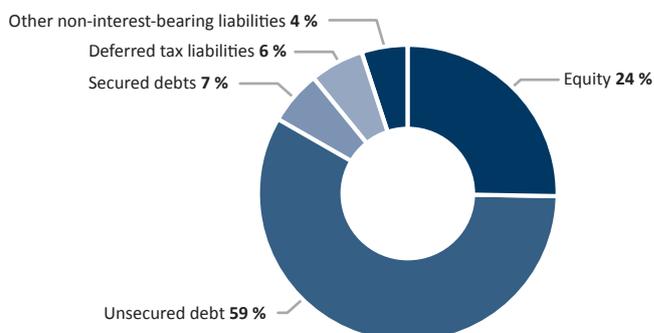
In the second quarter of 2017, Hemsö borrowed SEK 4,211 million on the bond market of which 3,761 is issued with times to maturity of 12-15 years. In the same period bonds of SEK 1,200 million has expired.

At period-end, Hemsö's interest-bearing liabilities amounted to SEK 25,863 million (19,853), including loans from minority interests of SEK 1 million (39). The increase of SEK 6,010 million compared with 30 June 2016 was due to investments in existing properties and many acquisitions. The debt portfolio of SEK 25,862 million comprised secured loans amounting to SEK 2,637 million (3,416), commercial papers of SEK 4,233 million (5,001) and unsecured bond loans of SEK 18,992 million (11,397). Available liquidity amounted to SEK 14,352 million (10,082), of which bank deposits accounted for SEK 2,467 million (606), short term investments SEK 250 million (-) and unutilised credit facilities for SEK 11,635 million (9,476) (including unutilised construction credit of SEK 1,135 million).

At period-end, foreign currency debt amounted to EUR 995 million (633), corresponding to SEK 9,722 million (6,046). Currency exposure, defined as property assets plus cash, including currency hedging, less interest-bearing liabilities, amounted to EUR 64 million, corresponding to SEK 622 million. The amount represents 6.5 per cent of the Group's equity.

At period-end, Hemsö's average interest rate was 1.6 per cent (1.9). The average loan maturity was 5.2 years (2.6), and the average fixed-interest period was 5.6 years (3.6).

Capital structure at 30 June 2017



Financial ratios at 30 June 2017

Loan-to-value ratio, %	64.3
Secured loans, % of the market value of properties	7.3
Interest coverage ratio, times	4.6
Fixed-interest period, years	5.6
Loan maturity, years	5.2

Loan maturity and fixed-interest period

Maturity year	Loan maturity			Fixed interest period	
	Credit agreements, SEK million	Utilised, SEK million	Share, %	SEK million	Share, %
2017	1,300	1,165	5.4	6,756	26.1
2018	12,676	4,176	19.3	250	1.0
2019	5,330	3,330	15.4	1,640	6.3
2020	3,099	2,099	9.7	1,347	5.2
2021	1,300	1,300	6.0	2,100	8.1
2022	400	400	1.8	1,300	5.0
2023	0	0	0.0	1,500	5.8
2024	0	0	0.0	1,500	5.8
2025	0	0	0.0	880	3.4
>2025	9,159	9,159	42.3	8,590	33.2
Total	33,264	21,629	100.0	25,862	100.0
Commercial papers		4,233			
Total		25,862			

Interest-rate derivatives

Hemsö uses interest-rate derivatives to reduce the company's interest-rate risk. At period-end, the nominal value of the derivatives portfolio was SEK 7,580 million (12,355). The deficit value of the financial derivatives was SEK 615 million (1,074).

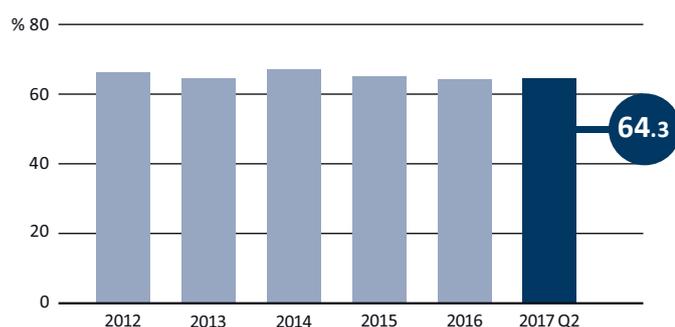
The change in nominal volume was due to expiration or termination of some of the derivatives. Hemsö issued fixed-rate bonds during the period, which has extended the fixed-rate period and thereby reduced the need for derivatives.

Interest-rate derivatives are recognised at fair value in the statement of financial position under non-interest-bearing liabilities, and their changes in value are recognised in the statement of comprehensive income. Derivatives are measured using valuation techniques based on observable inputs, in accordance with Level 2 of the fair value hierarchy in IFRS 13. Hemsö assesses that there is no significant difference between the fair value and carrying amount of financial assets and liabilities.

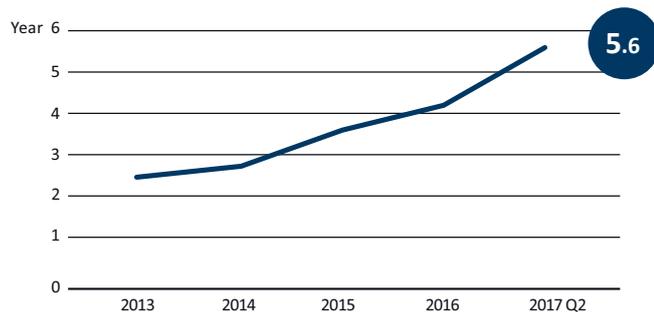
Financial policy

The aim of Hemsö's financing activities is to ensure a stable capital structure at the lowest possible cost within given risk limits. In 2017, Hemsö has made some adjustments in order to clarify the financial strategy. The debt-coverage ratio has now replaced the liquidity ratio. The debt-coverage ratio measures the relationship between available liquidity and short-term borrowings. The ratio should be at least 110 per cent. The company has also added an average fixed-rate period. The average fixed-rate period should range from 3-6 years.

Loan-to-value-ratio, %



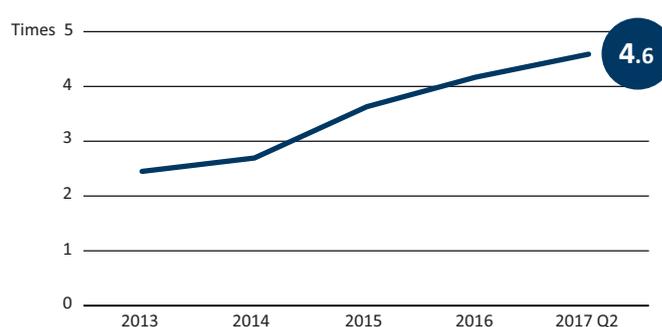
Fixed-rate period, years



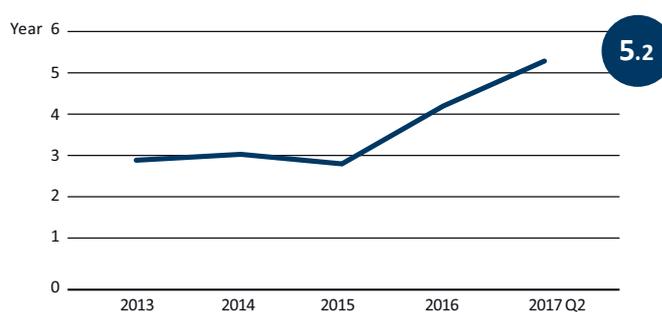
Summary financial policy

		Outcome as per 30 June 2017
Financing risk		
Loan to value	Maximum 70 %	64.3 %
Average loan maturity	At least two years	5.2 years
Debt cover ratio %	At least 110 %	173 %
Outstanding secured debt	Maximum 20% of the property value over the long term	7.3 %
Interest rate risk		
Interest-coverage ratio	At least 2.0 (rolling 12 month)	4.6 times
Fixed-rate period	Average fixed-rate period between 3-6 years	5.6 years
Interest hedging maturity	Max. 40 % of the interest hedging may expire in 12 months	26 %
Counterparty risk		
Financial instruments	Bank with at least an A- rating (S&P)	Fulfilled
Currency risk		
Currency exposure	Maximum 20 % of the Groups risk-bearing capital	6.5 %

Interest-cover-ratio, rolling 12 months, times



Loan maturity, years



Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan-Jun 2017	Jan-Jun 2016	Apr 2017-Jun 2017	Apr 2016-Jun 2016	Jul 2016-Jun 2017	Jan-Dec 2016
Rental income	1,156	1,070	573	539	2,275	2,189
Other income	8	5	4	1	18	15
Operating expenses	-224	-213	-95	-94	-389	-378
Maintenance costs	-68	-62	-41	-35	-147	-141
Other property costs	-22	-15	-11	-3	-40	-33
Net operating income	850	785	430	408	1,717	1,652
Central administration expenses	-61	-94	-28	-48	-148	-182
Financial items	-161	-179	-77	-94	-341	-359
Profit before changes in value	629	512	325	266	1,228	1,111
Changes in value						
Investment properties	802	245	415	189	2,629	2,072
Derivatives	101	-410	54	-154	303	-208
Profit before tax	1,532	347	794	301	4,160	2,975
Current tax	-48	-35	-23	-18	-62	-49
Deferred tax	-164	-31	-51	-36	-716	-583
Profit for the period	1,320	281	720	247	3,382	2,343
Profit for the period attributable to						
Parent Company shareholders	1,266	267	690	236	3,294	2,295
Non-controlling interests	54	14	30	11	88	48
Other comprehensive income						
Profit for the period	1,320	281	720	247	3,382	2,343
Translation difference	10	39	10	20	52	81
Total comprehensive income for the period	1,330	320	730	267	3,434	2,424
Comprehensive income for the period attributable to						
Parent Company shareholders	1,276	306	700	256	3,346	2,376
Non-controlling interests	54	14	30	11	88	48

Group – Condensed statement of financial position

Amounts in SEK million	30 June 2017	30 June 2016	31 December 2016
ASSETS			
Investment properties	35,969	28,763	33,629
Other non-current assets	71	51	69
Other current receivables	580	307	323
Short-term investments	250	-	-
Cash and cash equivalents	2,467	606	932
TOTAL ASSETS	39,337	29,727	34,953
EQUITY AND LIABILITIES			
Equity	9,503	6,494	8,672
Deferred tax liability	2,274	1,549	2,103
Interest-bearing liabilities	18,230	12,282	15,167
Non-interest-bearing liabilities	615	1,074	723
Total non-current liabilities	21,119	14,905	17,993
Interest-bearing liabilities	7,633	7,571	7,316
Non-interest-bearing liabilities	1,082	757	972
Total current liabilities	8,715	8,328	8,288
TOTAL EQUITY AND LIABILITIES	39,337	29,727	34,953

Group – Condensed statement of changes in equity

Amounts in SEK million	Share capital	Other capital contributions	Translation reserve	Retained earnings	Proportion from non-controlling interest	Total equity
Opening balance 2016-01-01	1	6,835	-8	-164	100	6,764
Dividend	-	-	-	-585	-	-585
Acquisition of minority share	-	-	-	-	-5	-5
Total comprehensive income 2016-01-01 – 2016-06-30	-	-	39	267	14	320
Closing balance 2016-06-30	1	6,835	31	-482	109	6,494
Reclassification of capital contribution 2015	-	21	-	-21	-	-
Minority shareholders' contribution	-	-	-	-	74	74
Total comprehensive income 2016-07-01 – 2016-12-31	-	-	42	2,028	34	2,104
Closing balance 2016-12-31	1	6,856	73	1,525	217	8,672
Opening balance 2017-01-01	1	6,856	73	1,525	217	8,672
Dividend	-	-	-	-556	-	-556
Minority shareholders' contribution	-	-	-	-	57	57
Total comprehensive income	-	-	10	1,266	54	1,330
Closing balance 2017-06-30	1	6,856	83	2,235	328	9,503

Group – Condensed statement of cash flows

Amounts in SEK million	Jan-Jun 2017	Jan-Jun 2016	Apr-Jun 2017	Apr-Jun 2016	Jul 2016-Jun 2017	Jan-Dec 2016
Operating activities						
Profit before changes in value	629	512	326	266	1,228	1,111
Other items not included in the cash flow	7	-30	8	-30	-26	-63
Income tax paid	-36	-40	-14	-6	-60	-64
Cash flow from operations before changes in working capital	600	442	320	230	1,142	984
Increase (+)/Decrease (-) in working capital	-103	181	-38	21	-30	254
Cash flow from operating activities	497	623	282	251	1,112	1,238
Investment activities						
Property acquisitions	-1,847	-1,424	-1,311	-336	-3,785	-3,362
Investment in new constructions, extensions, and refurbishments	-1,049	-522	-531	-311	-2,078	-1,551
Property divestments	1,469	28	1,414	28	1,501	60
Other non-current assets	-1	-11	-1	-10	-15	-25
Cash flow from investment activities	-1,428	-1,929	-429	-629	-4,377	-4,878
Financing activities						
Shareholder contribution					74	74
Borrowing in interest-bearing liabilities	5,481	5,670	4,256	3,049	11,279	11,468
Amortisation in interest-bearing liabilities	-2,250	-3,319	-1,991	-1,766	-5,453	-6,522
Contribution from non-controlling interests	57	-	1	-	57	-
Dividend paid	-556	-585	-556	-533	-556	-585
Cash flow from financing activities	2,732	1,766	1,710	750	5,401	4,435
Cash flow for the period	1,801	460	1,563	372	2,136	795
Opening balance, cash and cash equivalents	932	157	1,170	247	606	157
Exchange rate difference in cash and cash equivalents	-16	-11	-16	-13	-25	-20
Closing balance, cash and cash equivalents	2,717	606	2,717	606	2,717	932

Parent Company – Condensed statement of income

Amounts in SEK million	Jan-Jun 2017	Jan-Jun 2016	Apr 2016-Jun 2017	Apr-Jun 2016
Operation income	34	52	17	25
Central administration expenses	-75	-91	-35	-47
Operating profit	-41	-39	-18	-22
Financial items	-118	1,167	-73	1,211
Value changes in financial instruments	-8	-14	-8	-5
Appropriations	-	-	-	-
Profit before tax	-167	1,114	-99	1,184
Recognised tax	-	-	-	-
Profit for the period	-167	1,114	-99	1,184
Other comprehensive income				
Other comprehensive income	-	-	-	-
Comprehensive income for the period	-167	1,114	-99	1,184

Parent Company – Condensed balance sheet

Amounts in SEK million	30 Jun 2017	30 Jun 2016
ASSETS		
Fixed assets		
Equipment	4	5
Shares and participations in Group companies	6,009	6,544
Non-current receivables	4,349	4,855
Total non-current assets	10,362	11,404
Current assets		
Current receivables	13,874	8,920
Short-term investments	250	-
Cash and cash equivalents	2,296	441
Total current assets	16,420	9,361
TOTAL ASSETS	26,782	20,765
EQUITY AND LIABILITIES		
Equity	2,971	4,126
Untaxed reserves		
Tax allocation reserve	13	33
Liabilities		
Deferred tax liabilities	29	27
Interest-bearing liabilities	23,225	11,797
Non-interest bearing liabilities	544	4,782
Total liabilities	23,798	16,606
TOTAL EQUITY AND LIABILITIES	26,782	20,765

Other information

Events after period-end

Hemsö will construct schools in Sandbyhov, Norrköping. The project encompasses 10,250 sqm and the total investment amounts to SEK 260 million. The construction will start in 2017 and is expected to be completed in time for the autumn term 2019. The Municipality of Norrköping has signed a 25-year lease for the premises.

Together with Lantmännen Hemsö have formed a joint venture to develop and manage properties for public use. The focus will be primarily schools and nursing homes. The parties' initial investment in the company, of which they each hold 50 per cent, amounts to a total of SEK 540 million and comprises a portfolio of four school and nursing home properties and a nursing home project. The cooperation is long-term and will primarily focus on developments with an estimated project value of SEK 3 billion within a seven-year period.

Employees

At period-end, Hemsö had 101 employees, of whom 47 were women. 36 employees worked with asset and property management, and eleven with project development. Other employees were active in administration, accounting, financing, IT, legal affairs, communication, management, HR and transactions. Of the total number of employees, 95 are employed in Sweden, four in Germany, and two in Finland.

Risks and uncertainties

No changes are deemed to have impacted Hemsö's risks and uncertainties, which are described on pages 46-48 of the 2016 Annual Report.

Related-party transactions

Hemsö's related-party transactions are set out in Note 25 of Hemsö's 2016 Annual Report. No related-party transactions of any significance were conducted during the period.

Jointly owned companies

In addition to the Group's wholly owned property portfolio, Hemsö owns shares in three companies held jointly with SveaNor and the Third Swedish National Pension Fund. All jointly owned companies are consolidated in the company's consolidated financial statements.

Hemsö owns half of the shares and the voting rights in the jointly owned companies TKV 2 Fastighets AB and Vitartes AB and their subsidiaries. The remaining shares are owned by SveaNor Holding AB. The TKV company is developing a medical training and research centre at Karolinska University Hospital in Huddinge. Vitartes is also a project development company focused on life science properties. In addition to this, Hemsö jointly owns, Hemsö Norden KB, in partnership with the Third Norden KB currently owns 21 investment properties through limited partnerships.

Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB). The consolidated financial statements have also been prepared in accordance with Swedish law, and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups.

The Parent Company applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

No new or amended standards or interpretations from IASB have had any impact on the interim report, and the accounting policies applied are those presented in Note 1 of Hemsö's 2016 Annual Report.

Impact of new or revised IFRS on or after 1 January 2018

IFRS 9 Financial instruments

The standard will apply as of 2018 and replace IAS 39 Financial Instruments. The recommendation requires Hemsö to make an assessment of expected credit loss. Since Hemsö's customers are predominantly from the public sector, and are solvent with low credit risk, Hemsö does not expect the standard to have any material effect on the financial statements.

IFRS 15 Revenues from contracts with customers

The standard will apply as of 2018 and specifies how and when revenue from contracts, and the sale of certain non-monetary assets, is to be recognised. Since Hemsö's income essentially comprises rental income, and to a lesser extent services, and leasing income is not covered by the recommendation, the company does not expect the recommendation to have any material effect on the financial statements.

IFRS 16 Leases

The standard will replace IAS 17 and is effective for accounting periods beginning as of 1 January 2019. Reporting for lessors (landlords) will essentially remain unchanged. For lessees (tenants), the standard will mean that most lease contracts (lease agreements) are recognised in the balance sheet. For Hemsö, this will primarily influence the reporting of site leasehold agreements that are to be recognised in the balance sheet and thereby increase total assets. In addition, leasehold fees that are recognised as depreciation of the right of use and as an interest expense will no longer be included in net operating income. Since Hemsö holds a limited number of site leaseholds, the effect on the financial statements is expected to be limited.

Stockholm, July 13 2017

Nils Styf
Chief Executive Officer

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

Definitions

Definitions and explanations of key figures are also available at www.hemso.se/en/financial-information/definitions

Financial definitions

Return on equity

Profit after tax a for the period as a percentage of average equity (rolling 12 months). Average equity 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 value of the properties.

Available liquidity

Cash plus unutilized credit commitments.

Average loan maturity

The average of the remaining term of interest bearing liabilities, taking credit facilities into account.

Average interest rate

The weighed interest rate on interest bearing liabilities taking into account the interest-rate derivatives and credit facilities on the closing day.

Short-term loans

Loan maturities within 12 months.

Interest-coverage ratio

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

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

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 value 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

Contractual rental income on an annual basis as a percentage of total rental value.

Profit from property management

Profit before changes in value and tax.

Rental income

Rental value less vacancies, discounts and rental losses.

Rental duration

The weighed average remaining lease term excluding garage/parking, stores/warehouses and housing rented to private individuals.

Rental value

Annual contracted rental income plus vacancy rent.

Comparable portfolio

The properties that Hemsö owned during all reported periods. Transactions pertaining to properties sold and project properties are excluded.

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 sales price of divested properties and the sales price of properties sold via companies and direct transaction costs.

Project property

A property or well-defined section 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 of at least 20 per cent of its market value. A project property is reclassified to a completed property on 1 January of the year after completion.

Property for public use

A property that is predominantly utilised for tax-funded activities and dedicated to community services. Also includes sheltered housing under the public properties concept.

Major cities

In Sweden and Finland, major cities are defined as cities with populations of 100,000 or more, and in Germany, as cities with populations of 200,000 or more. The limits are based on Statistic Sweden's definition of "metropolitan areas" in Sweden and Finland, respectively, and the OECD's definition of "medium-size urban areas" in Germany.

Lettable area

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

Occupancy rate, area

Leased area in relation to total lettable area at period-end.

Vacancy rent

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

Vacancy rate, area

Vacant area in relation to total lettable area.

Surplus ratio

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

Questions and more information

For more information, please contact:

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

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

Financial calendar

Interim report January - September 2017

25 October 2017

HEMSÖ

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