

Q3

Interim report 2020

Summary January-September 2020

- » Rental income increased to SEK 2,432 million (2,252).
- » Profit from property management increased to SEK 1,408 million (1,335).
- » Changes in the value of properties amounted to SEK 632 million (1,279) and changes in the value of financial instruments to SEK -92 million (-180).
- » Profit after tax for the period declined to SEK 1,532 million (1,996).
- » The market value of investment properties was SEK 59,658 million (53,218).
- » During the period, 20 properties (15) were acquired for SEK 1,477 million (4,264) and nine properties (15) were divested for SEK 108 million (1,112).

Significant events during the third quarter

- » Hemsö acquired five assisted living and nursing homes in Germany. The acquisitions included Hemsö's first municipal nursing home in Germany.
- » In Gothenburg, Hemsö commenced Sweden's first development project which will combine an elementary school and a nursing home in the same building.
- » Hemsö signed a 15-year lease agreement with the City of Helsinki for a new elementary school for 700 students in central Helsinki.
- » A Letter of Intent was signed with Bjuv Municipality regarding investments as part of the municipality's expansion. The agreement comprises the development of assisted living (LSS) and a preschool.
- » Hemsö's police station in Rinkeby were inaugurated by the Swedish Prime Minister Stefan Löfven, the Swedish Minister for Home Affairs Mikael Damberg and the National Police Commissioner for Sweden Anders Thornberg.

Hemsö in summary

	Jan-Sep 2020	Jan-Sep 2019	Oct 2019-Sep 2020	Jan-Dec 2019
Rental income, SEK million	2,432	2,252	3,206	3,027
Profit from property management, SEK million	1,408	1,335	1,833	1,760
Profit after tax, SEK million	1,532	1,996	2,646	3,111
Operating cash flow, SEK million	1,275	1,229	1,674	1,628
Loan-to-value ratio, %	61.6	62.9	61.6	62.1
Interest-coverage ratio, times	5.0	5.1	5.0	5.1
Market value of investment properties, SEK million	59,658	53,218	59,658	55,027
NOI margin, %	74.9	76.0	74.0	74.8
Economic occupancy rate, %	97.9	97.6	97.9	98.1
Rental duration, years	9.9	9.8	9.9	9.9
Lettable area, tsqm	1,954	1,833	1,954	1,884



CEO statement

Despite an ongoing pandemic that has created major economic uncertainty all over the world, there has been no impact on Hemsö's financial results, even though we are all affected from a human perspective. Hemsö's profit from property management has shown stable growth during the past quarter. Profit from property management for the first nine months increased five per cent to SEK 1.4 billion.

We see no impact on rental payments and have no doubtful rent receivables or bankruptcies among our tenants. Hemsö's access to financing in Swedish and international capital markets remains robust. Capital markets have rebounded strongly and Hemsö's borrowing costs are currently historically low.

During the quarter, Hemsö's shareholders injected SEK 1 billion in new equity to support our growth, as announced at the end of 2019.

This has strengthened our capital structure and combined with an increased cash flow, we have good conditions for continued growth. Hemsö is financially and operationally equipped for new investments in the public sector, for new nursing homes, schools, fire and rescue stations, police headquarters, hospitals and other public services.

Continued intense activity in development projects

Hemsö has been an established player in the Finnish market for many years. Our latest Finnish development project is the Arkadia elementary school for 700 students, which is the first elementary school in central Helsinki with a private landlord and the City of Helsinki as tenant. We are now carrying out an extensive redevelopment of the property, which will open its doors to new students in the autumn term of 2022. The development project is an important milestone in our municipal collaboration in Finland.

In addition to Arkadia, we had construction starts of new nursing homes in Södertälje, Tyresö, Gothenburg, Helsinki and Frankfurt during the period, with a total of 450 new nursing home beds.

Unique development projects with a focus on collaboration and sustainability

I'm very proud to have participated in the groundbreaking ceremony for Sköndalsvillan in Tyresö – a new nursing home with 90 beds and the Stora Sköndal Foundation as tenant. Sköndalsvillan will offer high-quality care for the elderly, and is also a milestone in Hemsö's sustainability programme. Sköndalsvillan will be the first carbon-neutral nursing home in Sweden and is a pilot project for a new Zero Carbon Certification system for new construction projects.

Carbon-neutral construction is clearly a challenge, but with visionary and dedicated partners we will achieve our goal. This development project will create a unique experience and knowledge base for the future – this is simply the first in a series of carbon-neutral development projects.

Another development project that I'm particularly fond of is the nursing home and elementary school in Gothenburg with the City of Gothenburg as our tenant. Both operations will be carried out in the same building and this combination is the first of its kind in Sweden. There will be shared meeting places and activities, where residents of the nursing home and students of the school can meet and form rewarding intergenerational relationships. In addition, sharing some of the various functions will reduce operating costs for the tenant.

A long-term property partner for most municipalities

While Hemsö has grown significantly in the largest municipalities, there are also many small municipalities with positive growth and have a similar need for investment. A local presence and good relationships are important for Hemsö, regardless of a municipality's size.

A good example of this is our Letter of Intent with Bjuv Municipality to develop and invest in their expansion. The agreement will initially comprise the construction of new premises for assisted living (LSS) and a preschool, and we are looking forward to supporting Bjuv Municipality in its continued expansion.

Optimistic despite the pandemic

The ongoing pandemic is far from over and we do not know when the crisis will end, or how serious it will be. I feel positive about Hemsö's ability, from both a financial and competence perspective, to help the public sector meet the investments that are required, especially given the uncertainty they face. We are looking forward to continuing our successful collaboration with the public sector. We will strengthen the backbone of society by working together.

Nils Styf, CEO

Vision

To be the best property company for public services

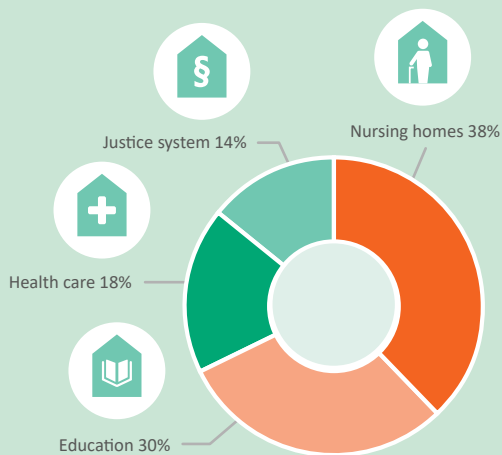
Mission

To sustainably own, manage and develop properties for public use

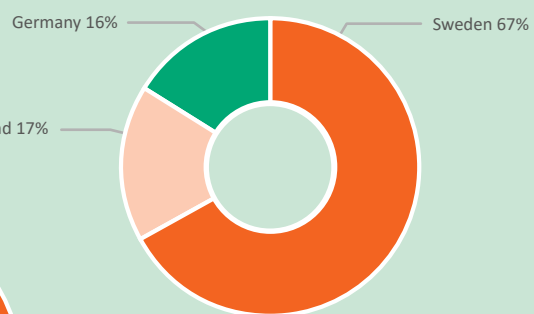
This is Hemsö

- Hemsö is Sweden’s leading owner of public properties.
- The business is based on sustainably owning, managing and developing properties for nursing homes, education, health care and the justice system.
- Hemsö owns properties in Sweden, Germany and Finland.
- Our vision is to be the best property company for public services. This means that Hemsö will create added value for its customers, and be the long-term property partner for the public sector and private operators of public services.
- The operations are characterised by long-term rental agreements and stable tenants.
- The Third Swedish National Pension Fund is the majority owner.
- The total value of Hemsö’s property portfolio is SEK 59.7 billion.
- Hemsö has a credit rating of ‘A’ from Fitch Ratings and ‘A-’ from Standard & Poor’s.

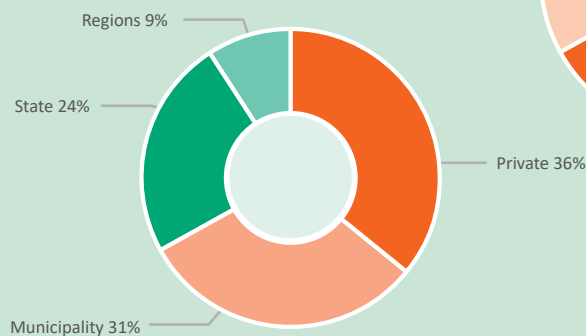
Contracted rent per property category



Market value of investment properties



Contracted rent per customer category



Income, costs and profit

Profit/loss items relate to the January-September period of 2020, and are compared with the year-earlier period. Balance-sheet items relate to the period-end position, and are compared with the corresponding period-end of the preceding year.

Rental income

During the period, rental income amounted to SEK 2,432 million (2,252).

Rental income rose 8 per cent in Germany and 17 per cent in Finland, mainly driven by acquisitions. In Sweden, rental income rose 6 per cent, mainly the result of acquisitions and completed development projects.

Rental income in the comparable portfolio rose SEK 32 million, or 2 per cent, due to rent indexation and renegotiations.

At period-end, contracted annual rent amounted to SEK 3,354 million (3,043) and economic vacancies to SEK 67 million (78). The economic occupancy rate rose slightly and was 97.9 per cent (97.6) at period-end.

The remaining rent due in 2020 is SEK 50 million, corresponding to 1 per cent of Hemsö's contracted rental income.

The rental duration increased to 9.9 years (9.8), the result of completed development projects and renegotiations.

Property costs

Property costs amounted to SEK 615 million (543), up SEK 72 million. In the comparable portfolio, costs increased SEK 35 million, or 8 per cent, mainly the result of increased maintenance measures to raise the quality of the property portfolio.

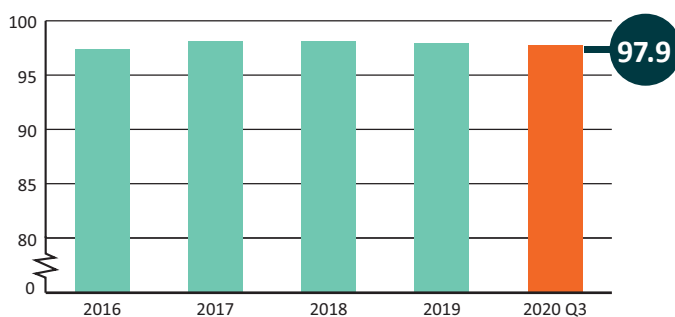
Vacancy changes

SEK million	Jan-Sep 2020
Opening vacancy	63
Terminated rental agreements	25
Adjusted for vacancy rents	-1
New rental agreements	-23
Acquired	4
Divested	0
Closing vacancy	67

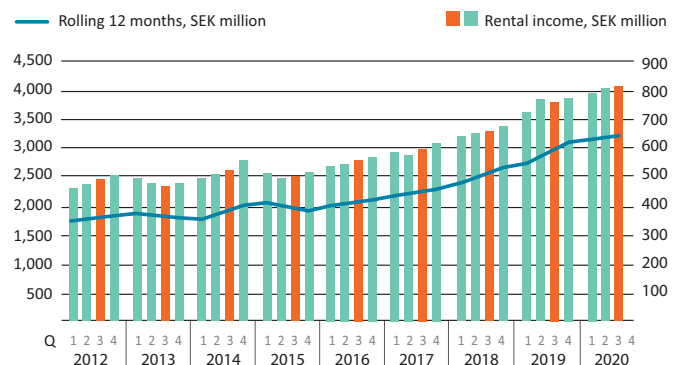
Rental maturity

Year	Annual rent, SEK million	Share, %
2020	50	1
2021	217	6
2022	195	6
2023	195	6
2024	128	4
2025	193	6
2026	164	5
2027	165	5
2028	248	7
2029	140	4
>2029	1,685	50
Total	3,380	100

Economic occupancy rate, %



Rental income



SEK 2,432 million

Rental income

Net operating income

Net operating income increased to SEK 1,833 million (1,722). The increase was mainly attributable to acquisitions and completed development projects. The NOI margin for the period was 74.9 per cent (76.0), down 1.1 percentage points year-on-year due to higher maintenance costs.

In the comparable portfolio, net operating income remained unchanged at SEK 1,490 million (1,490).

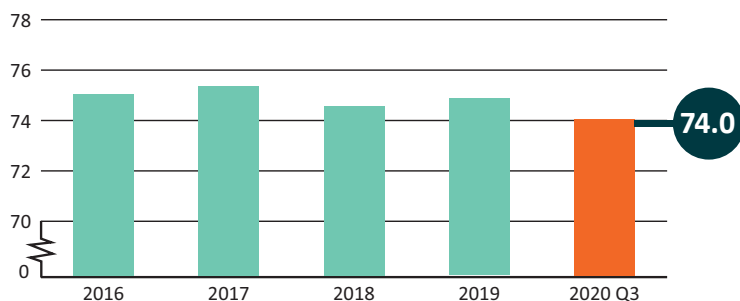
Comparable portfolio

	30 Sep 2020	30 Sep 2019	Change, %
No. of properties	302	302	0.0
Market value, SEK million	42,015	40,867	2.8
Property yield, %	4.7	4.8	0.0

Amounts

in SEK million	Jan-Sep 2020	Jan-Sep 2019	Change, %
Rental income	1,966	1,934	1.6
Other income	10	7	43.9
Operating costs	-282	-288	-2.1
Maintenance costs	-171	-134	27.4
Other costs	-34	-29	15.8
Net operating income	1,490	1,490	0.0

NOI margin, rolling 12-month period, %



Administration

Administrative expenses for the period increased to SEK 113 million (107). The increase was mainly attributable to higher personnel costs due to more employees.

Financial items

Net financial expense rose to SEK -343 million (-310) for the period, due to an increase in interest-bearing debt to SEK 38,431 million (36,008). The average interest rate was 1.3 per cent (1.3), while the fixed-rate period was extended to 6.6 years (6.4).

Financial items

SEK million	Jan-Sep 2020	Jan-Sep 2019
Interest income	11	4
Other financial income	49	42
Interest expense	-349	-311
Other financial expenses	-36	-32
Ground leases	-18	-13
Total financial items	-343	-310

SEK 1,833 million

Net operating income

Profit from property management

Profit from property management rose 5 per cent to SEK 1,408 million (1,335), mainly attributable to a larger property portfolio.

SEK 1,408 million

Profit from property management

Market value,
investment properties

SEK 59.7 billion

Properties

381

Lettable area

1,954 tsqm

Value change, investment properties

Changes in the value of properties for the period amounted to SEK 632 million (1,279), of which realised value changes amounted to SEK 33 million (36) and unrealised value changes to SEK 600 million (1,243).

Unrealised value changes were mainly attributable to property-management and development projects in Sweden, Germany and Finland. The yield on the entire property portfolio, excluding development properties, was 4.6 per cent (4.8).

The total yield was 6.8 per cent (9.9).

Unrealised value changes, properties

Jan-Sep 2020

SEK million	Sweden	Germany	Finland	Total
Attributable to				
– Property management and development projects	472	19	35	526
– Market factors	74	–	–	74
Total unrealised value changes	546	19	35	600

Change in value of property portfolio

	SEK million	No. of
Market value, opening balance	55,027	370
Acquisitions	1,477	20
Investments in new construction, extension and refurbishment	2,484	
Divestments	-108	-9
Exchange-rate fluctuations	178	
Unrealised value changes	600	
Market value at period-end	59,658	381

Change in value of financial instruments

Changes in the value of financial instruments had a negative impact of SEK -92 million (-180) on profit. Changes in the value of interest-rate derivatives had a negative impact of SEK -84 million (-86) on profit and were mainly attributable to falling market rates. Derivatives attributable to currency risk management had a negative impact of SEK -8 million (-94) on profit.

Tax

Recognised tax for the period amounted to SEK -378 million (-379), of which current tax accounted for SEK -112 million (-52) and deferred tax for SEK -267 million (-327). Deferred tax expense mainly consisted of changes in the temporary difference between the market and taxable value of investment properties. At period-end, deferred tax assets amounted to SEK 84 million (94). Deferred tax liabilities amounted to SEK 3,960 million (3,495). Deferred tax assets were netted against deferred tax liabilities and reported on the balance sheet.

Earnings

Profit after tax for the period totalled SEK 1,532 million (1,996). The decline was mainly attributable to lower positive value changes year-on-year.

Cash flow

Hemsö's cash flow from operating activities before changes in working capital was SEK 1,224 million (1,331). The change in working capital amounted to SEK 38 million (61). Operating cash flow amounted to SEK 1,275 million (1,229). Investing activities had a negative impact of SEK -3,915 million (-5,621) on cash flow, while increased borrowings, loan repayments, shareholder contributions received and dividends had a positive impact of SEK 2,917 million (5,960) on cash flow from financing activities. Overall, cash and cash equivalents rose SEK 263 million (1,731) 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 57 million (44) and consisted of fees for services to the subsidiaries. In the preceding year, other operating income amounted to SEK 253 million and was related to gains on the sale of shares in subsidiaries.

Administrative expenses increased to SEK -130 million (-118), mainly attributable to higher personnel costs due to more employees. Financial items amounted to SEK 430 million (271). Financial items include profit of SEK 381 million (247) from participations in Group companies, interest income of SEK 453 million (418), interest expense of SEK -388 million (-341), and exchange-rate differences of SEK -16 million (-53). Changes in the value of financial instruments amounted to SEK -97 million (-180) and comprehensive income for the period increased to SEK 293 million (287).

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 2020	Jan-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	30 Sep 2020	30 Sep 2019
Sweden East	606	590	453	423	18,111	15,735
Sweden West	224	230	152	159	4,234	3,735
Sweden Central/North	514	459	383	340	12,094	11,056
Sweden South	259	240	166	166	5,683	5,005
Germany	346	321	313	302	9,570	8,189
Finland	482	412	367	332	9,967	9,498
Total	2,432	2,252	1,833	1,722	59,658	53,218

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

Property portfolio

Of the total property value of SEK 59,658 million (53,218), 67 per cent (67) was attributable to Sweden, 17 per cent (18) to Finland and 16 per cent (15) to Germany.

At period-end, Hemsö owned properties in 60 municipalities in Sweden, 47 municipalities in Germany and 26 municipalities in Finland. The largest share of the market value of investment properties (84 per cent) was attributable to properties located in metropolitan areas and large cities in Sweden, Germany and Finland.

In Sweden and Finland, Hemsö owns properties for nursing homes, education, health care and the justice system. In Germany, Hemsö owns properties for nursing homes, education and the justice system. At 30 September 2020, Hemsö's property portfolio comprised 381 properties (364) with a total lettable area of 1,954 tsqm (1,833).

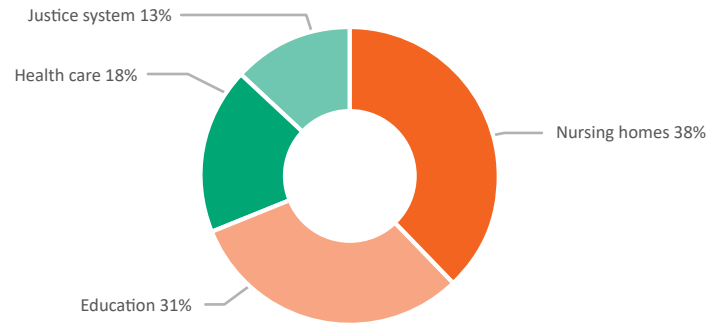
Properties acquired and divested

Quarter	No. of	Value, SEK million	Area, sqm
Acquisitions			
Q1	8	210	6,630
Q2	9	280	15,003
Q3	3	987	19,611
Total	20	1,477	41,244
Divestments			
Q1	2	3	–
Q2	2	70	6,951
Q3	5	35	1,582
Total	9	108	8,533

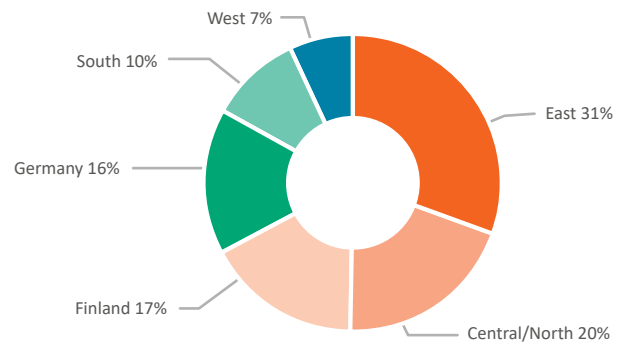
Investments

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, SEK 2,484 million (2,007) was invested, of which SEK 2,002 million (1,666) was related to new construction and SEK 481 million (341) to improvements and new lettings.

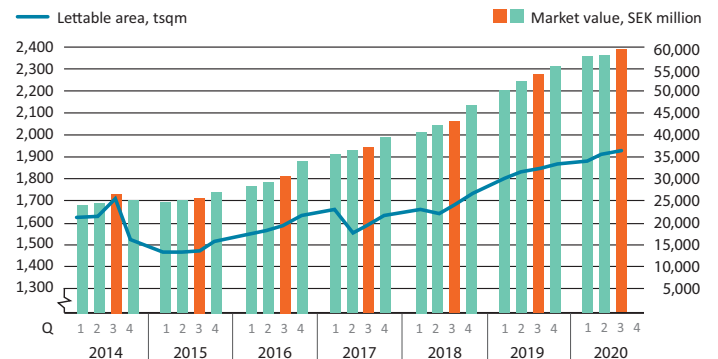
Market value of investment properties per property category



Market value of investment properties per segment



Market value and area of investment properties



Hemsö's property categories

	Nursing homes	Education	Health care	Justice system	Total
No.	189	112	58	22	381
Lettable area, tsqm	856	580	306	212	1,954
Rental duration, years	9.5	11.7	8.8	8.8	9.9
Property value, SEK million	22,950	18,571	10,614	7,523	59,658
Rental income, SEK million	968	761	407	296	2,432
Net operating income, SEK million	746	571	278	239	1,833
Economic occupancy rate, %	99.1	97.9	96.8	96.2	97.9
Property yield, %	4.5	4.5	4.9	4.9	4.6

Tenants

94 per cent of Hemsö's total rental income is derived from taxpayer-funded operations. 12 of the 20 largest tenants were state, municipal and regional operators. The share of contracted annual rent with public-sector tenants was 64 per cent, where rental agreements with state operators accounted for 24 per cent, municipal operators for 31 per cent and regional operators for 9 per cent. In Sweden, most privately run education, health care and elderly care operations are taxpayer-funded via school, health-care and care voucher schemes. In Finland, private operators receive funding through a system similar to Swedish schemes.

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

Hemsö is usually able to obtain collateral for the rental income through pledges of the operators' entitlements to municipal contributions. Contracted annual rent for nursing homes in Germany amounted to EUR 34 million, of which EUR 9 million is secured through pledges. If pledges are included, 40 per cent of rental income in Germany is derived from public-sector tenants.

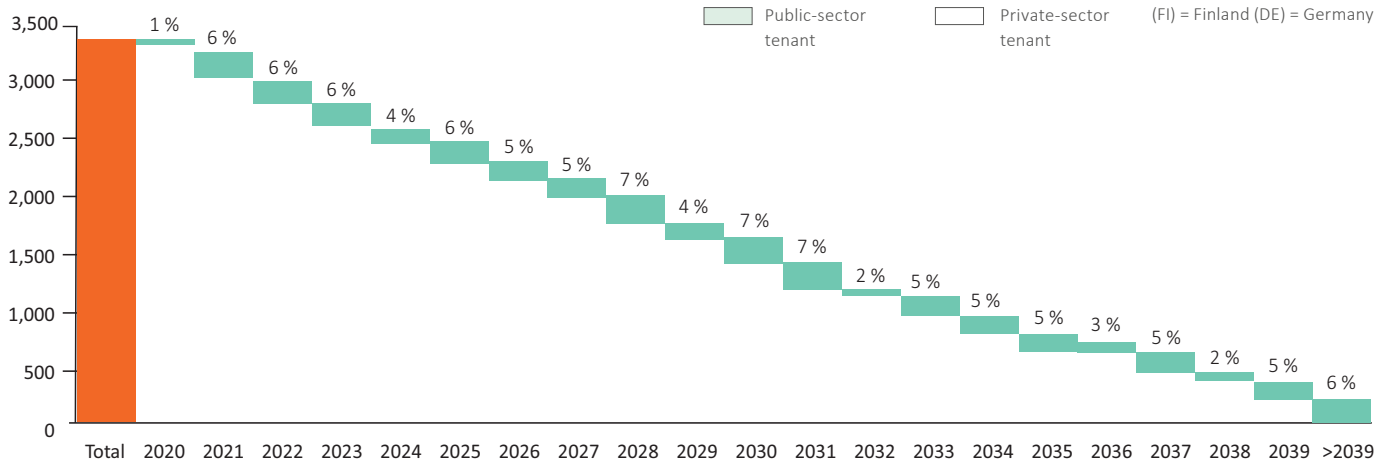
The largest are the Swedish Police Authority, Region Stockholm, the City of Turku, Attendo, and the Ministry of Justice in Finland, which together represent 23 per cent of the rental income.

Hemsö's 20 largest tenants

Tenant	Category	Annual rent, SEK million	Share, %	No. of rental agreements
Swedish Police	State	199	5.9	30
Region Stockholm	Region	197	5.9	77
City of Turku (FI)	Municipality	151	4.5	14
Attendo	Private	123	3.7	80
Ministry of Justice (FI)	State	115	3.4	14
Acadamedia	Private	112	3.3	22
Mälardalen University	State	102	3.0	3
AWO Hessen Süd (DE)	Private	86	2.6	11
City of Västerås	Municipality	83	2.5	17
Norrköping Municipality	Municipality	75	2.2	18
Västra Götaland Region	Region	70	2.1	59
Karolinska Institute	State	69	2.1	10
Ambea	Private	63	1.9	10
Alloheim (DE)	Private	61	1.8	8
North Rhine-Westphalia (DE)	State	58	1.7	1
HEWAG (DE)	Private	55	1.7	9
Gävle Municipality	Municipality	51	1.5	19
University of the Arts Helsinki (FI)	State	45	1.4	3
Esperi Care (FI)	Private	45	1.3	15
Mehiläinen (FI)	Private	44	1.3	8
Total		1,806	53.8	428

Public-sector tenant Private-sector tenant (FI) = Finland (DE) = Germany

Rental maturity, annual rent, SEK million



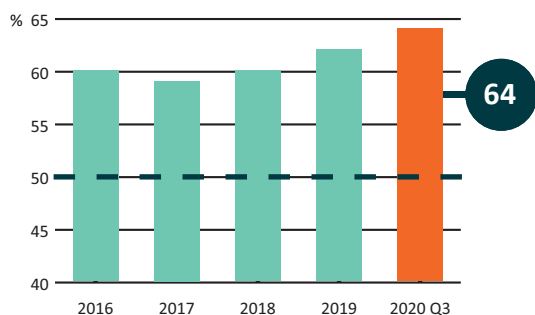
Property frameworks

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

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

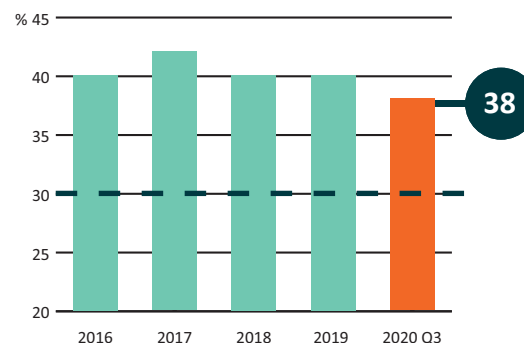
Public-sector tenants

– At least 50 per cent of rental income



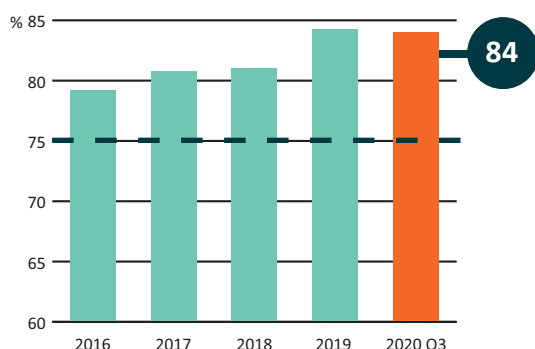
Nursing homes

– At least 30 per cent of rental income



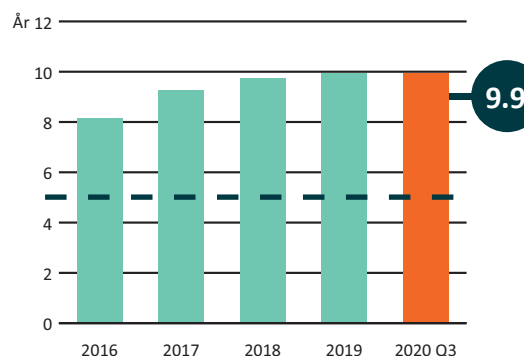
Metropolitan areas and large cities

– At least 75 per cent of rental income



Rental duration

– At least 5 years



Property valuation

Hemsö recognises its investment properties at an estimate of fair value, in accordance with IAS 40. Internal property valuations are performed quarterly. To verify the internal measurement, the value of most properties in the portfolio is determined externally every year. The measurements are categorised within Level 3 of the fair value hierarchy in IFRS 13. At period-end, the fair value of properties was SEK 59,658 million (53,218).

Earning capacity

The table reflects Hemsö's earning capacity on a 12-month basis at 30 September 2020. 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 property costs or future property transfers. Rental income is based on annual rental value less vacant premises and discounts. Property costs are based on actual results over the past 12 months adjusted for the holding period. Administrative expenses are based on the

Earning capacity

SEK million	30 Sep 2020	30 Sep 2019	Change, %
Rental income	3,354	3,043	
Property costs	-828	-764	
Net operating income	2,526	2,279	11
Central administrative expenses	-142	-154	
Associated companies	53	52	
Financial items	-521	-440	
Profit from property management	1,916	1,737	10

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

Development projects

Hemsö's largest ongoing development projects over SEK 100 million

Municipality	Development projects	Category	Certification	Area, sqm	Investment, SEK million	Remaining investment, SEK million	Increase in rental value, SEK million	Occupancy rate, %	Completed, year
Stockholm	Princeton 1 ^{1,2)}	Health care	SGBC	22,364	1,606	454	107	93	2021
Västerås	Södra Källtorp	Nursing home	SGBC	15,308	553	268	28	96	2021
Gothenburg	Silverkällan	Nursing home	SGBC	13,458	509	422	31	96	2022
Zossen	Dabendorf	Education	Green Building	15,500	498	230	26	100	2021
Luleå	Kronan	Nursing home	SGBC	11,000	280	17	21	100	2021
Borlänge	Paradisskolan	Education	–	9,200	250	109	17	100	2021
Norrköping	NOD-huset	Health care	SGBC	4,495	248	89	13	89	2021
Södertälje	Hantverkaren	Nursing home	SGBC	4,982	185	166	12	100	2021
Oulu	Linnanmaa	Justice system	BREEAM	5,919	178	178	14	100	2021
Västerås	Södra Källtorp	Nursing home	SGBC	5,333	174	141	8	100	2021
Kristianstad	Villa Boulevard	Nursing home	SGBC	4,477	133	18	10	89	2021
Solna	Bagartorp	Education	Nordic Swan	3,112	135	63	7	100	2021
Joensuu	Conservatory	Education	BREEAM	3,374	133	133	10	100	2021
Total				113,189	4,709	2,147	297		

Public-sector tenant Private-sector tenant

¹⁾ The development project is conducted in a joint venture with SveaNor.

²⁾ The property is sold and will be transferred upon completion of the development project

Development projects

Hemsö has many ongoing development projects, mainly related to the construction of new schools and nursing homes. The largest projects comprise a total investment of SEK 4,709 million, of which the remaining investment amount is SEK 2,147 million. During the period, two development projects were completed. One is a nursing home in Halmstad Municipality with 54 apartments, a 15-year rental agreement and annual rental income of SEK 8 million. The

investment amounted to SEK 100 million. The other completed development project is the construction of St Erik Eye Hospital in the Patienten 1 property in Solna Municipality. The investment amount was SEK 2,321 million. The rental agreement with St Erik Eye Hospital is for 20 years and the property will generate annual rental income of SEK 104 million. As of 1 October 2020, Hemsö has owned 100 per cent of the Patienten 1 property.

Development projects completed, 2020

Completed	Municipality	Development projects	Category	Certification	Area, sqm	Investment, SEK million	Rental duration, years	Increase in rental value, SEK million	Occupancy rate, %
Q2	Stockholm	Police station Rinkeby	Justice system	Not available	11,703	491	15	28	100
Q3	Halmstad	Fyllinge	Nursing home	SGBC	3,804	100	15	8	100
Q3	Solna	Patienten 1	Health care	SGBC	21,258	2,321	18	104	100
Total					36,765	2,912	17	140	

Public-sector tenant Private-sector tenant



Developing a new nursing home and elementary school in Gothenburg

Hemsö is developing a unique project with an elementary school and nursing home combined in the same building in the Sandarna area of Gothenburg. The school will accommodate 400 students and the nursing home has 100 beds. The investment amount is approximately SEK 500 million. The design is expected to generate benefits by enabling interaction between the the nursing home's residents and the school students. There

will be opportunities to improve the exposure of elderly people to life and movement through both visual contact and joint activities between the two operations. The children will also form a closer bond with the older generation. Completion is scheduled for the spring term of 2023 with SGBC's Silver Level environmental certification.

Sustainability

Energy and climate

Important work for achieving a sustainably developed property portfolio is to continuously improve the properties' energy performance.

Hemsö's overall aim is to reduce energy consumption by 3 per cent annually in the comparable portfolio, and to achieve 100 per cent non-fossil energy use and net-zero CO₂ emissions for existing buildings by 2035. Hemsö's climate strategy also includes a study into how the climate impact of new construction can be reduced through carbon calculation and climate-smart design.

The effect of optimising properties and working systematically with energy projects is continuing to yield results, and leading to a downward trend for energy consumption in the portfolio. The third quarter results were positively impacted by energy savings projects that took place during the summer as well as recently completed solar PV projects. The energy target of increasing energy efficiency by 3 per cent per year is currently being met by a margin for the comparable portfolio.

Environmental certification

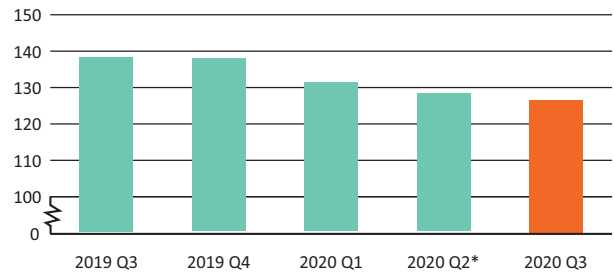
At the end of the third quarter, Hemsö had 47 environmentally certified buildings.

These comprised 25 SGBC, four LEED, one BREEAM, 16 BREEAM In-Use and one DGNB certifications. The number of certified buildings and their share of the market value of the portfolio is steadily increasing due to the growing number of own-produced buildings, where Hemsö imposes demands on environmental certification.

Efforts to gradually certify existing buildings have been taking place since 2018, which has also contributed to this increase.

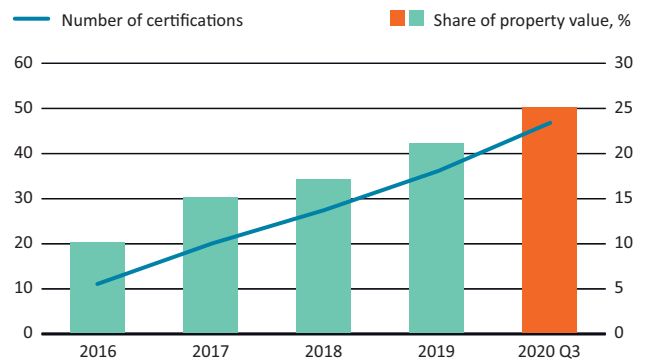


Energy consumption, Kwh/m²

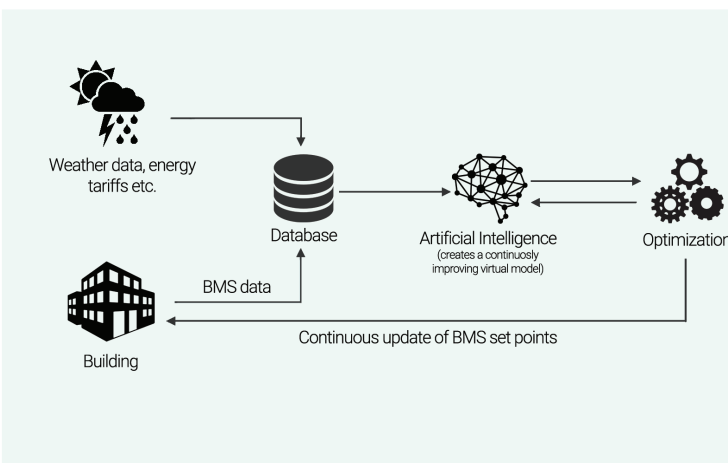


* Pertains to the June-May period ** Data in table pertains to Sweden

Environmentally certified properties*



*Environmental certification of SGBC, Silver Level or an equally high level of certification.



Pilot project with AI

Hemsö is investing in AI-powered technology from Myrspoven to explore the area of artificial intelligence (AI) and energy optimisation.

In winter 2020/2021, Hemsö will launch a pilot project with five properties. Using AI, Myrspoven will actively optimise the indoor climate of a building at the lowest possible cost.

The result will be a more comfortable indoor climate for our tenants and care users, while we reduce energy consumption and contribute to a more sustainable society.

Associated companies

At 30 September 2020, Hemsö owned shares in two associated companies, Turku Technology Properties Oy (TTP) and Lanthem Samhällsfastigheter AB (Lanthem).

These companies are reported in Hemsö's consolidated accounts using the equity method. The carrying amount of the shares is SEK 126 million (117) in Lanthem and SEK 593 million (505) in TTP. Total investments in associated companies amounted to SEK 719 million (622).

Profit from associated companies, SEK million

Jan-Sep 2020	TTP	Lanthem	Total
Profit from property management	24	6	30
Value changes, properties	-6	–	-6
Value changes, financial instruments	-38	–	-38
Tax	8	-1	7
Profit/loss recognised	-12	5	-7

Turku Technology Properties (TTP)

In April 2019, Hemsö acquired 35 per cent of the shares in TTP. In March 2020, Hemsö acquired an additional 5 per cent of the shares in the company and thereby became the largest shareholder with a holding of 40 per cent. The City of Turku owns 35 per cent of the company. The other owners are the Turku University of Applied Sciences, OP-bank and the Eschnerska Frilasarettet Foundation. TTP is focused on public properties and its property portfolio is concentrated to the Kupittaa area of central Turku. The company combines education, research and private enterprise in a dynamic cluster of tenant firms known as Science Park. In August 2020, another educational property was completed in the area, in which the Turku University of Applied Sciences holds a 25-year rental agreement for 15,000 sqm. The property holds LEED Platinum certification.



TTP	30 Sep 2020	30 Sep 2019
Shareholding, %	40	35
Rental value, SEK million	330	277
No. of properties	24	18
Economic occupancy rate, %	96	99
Market value of investment properties, SEK million	4,082	3,733
Rental duration, years	8	6
Share of public-sector tenants, %	63	60

Lanthem

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

The partnership will secure Hemsö access to land for attractive development projects. The company acquired five nursing homes and school properties from Lantmännen. Future development projects will mainly belong to these two property categories. Ownership of Lanthem Samhällsfastigheter AB is shared equally by Hemsö and Lantmännen Fastigheter AB.



Lanthem	30 Sep 2020	30 Sep 2019
Shareholding, %	50	50
Rental value, SEK million	21	21
No. of properties	5	5
Economic occupancy rate, %	100	100
Market value of investment properties, SEK million	412	402
Rental duration, years	9	10
Share of public-sector tenants, %	30	30

Financing

The aim of Hemsö's financing activities is to secure a stable capital structure, and an optimal net financial expense within the given risk limits. Hemsö's loan-to-value ratio should not exceed 70 per cent, and the interest-coverage ratio should be at least 2.0. At period-end, the loan-to-value ratio was 61.6 per cent (62.9) and the interest-coverage ratio was 5.0 times (5.1).

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

Hemsö's credit rating

Credit rating agency	Long-term	Short-term	Outlook	Date
Fitch Ratings	A	F1+	Stable	1 Apr 2020
Standard & Poor's	A-	A-2	Stable	25 Mar 2020

Interest-bearing liabilities

At period-end, Hemsö's interest-bearing liabilities amounted to SEK 38,431 million (36,008).

In the third quarter, Hemsö issued bonds totalling SEK 500 million in the Swedish capital market. Hemsö also issued its first bond in AUD, corresponding to SEK 320 million, to Asian investors. The bond has a 15-year maturity. The currency and interest-rate risk related to these borrowings was eliminated with derivatives.

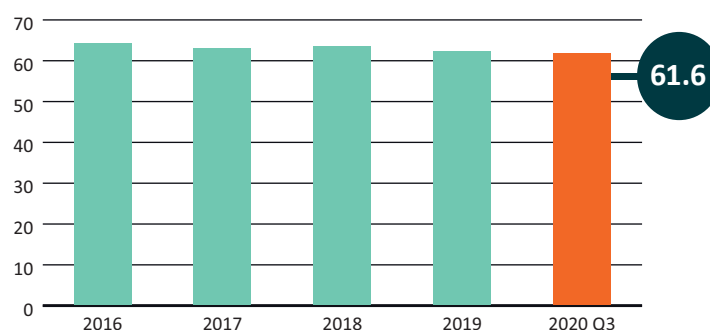
Sources of funding, SEK million

	Q3 2020	Q3 2019
Bonds, SEK	12,280	14,153
Bonds, EUR	14,782	14,018
Bonds, NOK	951	–
Bonds, AUD	320	–
Total bonds	28,333	28,171
<i>Of which sustainability bonds</i>	<i>2,930</i>	<i>1,000</i>
Commercial papers	5,556	4,359
European Investment Bank	2,951	1,873
Nordic Investment Bank	800	800
Schuldschein	791	805
Total interest-bearing liabilities	38,431	36,008
<i>Of which sustainable finance</i>	<i>6,681</i>	<i>3,673</i>

Capital structure, SEK million

	Q3 2020	Q3 2019
Interest-bearing liabilities	38,431	36,008
Current investments	–	375
Cash and cash equivalents	1,249	1,747
Net debt	37,182	33,886
Market value of investment properties	59,658	53,218
Investments in associated companies	719	622
Total	60,377	53,840
Loan-to-value ratio	61.6%	62.9%
Share of secured debt	0.0%	0.0%

Loan-to-value ratio, %



At period-end, Hemsö had undrawn committed credit facilities totalling SEK 11,500 million (11,616), which lowers the company's refinancing risk and secures access to capital. Cash and cash equivalents and current investments amounted to SEK 1,249 million (2,122) and total available liquidity amounted to SEK 12,749 million (13,738). The debt-coverage ratio was 138 per cent (154).

Hemsö uses interest-rate derivatives to manage its interest-rate risk, and foreign exchange and single currency interest-rate derivatives to manage the company's currency risk.

At period-end, the nominal value of the interest-rate derivatives was SEK 6,300 million (7,950). Derivatives attributable to currency risk management consist of two instruments: single currency interest-rate derivatives, which corresponded to SEK 1,260 million (0), and foreign exchange derivatives, which amounted to a nominal value of SEK 158 million (268). Currency exposure amounted to 5.5 per cent (11.4) of the Group's equity.

At period-end, the average loan maturity was 7.0 years (7.2) and the average fixed-rate period was 6.6 years (6.4). The average interest rate was 1.3 per cent (1.3).

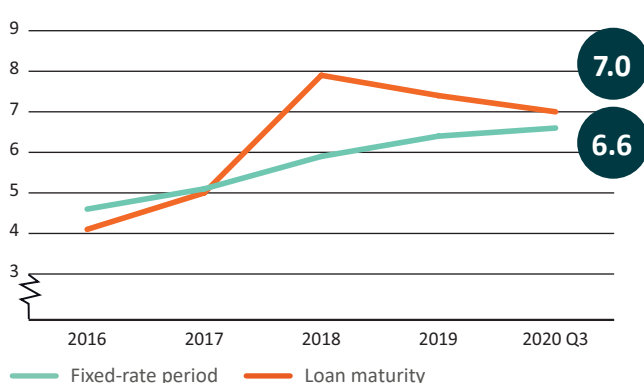
Committed credit facilities and underwriting commitments, SEK million

	Q3 2020	Q3 2019
Banks	6,500	6,500
Third Swedish National Pension Fund	5,000	4,000
EIB	0	1,116
Total committed credit facilities	11,500	11,616
Current investments	–	375
Cash and cash equivalents	1,249	1,747
Available liquidity	12,749	13,738
Short-term borrowing	9,211	8,903
Debt-coverage ratio	138%	154%

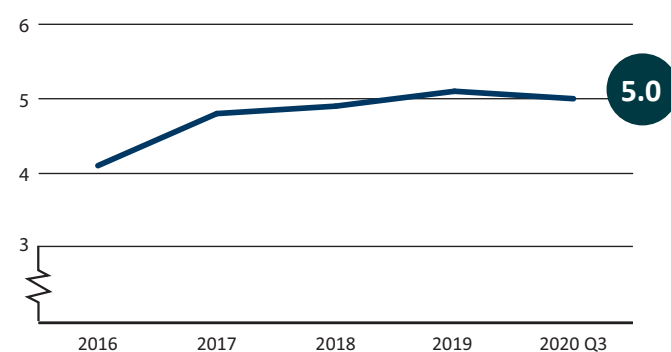
Currency exposure, SEK million

	Q3 2020	Q3 2019
Properties, EUR	19,537	17,687
Associated companies, EUR	593	505
Cash, EUR	17	265
Assets, EUR	20,147	18,457
Debt, EUR	17,723	15,896
Currency swaps, EUR	1,260	0
Exposure, EUR	1,164	2,561
Debt, NOK and AUD	1,271	–
Currency swaps, NOK and AUD	-1,271	–
Exposure, NOK and AUD	0	0
Currency hedging	-158	-268
Currency exposure	1,006	2,293
Equity	18,443	15,667
Currency exposure	5.5%	14.6%

Loan maturity and fixed-rate period, years



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



Summary of financial policy

Financing risk	Policy	Outcome
Loan-to-value ratio	Max. 70%	61.6
Loan maturity	At least 3 years	7.0
Debt-coverage ratio	At least 125%	138
Share of secured debt	Max. 20%	0.0
Interest-rate risk		
Interest-coverage ratio	At least 2.0 times (rolling 12-month period)	5.0
Fixed-rate period	Average fixed-rate period, 3-8 years	6.6
Fixed-rate maturity	Max. 40% within 12 months	28
Counterparty risk		
Financial instruments	Bank with a minimum credit rating of A- (S&P)	Fulfilled
Currency risk		
Currency exposure	Max. 20 per cent of equity	5.5



Nakterhus School in Vega, Haninge



Virtual sod-turning ceremony in Gothenburg

Loan maturity and fixed-rate period

Year	Loan maturity			Fixed-rate period	
	Credit agreement, SEK million	Drawn, SEK million	Share, %	SEK million	Share, %
2020	0	0	0	8,930	23
2021	4,802	4,802	12	1,839	5
2022	9,243	2,743	7	1,050	3
2023	3,855	2,855	7	2,250	6
2024	5,000	1,000	3	2,000	5
2025	1,450	1,450	4	850	2
2026	6,052	6,052	16	5,252	14
2027	100	100	0	0	0
2028	100	100	0	500	1
>2028	13,772	13,772	36	15,761	41
Total	44,375	32,875	86	38,431	100
Commercial papers		5,556	14		
Total		38,431	100		

Quarterly overview Q3 2020

Amounts in SEK million	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Income statement									
Property income	829	816	804	780	764	774	727	676	653
Property costs	-203	-202	-210	-226	-170	-193	-180	-208	-145
Net operating income	626	614	594	554	594	581	547	468	508
Central administrative expenses	-39	-33	-42	-29	-36	-37	-33	-48	-33
Profit/loss from participations in associated companies	12	-8	-11	27	-48	17	2	6	2
Operating profit	599	573	541	552	510	561	516	426	477
Financial items	-124	-105	-114	-109	-110	-107	-93	-80	-96
Profit after financial items	475	468	427	443	400	454	423	346	381
<i>- of which Profit from property management*</i>	<i>478</i>	<i>485</i>	<i>445</i>	<i>425</i>	<i>466</i>	<i>446</i>	<i>423</i>	<i>342</i>	<i>381</i>
Value change, properties	299	223	110	758	460	691	128	1,166	94
Value change, financial instruments	27	-49	-70	154	-76	-53	-51	-2	63
Profit before tax	801	642	467	1,355	784	1,092	500	1,510	538
Current tax	-29	-49	-34	-25	-16	-10	-26	11	-4
Deferred tax	-119	-79	-68	-216	-135	-124	-68	-318	-100
Profit for the period	653	515	364	1,114	633	958	406	1,203	434
Other comprehensive income	0	-104	161	-66	12	78	63	-4	-5
Comprehensive income for the period	654	410	525	1,048	645	1,036	469	1,199	429
Balance sheet									
Investment properties	59,658	57,533	57,300	55,027	53,218	51,614	49,559	46,236	42,573
Right-of-use assets	611	612	629	582	431	433	302	-	-
Other assets	1,399	1,393	1,451	1,348	1,331	1,326	787	720	929
Cash and cash equivalents and short-term investments	1,249	1,173	994	988	2,122	2,333	3,585	450	1,500
Total assets	62,917	60,711	60,375	57,945	57,102	55,706	54,233	47,406	45,002
Equity	18,443	16,789	17,239	16,714	15,667	15,022	14,668	13,199	12,053
Deferred tax liabilities	3,875	3,763	3,706	3,600	3,401	3,263	3,142	3,067	2,750
Derivatives	293	287	287	211	366	305	285	281	350
Interest-bearing liabilities	38,431	38,136	37,307	35,542	36,008	35,638	34,418	29,728	28,738
Lease liabilities	611	612	629	582	431	433	302	-	-
Non-interest-bearing liabilities	1,264	1,124	1,206	1,296	1,229	1,045	1,418	1,131	1,111
Total equity and liabilities	62,917	60,711	60,375	57,945	57,102	55,706	54,233	47,406	45,002
Key ratios									
Financial ratios									
Loan-to-value ratio, %	61.6	63.5	62.6	62.1	62.9	63.6	62.0	63.1	63.7
Interest-coverage ratio, times**	5.0	5.0	4.9	5.1	5.1	5.3	5.1	4.9	4.7
Operating cash flow, SEK million	445	453	377	399	432	417	380	329	366
Property-related key ratios									
Property yield, %**	4.6	4.7	4.7	4.7	4.8	4.8	4.9	4.9	5.1
Total yield, %**	6.8	7.3	8.3	9.0	9.9	9.2	9.2	9.7	9.2
Economic occupancy rate, %	97.9	98.1	98.1	98.1	97.7	98.0	97.9	98.3	98.1
NOI margin, %	75.5	75.3	73.9	71.0	77.7	75.2	75.3	69.2	77.8
No. of properties	381	383	376	370	364	362	368	365	353
Lettable area, tsqm	1,954	1,923	1,890	1,884	1,833	1,830	1,800	1,732	1,679

** Hemsö has updated the definition of 'Profit from property management', which now excludes changes in value, and tax on share of profit of associated companies. Profit from property management for previous quarters has been restated using the new definition.

** Based on rolling 12-month outcome

Group – Condensed statement of comprehensive income

Amounts in SEK million	Jan-Sep 2020	Jan-Sep 2019	Jul-Sep 2020	Jul-Sep 2019	Oct 2019-Sep 2020	Jan-Dec 2019
Rental income	2,432	2,252	824	760	3,206	3,027
Other income	16	13	5	4	23	19
Operating costs	-361	-341	-108	-89	-491	-472
Maintenance costs	-205	-153	-84	-63	-273	-221
Other property costs	-49	-49	-11	-18	-78	-77
Net operating income	1,833	1,722	626	594	2,388	2,276
Central administrative expenses	-113	-107	-39	-36	-142	-135
Profit/loss from participations in associated companies	-7	-29	12	-48	20	-2
- of which profit from property management	30	29	15	18	39	38
- of which changes in value	-45	-71	-2	-82	-13	-39
- of which tax	7	13	0	16	-7	-1
Operating profit	1,713	1,586	599	510	2,265	2,139
Financial items	-343	-310	-124	-110	-452	-419
Profit after financial items	1,370	1,276	475	400	1,814	1,720
- of which Profit from property management	1,408	1,335	478	466	1,833	1,760
Value change, investment properties	632	1,279	299	460	1,390	2,037
Value change, financial instruments	-92	-180	27	-76	62	-25
Profit before tax	1,910	2,375	801	784	3,266	3,732
Current tax	-112	-52	-29	-16	-137	-78
Deferred tax	-267	-327	-119	-135	-482	-543
Profit for the period	1,532	1,996	653	633	2,646	3,111
Profit for the period attributable to						
Parent Company shareholders	1,487	1,898	640	577	2,537	2,948
Non-controlling interests	45	98	14	56	109	163
Other comprehensive income						
Profit for the period	1,532	1,996	653	633	2,646	3,111
Translation difference	57	154	0	12	-10	87
Comprehensive income for the period	1,589	2,150	654	645	2,637	3,198
Comprehensive income for the period attributable to						
Parent Company shareholders	1,543	2,052	640	589	2,527	3,035
Non-controlling interests	46	98	14	56	110	163

Group – Condensed statement of financial position

Amounts in SEK million	30 Sep 2020	30 Sep 2019	31 Dec 2019
ASSETS			
Investment properties	59,658	53,218	55,027
Right-of-use assets	611	431	582
Participations in associated companies	719	622	635
Other non-current assets	94	95	94
Total non-current assets	61,082	54,366	56,338
Current receivables	586	614	619
Current investments	–	375	–
Cash and cash equivalents	1,249	1,747	988
Total current assets	1,835	2,736	1,607
TOTAL ASSETS	62,917	57,102	57,945
EQUITY AND LIABILITIES			
Equity	18,443	15,667	16,714
Deferred tax liabilities	3,875	3,401	3,600
Non-current interest-bearing liabilities	29,221	27,105	27,644
Lease liabilities	611	431	582
Derivatives	293	366	211
Total non-current liabilities	34,000	31,303	32,037
Current interest-bearing liabilities	9,211	8,903	7,898
Other current liabilities	1,264	1,229	1,296
Total current liabilities	10,474	10,132	9,194
TOTAL EQUITY AND LIABILITIES	62,917	57,102	57,945

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 2019	1	6,356	126	6,369	347	13,199
Dividends	–	-500	–	-221	–	-721
Shareholder contributions received	–	1,000	–	–	–	1,000
Contributions from minority interests	–	–	–	–	39	39
Comprehensive income (1 Jan 2019-30 Sep 2019)	–	–	154	1,898	98	2,150
Closing equity, 30 Sep 2019	1	6,856	280	8,046	484	15,667
Reclassification of capital contribution, 2015	–	-21	–	21	–	–
Adjustment of translation reserve	–	–	22	-22	–	–
Comprehensive income (1 Oct 2019-31 Dec 2019)	–	–	-67	1,050	64	1,047
Closing equity, 31 Dec 2019	1	6,835	235	9,095	548	16,714
Opening equity, 1 Jan 2020	1	6,835	235	9,095	548	16,714
Dividends	–	-300	–	-560	–	-860
Shareholder contributions received	–	1,000	–	–	–	1,000
Comprehensive income	–	–	56	1,487	46	1,589
Closing equity 30 Sep 2020	1	7,535	291	10,022	594	18,443

Group – Condensed statement of cash flows

Amounts in SEK million	Jan-Sep 2020	Jan-Sep 2019	Jul-Sep 2020	Jul-Sep 2019	Oct 2019-Sep 2020	Jan-Dec 2019
Operating activities						
Profit from property management	1,408	1,335	478	466	1,833	1,760
<i>Adjusted for non-cash items in profit from property management</i>						
Profit from property management participations in associated companies	-30	-30	-14	-19	-38	-38
Depreciation	7	8	2	2	11	12
<i>Adjusted for other non-cash items</i>						
Exchange differences, unrealised	-18	138	-5	26	-116	40
Capital gain/loss and disposals	-33	-36	-31	24	-51	-54
Tax paid	-110	-84	-21	-17	-132	-106
Cash flow before changes in working capital	1,224	1,331	408	482	1,507	1,614
Increase (+)/decrease (-) in working capital	38	61	166	49	106	129
Cash flow from operating activities	1,262	1,392	575	531	1,613	1,743
Investing activities						
Acquisition of properties	-1,477	-4,264	-987	-478	-2,455	-5,242
Investments in new construction, extension and refurbishment	-2,484	-2,007	-893	-622	-3,201	-2,724
Property divestments	133	1,109	61	-10	312	1,288
Investment in financial non-current assets	-86	-459	1	69	-88	-461
Other non-current assets	-1	-	-1	-	-1	0
Cash flow from investing activities	-3,915	-5,621	-1,818	-1,041	-5,434	-7,139
Financing activities						
Interest-bearing loans raised	6,580	8,187	937	1,320	8,285	9,892
Repayment of interest-bearing liabilities	-3,805	-2,450	-620	-1,005	-5,529	-4,174
Financial instruments realised	2	-95	-2	-15	2	-95
Shareholder contributions received	1,000	1,000	1,000	-	1,000	1,000
Contributions from non-controlling interests	-	39	-	-	-1	38
Dividends paid	-860	-721	-	-	-860	-721
Cash flow from financing activities	2,917	5,960	1,315	300	2,897	5,940
Cash flow for the period	263	1,731	72	-210	-924	544
Opening balance, cash and cash equivalents	988	450	1,173	2,333	2,122	450
Exchange-rate differences in cash and cash equivalents	-2	-59	5	-1	51	-6
Closing cash and cash equivalents	1,249	2,122	1,249	2,122	1,249	988
Operating cash flow	1,275	1,229	445	432	1,674	1,628

Parent Company – Condensed income statement

Amounts in SEK million	Jan-Sep 2020	Jan-Sep 2019	Oct 2019-Sep 2020	Jan-Dec 2019
Net sales	57	44	90	78
Central administrative expenses	-130	-118	-175	-164
Other operating income	0	253	0	253
Operating profit	-73	179	-84	167
Financial items	430	271	260	100
Value changes, financial instruments	-97	-180	57	-25
Appropriations	15	–	92	77
Profit before tax	275	270	325	319
Recognised tax	17	17	-18	-18
Profit for the period	293	287	307	301
Other comprehensive income	–	–	–	–
Comprehensive income for the period	293	287	307	301

Parent Company – Condensed balance sheet

Amounts in SEK million	30 Sep 2020	30 Sep 2019	31 Dec 2019
ASSETS			
Non-current assets			
Intangible assets	0	1	0
Equipment	2	3	3
Shares and participations in Group companies	7,693	7,658	7,697
Deferred tax assets	64	75	43
Non-current receivables	30,148	26,804	26,674
Total non-current assets	37,907	34,541	34,417
Current assets			
Current receivables	5,233	5,296	5,250
Current investments	–	375	–
Cash and cash equivalents	0	0	0
Total current assets	5,233	5,671	5,250
TOTAL ASSETS	43,140	40,212	39,667
EQUITY AND LIABILITIES			
Equity	4,086	3,639	3,653
Untaxed reserves			
Tax allocation reserve	43	34	58
Liabilities			
Deferred tax liabilities	26	25	26
Interest-bearing liabilities	38,431	36,008	35,542
Non-interest-bearing liabilities	554	506	388
Total liabilities	39,011	36,539	35,956
TOTAL EQUITY AND LIABILITIES	43,140	40,212	39,667

Other information

Significant events after period-end

On 7 October, Hemsö repurchased EUR 37 million of its EUR 300 million bond loan, with a coupon rate of 1.75 per cent and maturity date of 29 June 2029 (XS1632767718). On 1 October, Hemsö acquired the remaining 50 per cent of Scandinavian Life Science Två AB, which owns the Patienten 1 property in Solna.

Employees

At period-end, Hemsö had 132 employees, of whom 58 were women and 74 men. Of these employees, 47 worked with asset and property management and 22 with development. Other employees worked with administration, accounting, finance, IT, legal affairs, communication, management, HR and transactions. Of all employees, 119 were employed in Sweden, six in Germany and seven in Finland.

Risks and uncertainties

COVID-19 – Hemsö has assessed all of the company's material risks due to the ongoing pandemic. Hemsö has long-term rental agreements, mainly with public-sector tenants or private operators that are taxpayer-funded. During the period, Hemsö offered rental discounts to a small number of tenants due to the pandemic, but these discounts did not add up to any major amounts. The company's tenants are active in essential services for the general public and provide health care, education, elderly care and other services linked to law enforcement and prosecution. Hemsö's operating, maintenance and administrative expenses are not expected to be affected by the pandemic. Hemsö has a long loan maturity and fixed-rate period, which means that raised credit margins or higher interest rates will not affect the company's net income in the short term. Hemsö does not therefore expect any material impact on the company's operating cash flow. For more detailed information, refer to page 112, Note 30 in the 2019 Annual Report. In addition to the above, no changes are deemed to have impacted Hemsö's risks and uncertainties, which are described on pages 70-75 of the 2019 Annual Report.

Related-party transactions

Hemsö's related-party transactions are set out in Note 27 of Hemsö's 2019 Annual Report.

Joint ventures

Hemsö owns shares and participations in companies held jointly with the Third Swedish National Pension Fund and

SveaNor, respectively. These joint ventures are included in the consolidated financial statements. Hemsö Norden KB is owned jointly with the Third Swedish National Pension Fund. Hemsö Norden KB currently owns 25 investment properties through limited partnerships. Hemsö owns 50 per cent of the shares in Scandinavian Life Science AB and Scandinavian Life Science Två AB. These companies own two properties in Hagastaden. The other half of the shares are owned by SveaNor. In addition to this, Hemsö and Lantmännen each own 50 per cent of the shares in Lanthem Samhällsfastigheter AB. This company is not included in the consolidated financial statements. Lanthem Samhällsfastigheter owns five investment properties through subsidiaries. Hemsö owns also 40 per cent of the participations in Turku Technology Properties Oy. The company owns 24 public properties in Turku through subsidiaries. This company is not included in the consolidated financial statements.

Accounting policies applied

This interim report was prepared in accordance with IAS 34 Interim Financial Reporting. The same principles of accounting and measurement were applied as in the 2019 Annual Report, pages 92-95. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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

All amounts in the interim report, unless otherwise stated, are rounded to the nearest SEK million, which means some totals may not correspond with the sum of tables and calculations. Figures between 0 and 0.5 in the text and tables are reported as 0.

New and revised IFRSs effective on or after 1 January 2020

No new or amended standards or interpretations issued by the IASB have had any effect on this interim report, and the accounting policies applied by Hemsö.

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 the Group's operations, financial

position and earnings and describes significant risks and uncertainties faced by the company and companies included in the Group.

Stockholm, 27 October 2020

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, Chief Executive Officer

Auditor's review

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

Introduction

We have reviewed the condensed interim financial information (interim report) for Hemsö Fastighets AB at 30 September 2020 and the nine-month period that ended on this date.

The Board of Directors and 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, 27 October 2020

Ernst & Young AB

Magnus Fredmer
Authorised Public Accountant

Definitions

Financial definitions

Share of secured debt

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

Loan-to-value ratio

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

Property yield

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

Available liquidity

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

Profit from property management

Profit or loss after financial items after reinstatement of changes in value and tax from participations in associated companies.

Average interest rate

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

Loan maturity

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

Short-term borrowings

Loan maturities within 12 months.

MTN programme and EMTN programme

Swedish and European bond programmes, respectively.

Operating cash flow

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

Interest-coverage ratio

Operating profit in relation to financial items. Based on rolling 12-month outcome.

Operating profit

Net operating income plus share of profit of associated companies less central administrative expenses.

Debt-coverage ratio

Available liquidity in relation to short-term borrowings.

Total yield

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

Currency exposure

The net of properties, associated companies, cash and loans in foreign currency less currency hedging as a percentage of equity.

Property-related definitions

Net operating income

Rental income less operating and maintenance costs and property tax, ground rent not included in net operating income.

Economic occupancy rate

Contracted annual rental income in relation to rental value.

Rental income

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

Rental duration

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

Rental value

Contracted annual rental income plus vacancy rent.

Comparable portfolio

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

Contracted annual rent

Contracted annual rental income less discounts and rental losses.

Net investments

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

Development property

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

Public property

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

Large cities

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

Lettable area

Those areas of a property for which tenants can be charged rent at period-end.

Rent based on vacancy rate

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

Vacancy rent

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

NOI margin

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

Key ratio calculations

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

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

Property yield	30 Sep 2020	30 Sep 2019
Net operating income on the income statement	2,388	2,190
Adjusted for 12-month holding period	15	43
Adjusted for development properties	-149	-123
Adjusted for net operating income	2,254	2,110
Market value of properties	59,658	53,218
Adjusted for development properties	-10,898	-8,879
Adjusted market value	48,761	44,339
Property yield	4.6%	4.8%

Total yield	Oct 2019-Sep 2020	Oct 2018-Sep 2019
Net operating income	2,388	2,190
Value change, properties	1,390	2,445
Total	3,778	4,635
Opening property value	53,218	42,573
Closing property value	59,658	53,218
Adjustment of value change for the period	-1,390	-2,445
Adjusted average property value	55,743	46,673
Total yield	6.8%	9.9%

Profit from property management	Jan-Sep 2020	Jan-Sep 2019
Profit/loss after financial items	1,370	1,276
Reversal		
<i>Value changes, associated companies</i>	45	71
<i>Tax, associated companies</i>	-7	-13
Profit from property management	1,408	1,335

Interest-coverage ratio	Oct 2019-Sep 2020	Oct 2018-Sep 2019
Operating profit	2,265	2,013
Net financial items	-452	-391
Interest-coverage ratio	5.0 times	5.1 times

Operating cash flow	Jan-Sep 2020	Jan-Sep 2019
Profit from property management	1,408	1,335
Reversal		
<i>Profit from property management participations in associated companies</i>	-30	-30
<i>Depreciation</i>	7	8
<i>Tax paid</i>	-110	-84
Operating cash flow	1,275	1,229

Loan-to-value ratio	30 Sep 2020	30 Sep 2019
Interest-bearing debt	38,431	36,008
Cash and cash equivalents	-1,249	-1,747
Current investments	0	-375
Net debt	37,182	33,886
Market value of investment properties	59,658	53,218
Investments in associated companies	719	622
Total	60,377	53,840
Loan-to-value ratio	61.6%	62.9%

Debt-coverage ratio	30 Sep 2020	30 Sep 2019
Cash and cash equivalents	1,249	1,747
Current investments	0	375
Undrawn committed credit facilities	11,500	11,616
Available liquidity	12,749	13,738
Short-term borrowing	9,211	8,903
Debt-coverage ratio	138%	154%

Share of secured debt	30 Sep 2020	30 Sep 2019
Secured debt outstanding	0	0
Market value of properties	59,658	53,218
Share of secured debt	0.0%	0.0%

Questions and more information

For more information, please contact:

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

Financial calendar

Year-end report 2020	5 February 2021
Annual Report	March 2021
Interim report Jan-Mar 2021	29 April 2021
Annual General Meeting	29 April 2021
Half-year report Jan-Jun 2021	15 July 2021
Interim report Jan-Sep 2021	27 Oct 2021

