

Interim report January-September 2017

Summary January-September 2017

- » Rental income amounted to SEK 1,749 million (1,624).
- » Profit from property management totalled SEK 985 million (827).
- » Changes in value of properties amounted to SEK 944 million (336). Changes in value of financial instruments to SEK 101 million (-415).
- » Profit after tax for the period amounted to SEK 1,705 million (596).
- » Market value of investment properties amounted to SEK 36,671 million (30,186).
- » During the period, 22 properties (25) were acquired for SEK 2,022 million (2,190). 36 properties (10) were divested for SEK 1,593 million (60).

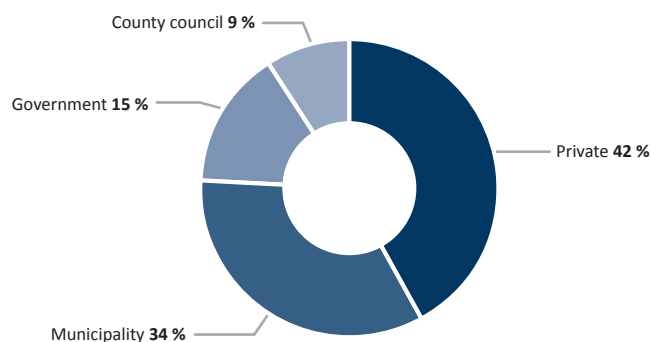
Significant events during the quarter

- » An environmental and research centre in Duisburg, Germany, was acquired. The investment amounts to SEK 1,100 million. The building is under construction and transfer will take place when the centre is completed in 2018. The German state of North Rhine-Westphalia signed a 20-year lease agreement.
- » An adult education college was acquired in Dortmund, Germany, for SEK 100 million. The City of Dortmund is the tenant and the property will be transferred in December 2017.
- » Hemsö and Lantmännen formed a joint venture to develop and own properties for public use. The focus is mainly on schools and nursing homes, and the initial portfolio consists of four school and nursing home properties and one nursing home project, valued at SEK 540 million.
- » In Sandbyhov in Norrköping, Hemsö is converting properties into schools and the investment amount is SEK 260 million. The Municipality of Norrköping signed a 25-year lease.

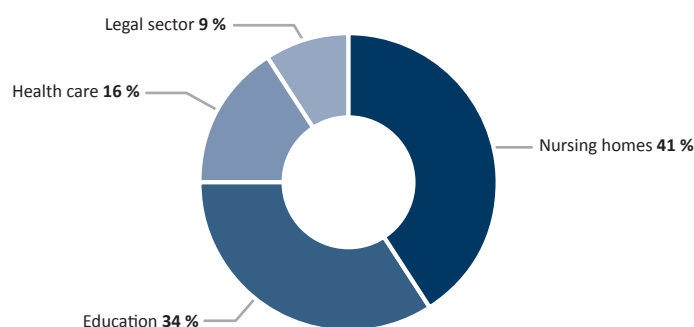
Hemsö in summary

	Jan-Sep 2017	Jan-Sep 2016	Oct 2016-Sep 2017	Jan-Dec 2016
Rental income, SEK million	1,749	1,624	2,314	2,189
Profit from property management, SEK million	985	827	1,269	1,111
Profit after tax, SEK million	1,705	596	3,452	2,343
Cash flow from operating activities, SEK million	1,030	710	1,304	984
Loan-to-value ratio, %	64.5	66.5	64.5	64.0
Interest-coverage ratio, times	4.7	4.1	4.7	4.1
Market value of investment properties, SEK million	36,671	30,186	36,671	33,629
Surplus ratio, %	75.4	75.4	75.0	75.0
Economic occupancy rate, %	98.8	97.5	98.8	97.5
Leasable area, tsqm	1,591	1,587	1,591	1,638

Contracted rent per customer category, %



Contracted rent per property category, %



CEO statement

Hemsö continues to deliver strong profit from property management and a stable cash flow, up 19 per cent and 45 per cent, respectively. Vacancy rates have continued to fall and the occupancy rate has risen to 98.8 per cent. In the third quarter, the company acquired its first two properties in Germany with public-sector tenants, a prioritised tenant category for Hemsö. The acquisitions comprise an environmental and research centre in Duisburg, where Germany's most populous state North Rhine-Westphalia has signed a 20-year lease agreement, and an adult education college in Dortmund, where the City of Dortmund is the tenant. The fact that we are now expanding our operations in Germany and increasing our proportion of public tenants will strengthen our prospects in an attractive market.

In project development, two new schools have now been completed and opened – the Raoul Wallenberg School in Järvastaden, Solna and the International English School in Borstahusen, Landskrona – as well as a new school playground in Bromma, and student apartments and a preschool in Västerås. We have invested more than SEK 400 million in total and developed our own projects, which will give us advantages in our long-term management. We also turned the first sod for Widénska gymnasiet (an upper secondary school) in Västerås, where the Municipality will be our tenant. The need for schools is great, and it is gratifying that Hemsö can cater to this need with modern, effective schools in close cooperation with municipalities and private school operators.

In partnership with Lantmännen, an agricultural cooperative, we have formed a joint venture to develop and manage properties for public use. The focus is on schools and nursing homes, and the initial portfolio consists of four school and nursing home



properties and one nursing home project – all located in the Stockholm and Malmö regions. The partnership gives us access to attractive sites across Sweden and a good long-term partner.

At the Almedalen Week event in Visby, Hemsö participated in various seminars and established contact with several municipalities, as part of the company's ambition to be a long-term property partner for Swedish municipalities. Hemsö's sustainability seminar, with the theme of Shaping the future of nursing homes, was well-attended and appreciated. Hemsö's efforts to develop outdoor environments and school playgrounds that stimulate play and activities that promote healthy child development are continuing. The most recent project comprises 13 school playgrounds in Nacka.

Nils Styf, CEO

Vision

To be the best property company for public services.

Mission

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

Financial objective

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 legal sector. 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 municipalities, county councils 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 the property portfolio is SEK 36.7 billion. Hemsö has a credit rating of A- from Standard & Poor's.

Income, costs and profit

Profit/loss items relate to the January-September 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 1,749 million (1,624). Rental income rose 27 per cent in Germany, and 50 per cent in Finland. The increase was mainly the result of completed acquisitions. In Sweden, rental income rose 2 per cent, mainly attributable to acquisitions and completed projects.

Rental income in the comparable portfolio rose SEK 15 million, representing 1.1 per cent. The increase was attributable to Germany and Finland. In Sweden, a lower rate of vacancies increased rental income but the effect was reduced by a rental loss of SEK 7 million.

At period-end, contracted annual rent amounted to SEK 2,375 million (2,220) and economic vacancies to SEK 30 million (57), down SEK 30 million since year-end. The economic occupancy rate rose to 98.8 per cent (97.5).

The rental duration increased to 8.8 years (8.1).

Property costs

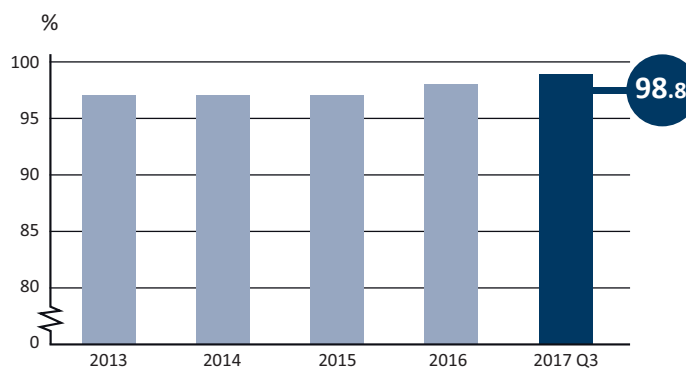
Property costs amounted to SEK 432 million (401), up SEK 31 million. The increase was mainly due to a larger property portfolio and because more planned maintenance was carried out than in the preceding year.

Costs in the comparable portfolio increased SEK 26 million, or 8.4 per cent, mainly due to higher costs for planned maintenance.

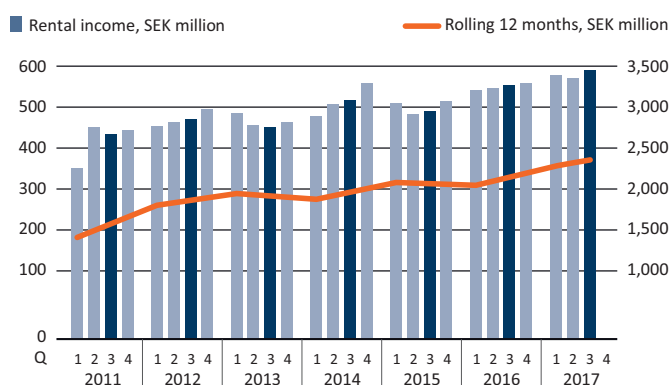
SEK 985 million

Profit from property management

Economic occupancy rate, %



Rental income



Vacancy changes

SEK million	Jan-Sep 2017
Opening vacancy	60
Terminated leases	7
New leases	-15
Acquired	1
Divested	-23
Closing vacancy	30

Maturity structure of leases

Maturity	Annual rent, SEK million	Share of annual rent, %
2017	36	1.5
2018	254	10.7
2019	177	7.4
2020	241	10.1
2021	193	8.1
>2021	1,482	62.2
Summa	2,383	100.0

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

Comparable portfolio

	30 Sep 2017	30 Sep 2016	Change, %
No. of properties	251	251	-
Market value of investment properties, SEK million	24,615	22,704	8.4
Dividend yield, %	5.4	5.9	-8.3
Amounts in SEK million	Jan-Sep 2017	Jan-Sep 2016	Change, %
Rental income	1,325	1,310	1.1
Other income	6	7	-17.3
Operating costs	-225	-216	4.3
Maintenance costs	-88	-76	16.1
Other property costs	-23	-18	24.2
Net operating income	994	1,007	-1.3

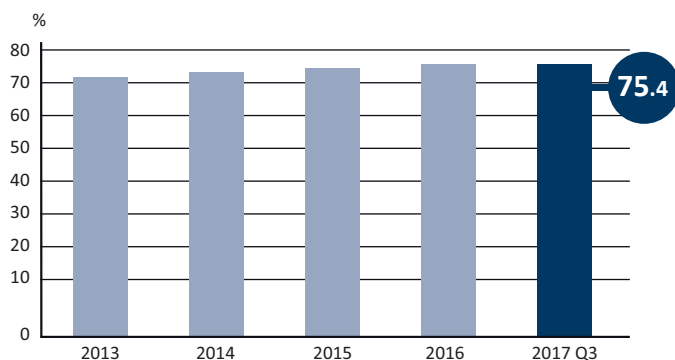
Pertains to properties owned and held throughout the entire period, from 1 January 2016 until 30 September 2017.

Net operating income

Net operating income increased to SEK 1,326 million (1,232). The increase was mainly attributable to acquisitions and completed projects. Divested properties reduced net operating income by SEK 53 million. The surplus ratio was 75.4 per cent (75.4) and remained unchanged year-on-year.

In the comparable portfolio, net operating income declined SEK 13 million, or 1 per cent. The decrease was mainly due to a rental loss of SEK 7 million derived from the Hälsan 3 property in Jönköping, and higher costs for ongoing and planned maintenance.

Surplus ratio rolling 12-month period, %



Administration

Central administrative expenses for the period amounted to SEK 87 million (136). The year-on-year decline of SEK 49 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. The decline was also due to lower personnel costs, consultancy costs and other central administration expenses.

Financial items

Net financial items amounted to an expense of SEK -254 million (-269), of which interest expense accounted for SEK -254 million (-257). Interest-bearing liabilities increased to SEK 24,497 (23,074), while loan maturities and fixed-rate periods were extended. However, interest expenses declined SEK 3 million due to a lower average interest rate. Remaining net financial items comprised other financial expenses of SEK -34 million (-29), interest income of SEK 13 million (2), other financial income of SEK 21 million (22) and exchange rate differences of SEK 0 million (-6).

Profit from property management

Profit from property management totalled SEK 985 million (827), up 19 per cent. The improvement was attributable to increased net operating income resulting from a larger property portfolio, as well as lower central administrative expenses and improved net financial items.

Change in value of investment properties

During period, changes in value of investment properties amounted to SEK 944 million (336), of which realised changes in value accounted for SEK -81 million (-2) and unrealised changes in value for SEK 1,025 million (338). Unrealised changes in value were mainly attributable to lower yield requirements but also to completed projects and new leasings. The dividend yield on the entire property portfolio, excluding project properties, was 5.4 per cent (6.0).

Dividend yield

SEK million	30 September 2017
NOI according to income statement	1,746
Adjusted for 12-month holding period	24
Adjusted for project properties	-138
Adjusted NOI, 12-month holding period excluding project properties	1,632
Carrying amount of properties according to balance sheet	36,671
Adjusted for project properties	-6,542
Adjusted carrying amount of properties	30,129
Dividend yield	5.4%

Unrealised changes in value

	Jan-Jun 2017
Property management and project-related change in value	241
General market value change	314
Subtotal Sweden	555
Property management and project-related change in value	65
General market value change	405
Subtotal Foreign	470
Total unrealised changes in value	1,025

Change in value of property portfolio

	SEK million	Number
Carrying amount, opening balance	33,629	356
Acquisitions	2,022	22
Investments in new construction, extension and refurbishment	1,592	
Divestments/disposals	-1,593	-36
Exchange-rate fluctuations	-4	
Unrealised changes in value	1,025	
Carrying amount at period-end	36,671	342

Change in value, financial instruments

Changes in value of financial instruments had a positive impact of SEK 101 million (-415) on profit. The change in value was due to market-rate increases during the period and a shorter maturity in the derivatives portfolio.

Tax

Recognised tax for the period amounted to SEK -325 million (-152), of which current tax accounted for SEK -76 million (-51) and deferred tax for SEK -249 million (-101).

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 value of financial instruments.

At period-end, deferred tax assets amounted to SEK 138 million (241) and pertained to a temporary difference of SEK 123 million (232) on the change in value of financial derivatives and loss carryforwards of SEK 15 million (9). Deferred tax liabilities amounted to SEK 2,493 million (1,860) 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, as well as divestment of properties. Deferred tax assets were netted against deferred tax liabilities in the balance sheet.

Profit

Profit after tax for the period amounted to SEK 1,705 million (596), representing a year-on-year increase of SEK 1,109 million. The earnings improvement was mainly due to valuation adjustments of SEK 944 million (336) on the properties, and increased profit from property management of SEK 985 million (827).

The total return was 13.8 per cent (8.5), and return on equity was 41.3 per cent (17.5).

Cash flow

Hemsö's cash flow from operating activities before changes in working capital was SEK 1,030 million (710). Changes in working capital had an impact of SEK -402 million (326) on cash flow. Investing activities had an impact of SEK -2,292 million (-3,116) on cash flow, while increased borrowing had an impact of SEK 1,581 million (4,915) on cash flow from financing activities. Overall, cash and cash equivalents declined SEK 83 million (2,800) 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 48 million (71) and consisted of fees for services to the subsidiaries. Administrative expenses decreased to SEK -105 million (-137). Financial items amounted to SEK -127 million (575). The comparative figure for the preceding period includes dividends of SEK 1,155 million from subsidiaries. Total comprehensive income for the period declined to SEK -234 million (505).

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-Sep 2017	Jan-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	30 Sep 2017	30 Sep 2016
Sweden East	511	452	386	350	12,449	10,015
Sweden West	214	251	129	162	3,432	3,715
Sweden North	440	425	328	322	8,661	7,449
Sweden South	231	237	165	162	4,364	4,176
Germany	201	158	190	152	4,413	2,976
Finland	152	101	126	84	3,352	1,855
Total	1,749	1,624	1,326	1,232	36,671	30,186

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. 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 36,671 million (30,186), 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 held properties in 68 municipalities in Sweden, 33 municipalities in Germany and 20 municipalities in Finland. The largest proportion of the market value of investment properties, 77 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 September 2017, Hemsö's property portfolio comprised 342 properties (333) with a total leasable area of 1,591 tsqm (1,587).

SEK 36,671 million

Market value of investment properties

Hemsö's five largest ongoing projects

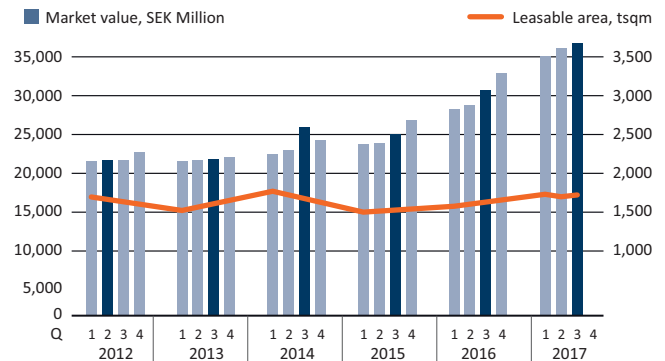
Municipality	Property	Property category	Project area, tsqm	Estimated investment, SEK million	Remaining investment, SEK million	Increase in rental value after project, SEK million	Occupancy rate, %	Estimated year of completion
Solna	Patienten 1 ¹	Health care	21,000	1,755	1,199	82	68	2020
Stockholm	Princeton 1 ¹	Health care	20,000	1,410	973	77	0	2021
Huddinge	Medicinaren 25 ¹	Education	19,000	772	127	61	81	2017
Norrköping	Sandbyhov	Nursing homes	6,155	165	5	11	100	2017
Tyresö	Krusmyntan	Nursing homes	4,675	161	35	10	100	2018
Total			70,830	4,263	2,339	241		

¹ Projects 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 leasings, with the aim of adapting and modernising the premises and thus increasing the rental value. During the period, SEK 1,592 million (978) was invested. Of this amount, SEK 1,364 million (742) was invested in new construction, and SEK 228 million (236) in maintenance and new leasings.

Market value and area of investment properties



Property transactions

During the period, 22 properties (25) were acquired for SEK 2,022 million (2,190). During the period, 36 properties (10) were divested for SEK 1,593 million (60).

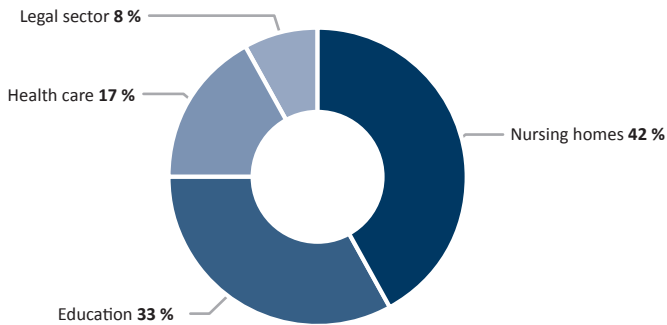
Properties acquired and divested

Quarter	No. of properties	Property value, SEK million	Leasable area, sqm
Acquisitions			
Q1	7	536	16,952
Q2	12	1,311	63,427
Q3	3	175	10,730
Total	22	2,022	91,109
Divestments			
Q1	1	60	4,883
Q2	35	1,533	174,109
Q3	-	-	-
Total	36	1,593	178,992

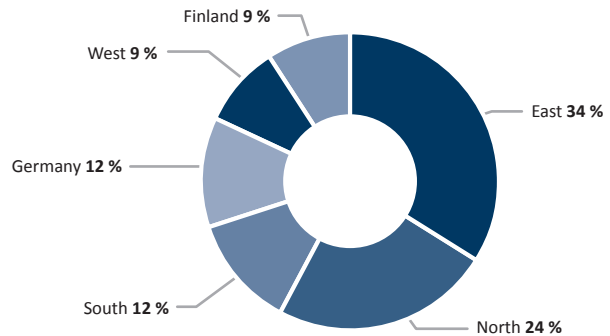
Projects

Hemsö has numerous ongoing projects, particularly in relation to new school and nursing home construction. The five largest projects comprise a total investment of SEK 4,263 million, of which the remaining investment amount is SEK 2,339 million. The remaining investment volume for all ongoing projects is SEK 3,105 million. Four projects were completed during the quarter, amounting to SEK 401 million.

The market value of investment properties per property category



The market value of investment properties per segment



Hemsö's property categories

	Nursing homes	Education	Health care	Legal sector	Total
Number	169	101	63	9	342
Leasable area, tsqm	719	511	255	106	1,591
Rental duration, years	9.2	10.8	4.4	7.3	8.8
Property value, SEK million	15,352	11,947	6,368	3,004	36,671
Rental income, SEK million	727	569	298	155	1,749
NOI, SEK million	566	437	197	126	1,326
Economic occupancy rate, %	99.8	98.5	96.8	98.7	98.8
Dividend yield, %	5.3	5.3	5.8	5.5	5.4

Hemsö's 20 largest tenants

Tenant	Tenant category	Contracted annual rent, SEK million	Percentage of contracted annual rent, %	No. of lease agreements
Swedish Police	State	135	5.7	25
Attendo	Private	115	4.8	64
Academedial	Private	114	4.8	25
Stockholm County Council	County council	113	4.7	76
Västra Götaland Region	County council	70	2.9	68
City of Västerås	Municipality	65	2.7	15
Municipality of Norrköping	Municipality	60	2.5	23
AWO (Germany)	Private	58	2.4	7
Mälardalen University	State	52	2.2	2
HEWAG (Germany)	Private	50	2.1	9
Municipality of Gävle	Municipality	48	2.0	19
The International English School	Private	44	1.9	8
Region Gotland	County council	43	1.8	10
Municipality of Upplands Väsby	Municipality	39	1.6	4
SAMK (Finland)	Municipality	36	1.5	1
Municipality of Uppsala	Municipality	36	1.5	22
Municipality of Nacka	Municipality	36	1.5	14
Royal Swedish Institute of Technology	State	35	1.5	1
Kunskapskolan	Private	34	1.4	6
Municipality of Linköping	Municipality	33	1.4	18
Total		1,216	51.0	417

Tenants

94 per cent of Hemsö's rental income is derived from taxpayer-funded operations. 14 of the 20 largest tenants are state, municipal or county council operators. The proportion of contracted annual rent with public counterparties was 58 per cent, where lease agreements with state operators accounted for 15 per cent, municipal operators for 34 per cent and county councils for 9 per cent. In Sweden, all privately run education, health-care and elderly-care operations are taxpayer-funded via school, health care and care voucher schemes. In Finland, private operators receive funding through a system similar to Swedish schemes.

In Germany, 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 operator's entitlement to municipal contributions. Contracted annual rent in Germany amounted to EUR 29 million, of which 19 per cent is secured through pledges.

The largest tenants, each accounting for approximately 5 per cent of the total contracted annual rent, are the Swedish Police Authority, Attendo, AcadeMedia, the Stockholm City Council and the Västra Götaland Region.

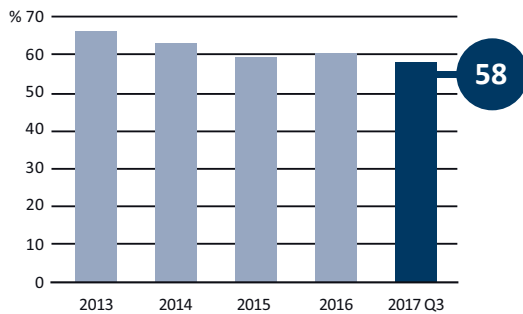
Property frameworks

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

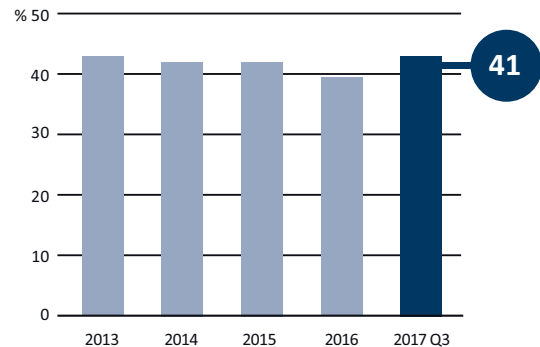
low level of risk in the property portfolio and that Hemsö’s cash flow remains stable over time.

Property portfolio

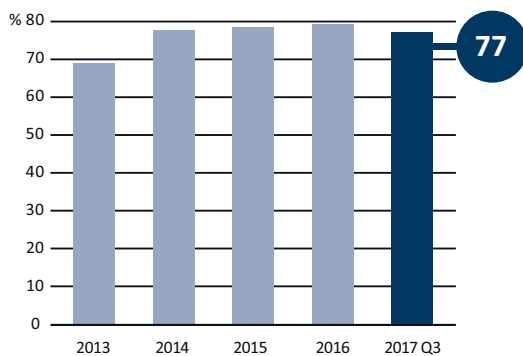
Public-sector tenants are to account for at least 50 per cent of rental income.



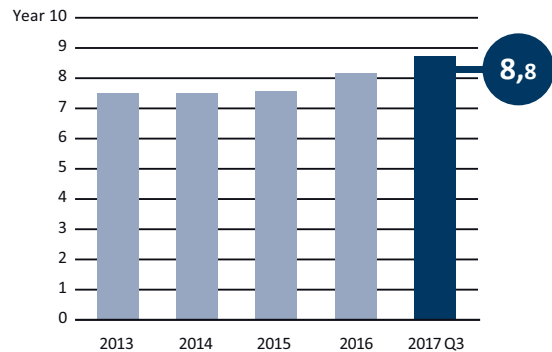
Nursing homes are to account for at least 30 per cent of rental income.



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



The rental duration is to exceed 5 years.



Earning capacity

The table reflects Hemsö’s earning capacity on a 12-month basis at 30 September 2017. 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. The rental value is based on contracted rental income on an annual basis, plus the assessed market rent for vacant premises. Property costs are based on the actual outcome over the past 12 months adjusted for the holding period.

Earning capacity

SEK million	30 Sep 2017
Rental value	2,414
Less vacancy	-30
Less discounts	-9
Contracted annual rent	2,375
Property costs	-563
Net operating income	1,812

Property valuation

Hemsö recognises the fair value of its investment properties in Sweden in accordance with IAS 40, and at 30 September, 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 36,671 million (30,186).

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 64.5 per cent (66.5) and the interest-coverage ratio was 4.7 times (4.1).

At 30 September 2017, Hemsö's total assets amounted to SEK 38,080 million (33,439) of which the value of Hemsö's properties accounted for SEK 36,671 million (30,186) and cash and cash equivalents for SEK 849 million (2,957). Other assets amounted to SEK 560 million (296). The assets were financed through equity of SEK 9,885 million (6,831), deferred tax liabilities of SEK 2,355 million (1,619), interest-bearing liabilities of SEK 24,497 million (23,074) and other liabilities of SEK 1,342 million (1,915).

Interest-bearing liabilities

In the third quarter of 2017, Hemsö borrowed SEK 1,003 million on the bond market with maturities of 2-4 years. Bonds and secured bank loans totalling SEK 2,669 million were repaid or repurchased during the same period. After the end of the quarter, Hemsö issued bonds totalling SEK 500 million with a 7-year term to maturity.

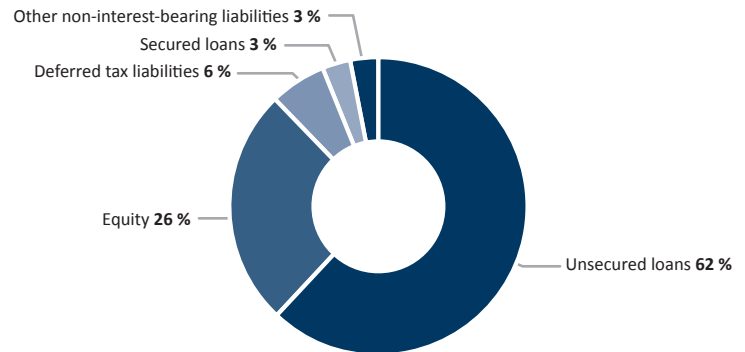
At period-end, Hemsö's interest-bearing liabilities amounted to SEK 24,497 million (23,074), including loans from minority interests of SEK 1 million (40). The increase of SEK 1,423 million compared with 30 September 2016 was due to a large investment volume and acquisitions. The debt portfolio of SEK 24,496 million comprised uncovered bonds of SEK 18 817 million (15 585), outstanding commercial papers of SEK 4,688 million (5,001) and secured loans of SEK 990 million (2,448).

Available liquidity amounted to SEK 11,799 million (14,962), comprising unutilised credit facilities of 10,950 (12,005) and bank deposits of SEK 849 million (2,957).

At period-end, foreign currency debt amounted to EUR 879 million (633), corresponding to SEK 8,409 million (6,059). Net exposure, defined as property assets plus cash (including currency hedging) less interest-bearing liabilities, amounted to EUR 63 million, corresponding to SEK 598 million. The amount represents 6.1 per cent of the Group's equity.

At period-end, Hemsö's average interest rate was 1.6 per cent (1.7). The average loan maturity was 5.0 years (4.1), and the average fixed-rate period was 5.3 years (4.8)

Capital structure at 30 September 2017



Financial ratios at 30 September 2017

Loan-to-value ratio, %	64.5
Secured loans, % of the market value of investment properties	2.7
Interest-coverage ratio, times	4.7
Fixed-rate period, years	5.3
Loan maturity, years	5.0

Loan maturity and fixed-rate period

Maturity year	Loan maturity			Fixed-rate period	
	Credit agreements, SEK million	Utilised, SEK million	Share, %	SEK million	Share, %
2017	0	0	0.0	4,989	20.4
2018	7,093	3,643	18.4	1,711	7.0
2019	9,853	3,353	16.9	1,640	6.7
2020	3,499	2,499	12.6	1,347	5.5
2021	1,503	1,503	7.6	2,100	8.6
2022	400	400	2.0	1,300	5.3
2023	0	0	0.0	1,500	6.1
2024	0	0	0.0	1,500	6.1
2025	0	0	0.0	0	0.0
>2025	8,409	8,409	42.5	8,409	34.3
Total	30,757	19,807	100.0	24,496	100.0
Commercial papers		4,688			
Total		24,496			

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 7,500 million (10,398). The deficit value of the financial derivatives was SEK 560 million (1,055).

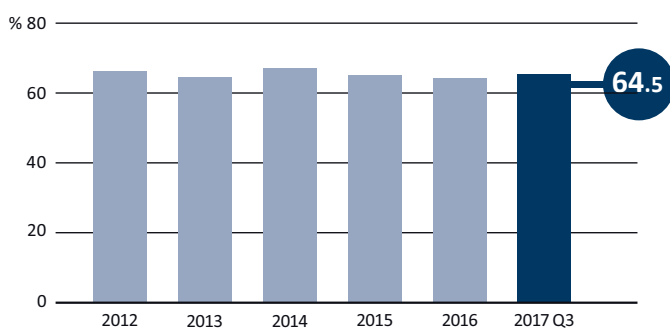
The change in nominal volume was due to expiration or termination of some of the derivatives. Hemsö issued fixed-rate bonds during the period, which has extended the fixed-rate period and thereby reduced the need for derivatives.

Interest-rate derivatives are measured 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 methods 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.

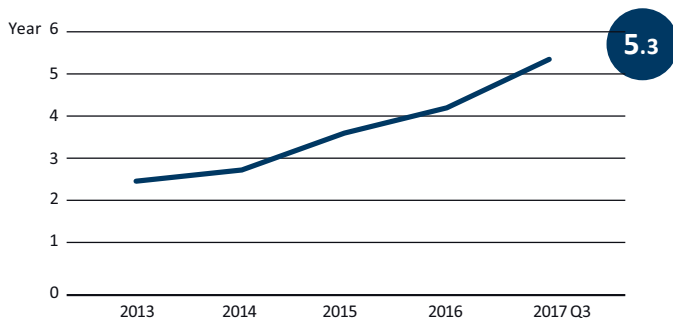
Financial policy

The aim of Hemsö's financing activities is to ensure a stable capital structure at the lowest-possible financing cost within given risk limits. In 2017, Hemsö has made some adjustments in order to clarify the financial strategy. The liquidity ratio has now been replaced by the debt-coverage 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, %



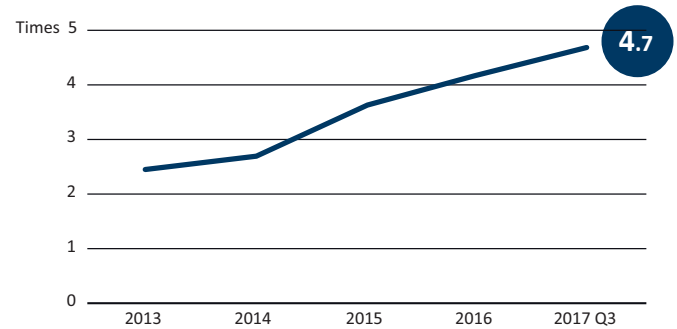
Fixed-rate period, years



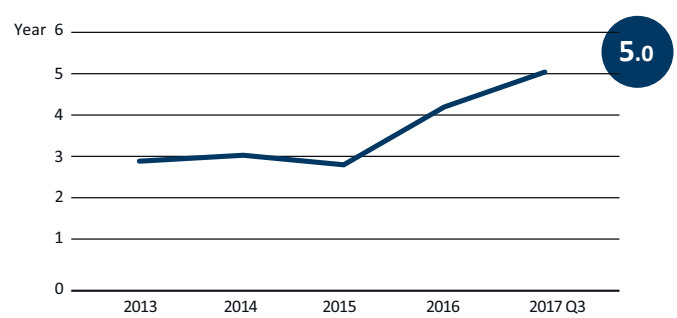
Summary of financial policy

		Outcome at 30 Sep 2017
Financing risk		
Loan-to-value ratio	Max 70%	64.5%
Loan maturity	At least 2 years	5.0 years
Debt-coverage ratio	At least 110%	171%
Secured loans	Max. 20% of the long-term property value	2.7%
Interest rate risk		
Interest-coverage ratio	At least 2.0 times (rolling 12-month period)	4.7 times
Fixed-rate period	Hemsö's average fixed-rate period should range from 3-6 years	5.3 years
Fixed-rate maturity	No more than 40% of fixed-rate periods should mature within 12 months	27%
Counterparty derivatives		
Financial instruments	Bank with minimum credit rating of A- (S&P)	Fulfilled
Currency risk		
Currency exposure	Maximum 20% (in SEK) of the Group's equity without currency hedging	6.1%

Interest-coverage ratio rolling 12-month period, times



Loan maturity, years



Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan-Sep 2017	Jan-Sep 2016	Jul-Sep 2017	Jul-Sep 2016	Okt 2016-Sep 2017	Jan-Dec 2016
Rental income	1,749	1,624	593	554	2,314	2,189
Other income	9	9	1	4	15	15
Operating costs	-298	-285	-74	-72	-391	-378
Maintenance costs	-104	-95	-36	-33	-150	-141
Other property costs	-30	-21	-8	-6	-42	-33
Net operating income	1,326	1,232	476	447	1,746	1,652
Central administrative expenses	-87	-136	-27	-42	-133	-182
Profit from participations in associated companies	0	-	0	-	0	-
Financial items	-254	-269	-93	-90	-344	-359
Profit from property management	985	827	356	315	1,269	1,111
Changes in value						
Investment properties	944	336	141	91	2,680	2,072
Financial instruments	101	-415	1	-5	308	-208
Profit before tax	2,030	748	498	401	4,257	2,975
Current tax	-76	-51	-28	-16	-74	-49
Deferred tax	-249	-101	-85	-69	-731	-583
Profit for the period	1,705	596	385	316	3,452	2,343
Profit for the period attributable to						
Parent Company shareholders	1,648	573	382	308	3,370	2,295
Non-controlling interests	57	23	3	8	82	48
Other comprehensive income						
Profit for the period	1,705	596	385	316	3,452	2,343
Translation difference	7	60	-3	28	28	81
Total comprehensive income for the period	1,712	656	382	344	3,480	2,424
Total comprehensive income for the period attributable to						
Parent Company shareholders	1,655	633	379	336	3,398	2,376
Non-controlling interests	57	23	3	8	82	48

Group – Condensed statement of financial position

Amounts in SEK million	30 September 2017	30 September 2016	31 December 2016
ASSETS			
Investment properties	36,671	30,186	33,629
Participations in associated companies	99	-	-
Receivables from associated companies	47	-	-
Other non-current assets	71	51	69
Current receivables	343	245	323
Cash and cash equivalents	849	2,957	932
TOTAL ASSETS	38,080	33,439	34,953
EQUITY AND LIABILITIES			
Equity	9,885	6,831	8,672
Deferred tax liabilities	2,355	1,619	2,103
Interest-bearing liabilities	18,156	16,123	15,167
Non-interest-bearing liabilities	560	1,055	723
Total long-term debt	21,071	18,797	17,993
Interest-bearing liabilities	6,341	6,951	7,316
Non-interest-bearing liabilities	783	860	972
Total current liabilities	7,124	7,811	8,288
TOTAL EQUITY AND LIABILITIES	38,080	33,439	34,953

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 2016	1	6,835	-8	-164	100	6,764
Dividends	-	-	-	-585	-	-585
Acquisition of minority share	-	-	-	-	-5	-5
Comprehensive income, 1 Jan 2016-30 Sep 2016	-	-	60	574	23	657
Closing equity, 30 Sep 2016	1	6,835	52	-175	118	6,831
Reclassification of capital contribution, 2015	-	21	-	-21	-	-
Contribution from minority interests	-	-	-	-	74	74
Comprehensive income, 1 Oct 2016-31 Dec 2016	-	-	21	1,721	25	1,767
Closing equity, 31 Dec 2016	1	6,856	73	1,525	217	8,672
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	-	-	7	1,648	57	1,712
Closing equity, 30 Sep 2017	1	6,856	80	2,617	331	9,885

Group – Condensed statement of cash flows

Amounts in SEK million	Jan-Sep 2017	Jan-Sep 2016	Jul-Sep 2017	Jul-Sep 2016	Oct 2016-Sep 2017	Jan-Dec 2016
Operating activities						
Profit from property management	985	827	356	315	1,269	1,111
Adjustment for non-cash items	88	-67	81	-37	92	-63
Income tax paid	-43	-50	-7	-10	-57	-64
Cash flow before changes in working capital	1,030	710	430	268	1,304	984
Increase (+)/decrease (-) in working capital	-402	326	-299	145	-474	254
Cash flow from operating activities	628	1,036	131	413	830	1,238
Investing activities						
Acquisition of properties	-2,022	-2,190	-175	-766	-3,194	-3,362
Investments in new construction, extension and refurbishment	-1,592	-978	-543	-456	-2,165	-1,551
Divestment of properties	1,469	58	-	30	1,471	60
Investment in financial non-current assets	-145	-	-144	-	-145	-
Other non-current assets	-2	-6	-2	5	-21	-25
Cash flow from investing activities	-2,292	-3,116	-864	-1,187	-4,054	-4,878
Financing activities						
Shareholders' contributions received	-	-	-	-	74	74
Interest-bearing liabilities	6,990	11,272	1,509	5,602	7,186	11,468
Amortisation of interest-bearing liabilities	-4,910	-5,772	-2,660	-2,453	-5,660	-6,522
Contributions from non-controlling interests	57	-	-	-	57	-
Dividends paid	-556	-585	-	-	-556	-585
Cash flow from financing activities	1,581	4,915	-1,151	3,149	1,101	4,435
Cash flow for the period	-83	2,835	-1,884	2,375	-2,123	795
Opening cash and cash equivalents	932	157	2,717	606	2,957	157
Exchange-rate differences in cash and cash equivalents	-	-35	16	-24	15	-20
Closing cash and cash equivalents	849	2,957	849	2,957	849	932

Parent Company – Condensed income statement

Amounts in SEK million	Jan-Sep 2017	Jan-Sep 2016	Jul 2017-Sep 2017	Jul 2016-Sep 2016
Operating income	48	71	15	19
Central administrative expenses	-105	-137	-31	-46
Operating profit/loss	-57	-66	-16	-27
Financial items	-127	575	-9	-578
Change in value, financial instruments	-62	-	-54	-
Appropriations	12	-	12	-
Profit before tax	-234	509	-67	-605
Recognised tax	-	-4	-	-4
Profit for the period	-234	505	-67	-609
Other comprehensive income				
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-234	505	-67	-609

Parent Company – Condensed balance sheet

Amounts in SEK million	30 Sep 2017	30 Sep 2016
ASSETS		
Non-current assets		
Equipment	4	4
Shares and participations in Group companies	5,976	6,155
Non-current receivables	3,332	4,338
Total non-current assets	9,312	10,497
Current assets		
Current receivables	16,534	11,150
Current investments	-	-
Cash and cash equivalents	707	2,659
Total current assets	17,241	13,809
TOTAL ASSETS	26,553	24,306
EQUITY AND LIABILITIES		
Equity	2,904	3,517
Untaxed reserves		
Tax allocation reserve	-	33
Liabilities		
Deferred tax liabilities	29	27
Interest-bearing liabilities	23,506	20,585
Non-interest-bearing liabilities	114	144
Total liabilities	23,649	20,756
TOTAL EQUITY AND LIABILITIES	26,553	24,306

Other information

Events after period-end

In central Helsinki, Hemsö acquired an educational property for SEK 120 million. The leasable area is 6,200 sqm and the tenants are Aalto University and the Hanken School of Economics.

After the end of the quarter, Hemsö issued bonds totalling SEK 500 million with a 7-year term to maturity.

Employees

At period-end, Hemsö had 104 employees, of whom 49 were women. Of these employees, 37 worked with asset and property management and 11 with project development. Other employees worked with administration, accounting, financing, IT, legal affairs, communication, management, HR and transactions. Of all employees, 97 are employed in Sweden, four in Germany and three 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 Hemsö's 2016 Annual Report.

Related-party transactions

Hemsö's related-party transactions are set out in Note 25 of Hemsö's 2016 Annual Report. No 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 and participation 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 financial statements.

Hemsö owns half of the shares and 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 runs projects related to the construction of an education and research centre at Karolinska University Hospital in Huddinge. Vitartes is also a project development company, focused on life sciences properties.

Hemsö also co-owns a company, Hemsö Norden KB, with the Third Swedish National Pension Fund. Hemsö Norden KB currently owns 21 investment properties through limited partnerships.

During the quarter, Hemsö and Lantmännen also formed the jointly owned company Lanthem Samhällsfastigheter AB. Hemsö's ownership share amounts to 50 per cent. This company is not included in the consolidated financial statements. The business objective is to develop and own properties for public use with a focus on schools and nursing homes. At period-end, Lanthem Samhällsfastigheter owned two investment properties through subsidiaries.

Accounting policies applied

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements have also been prepared in accordance with Swedish law, 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 recommendation RFR 2, Accounting for Legal Entities.

No new or amended standards or interpretations issued by the IASB have had any effect on this interim report and the accounting policies applied are consistent with those described in Note 1 of Hemsö's 2016 Annual Report.

Impact of new or revised IFRS from 1 January 2018 or later

IFRS 9 Financial instruments

This standard will apply for reporting periods beginning on or after 1 January 2018 and supersede IAS 39 Financial instruments. The recommendation requires that Hemsö make an assessment of expected credit loss. Since Hemsö's customers are predominantly from the public sector, are solvent and pose a low credit risk, Hemsö does not expect the standard to have any material effect on the financial statements.

IFRS 15 Revenue from contracts with customers

This standard will apply for periods beginning on or after 1 January 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 income and, to a lesser extent, services and leasing income not covered by IFRS 15 but by IFRS 16, the company does not expect the recommendation to have any material effect on the financial statements.

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 expected impact on the financial statements is limited.

Signing of the report

The Board of Directors and Chief Executive Officer hereby certify that this interim report provides a true and fair view of the Parent Company and Group's operations, financial position and earnings and describes significant risks and uncertainties faced by the company and companies included in the Group.

Stockholm, 25 October 2017

Pär Nuder
Chairman of The Board

Åsa Bergström
Board Member

Bengt Hellström
Board Member

Kerstin Hessius
Board Member

David Mindus
Board Member

Johan Thorell
Board Member

Nils Styf
CEO

Auditor's review

Hemsö Fastighets AB (Corp. Reg. No. 556779-8169)

Introduction

We have reviewed the condensed interim financial information (the interim report) for Hemsö Fastighets AB at 30 September 2017 and the nine-month period that ended on this date. The Board and the Chief Executive Officer are responsible for preparing and presenting this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express an opinion on this interim report, based on our review.

Focus and scope of the review

We performed our review in accordance with International Standard on Review Engagements (ISRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review is made by making enquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope compared with the focus and scope of an audit conducted in accordance with International Standards on Auditing and the auditing standards generally accepted in Sweden.

These review procedures do not allow us to obtain such an assurance that we become aware of all of the important circumstances that could have been identified if an audit had been carried out. The conclusion expressed on the basis of a review does not therefore have the same assurance as a conclusion based on an audit.

Conclusion

Based on our review, no circumstances have arisen that give us reason to believe that this interim report has not, in all material respects, been prepared in accordance with IAS 34 and the Swedish Annual Accounts Act for the Group, and in accordance with the Swedish Annual Accounts Act for the Parent Company.

Stockholm, 25 October 2017

Ernst & Young AB

Mikael Ikonen

Authorised Public Accountant

Definitions

Hemsö presents some financial measures in interim and annual reports that are not defined under IFRS. The company believes that these measures provides valuable supplemental information to investors and the company's management since they enable evaluation of the company's earnings and financial position.

Detailed definitions and explanations of key ratios are also available at 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 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 credit commitments.

Average loan maturity

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

Average interest rate

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

Short-term borrowings

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

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

Profit from property management

Profit before changes in value and tax.

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

Annual contracted rental income plus vacancy rent.

Comparable portfolio

The properties owned throughout the period and throughout the comparative period and which were not classified as project properties during these periods.

Contracted annual rent

Annual contracted 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. Sheltered housing facilities are also included under the properties for public use concept.

Major cities

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

Leasable area

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

Vacancy rate

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

For more information, please contact:

CEO, Nils Styf, phone +46 (0)8-501 170 01

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

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

Financial calendar

Year-end report 2017	7 February 2018
Annual Report	March 2018
Interim report Jan-Mar 2018	26 April 2018
Annual General Meeting	26 April 2018
Half-year report Jan-Jun 2018	13 July 2018
Interim report Jan-Sep 2018	19 October 2018

HEMSÖ

Hemsö Fastighets AB (Corp. Reg. No. 556779-8169)

Street address: Linnégatan 2, Box 24 281, SE-104 51 Stockholm, Sweden

Telephone: +46 8 501 170 00 Fax: +46 8 501 172 98

E-mail: kontaktaoss@hemso.se www.hemso.se