

Q3

Interim Report
1 January - 30 September 2019

Interim report

Q3 2019

1 JANUARY - 30 SEPTEMBER 2019

- Rental income increased to SEK 1,435 million (1,316)
- Net operating income increased to SEK 763 million (699)
- Income from property management increased to SEK 285 million (217)
- Unrealized changes in the value of investment properties amounted to SEK 1,283 million (3,085)
- Changes in the value of financial instruments of SEK -7 million (-37)
- Profit before tax amounted to SEK 1,584 million (3,244)
- Profit after tax amounted to SEK 1,212 million (2,709)
- Earnings per share amounted to SEK 13.12 (30.97) before dilution and amounted to 13.06 (30.91) after dilution

THE QUARTER IN BRIEF

- Vonovia SE, through its wholly-owned subsidiary HomeStar InvestCo AB ("Vonovia"), has entered into an agreement with Hembla's largest shareholder Vega Holdco S.à r.l., an entity wholly owned by real estate funds advised by The Blackstone Group Inc. ("Blackstone"), whereby Vonovia acquires approximately 69.30 per cent of the voting rights and approximately 61.19 per cent of the share capital in Hembla, at a price of SEK 215 per share. According to Vonovia, the completion of the transaction is subject to clearance by the merger control authorities.

KEY FIGURES*

Amounts in SEK million	2019 Jan-Sep	2018 Jan-Sep	2019 Jul-Sep	2018 Jul-Sep	2018 Jan-Dec
Rental income, SEK m	1,434.9	1,316.0	479.0	463.6	1,786.6
Net operating income, SEK m	762.8	699.0	274.3	267.6	931.0
Gross margin, %	53.2	53.1	57.3	57.7	52.1
Income from property management, SEK m	284.9	216.6	121.0	97.2	301.8
Profit after tax, SEK m	1,211.8	2,709.5	207.5	881.1	3,307.6
Earnings per share SEK, basic	13.12	30.97	2.24	9.58	37.31
Earnings per share SEK, diluted	13.06	30.91	2.22	9.55	37.23
Equity per share, SEK	149.12	129.81	149.12	129.81	136.31
Equity EPRA NAV per share, SEK	184.41	158.13	184.41	158.13	167.09
Equity EPRA NNNNAV per share, SEK	171.00	144.61	171.00	144.61	152.58
Fair value properties, SEK m	33,508.1	30,139.0	33,508.1	30,139.0	31,091.2
Equity ratio, %	38.7	36.9	38.7	36.9	37.5
Equity ratio EPRA NAV, %	47.8	44.9	47.8	44.9	46.0

*Definitions - see page 21

Statement from the CEO

A functional property management organization

The third quarter was the first quarter where we from the start operated in our new functional property management organization. Organizational changes are processes, which requires time for both preparation and implementation. It is also essential to continuously evaluate efforts in order to further develop the organization and the work ahead. The third quarter is therefore a clear first indication on where we stand.

There is no doubt that we have taken large steps towards the main goal for the organizational change; to further deliver on our promise to always put the tenant first and at the same time offer our employees opportunities for good professional development. I am convinced that improvement must be immediately visible, both internally among our employees, but also for our tenants. This creates motivation for the employees and increased tenant satisfaction.

The new property management organization's work processes and routines have provided immediate and noticeable results. During September we launched a new central phone number to our customer service for all our communities. Thanks to this, we have increased our availability and the hours that tenants can get in contact with us. On a weekly basis, we receive approximately 5,000 calls to the new service center number, and we have the capacity to provide our tenants service in 13 different languages. This has not only increased our availability and service level but has also simplified the process for tenants to reach us. New ways of conducting maintenance rounds of our properties and communities have taken us big steps towards being able to offer our tenants even better living environments, as evidenced by the feedback from tenants in many of our communities.

We have also gained a new and strengthened leadership within property management with functional heads and group managers, who are responsible for the operations going forward. This has created new career paths within the company and provides opportunities to retain talented and highly motivated employees.

Refurbishment campaigns

Communicating the benefits of being a tenant with us to our existing tenants are important. We have an attractive offering that lets our tenants choose if they would like a more modern standard in their living. The interest for that offering is large. During the summer months we performed a targeted campaign to tenants living in unrefurbished apartments in a few selected communities. The purpose of the campaign was to market the possibility to get the tenants' current apartment refurbished, but also to conduct a pilot on a new working method. The campaign became a big success and the method to market our offerings this way will be implemented in the entire portfolio and be further developed.

Community development and tenant dialogues

With a large number of ongoing development projects in our communities a number of tenant dialogues have been conducted during the quarter to listen to the tenants' views on how the communities should be developed. The tenant dialogues are important forums where the tenants are given the opportunity to influence their own living

environments outside their apartments. A positive and encouraging conclusion from all the dialogues we have conducted during the quarter is that the vast majority of all our tenants feel very at ease in their communities. Refurbishment and upgrading efforts have a positive impact on the tenants' views of the area and their willingness to continue living there. This comes as no surprise, but it is a clear acknowledgement that our business efforts create value not only for us as a company but also for our tenants, the specific communities and the community at large.

We have also intensified the work on the development of our commercial facilities within the property portfolio during the quarter. I am convinced that a central part of a pleasant community is that local services and public services are close by. This is also something that has been highlighted in our tenant dialogues. In one of the tenant dialogues we conducted in our portfolio on Albyberget in Botkyrka municipality it became clear that, for instance, the demand of different types of commercial services is large. As digitization continues more and more purchases are made online and the demand for parcel delivery service points for goods purchased online is large among our tenants. As property owners we have the opportunity to influence this development and within this area there is a large potential for business development. The commercial- and community development work that have been intensified during this quarter will continue in the same pace when we now enter the fourth and last quarter of the year.

New joint venture projects

We are working with three main objectives to create socially sustainable communities. It is about strengthening the sense of community, increase the tenants' influence and enable improved networks and relationships between people who live and stay in the communities. The most important focus area is perhaps the cooperation with other parties to reach these objectives. If we can cooperate with other parties with a similar approach we will have a large impact. That is



We have an attractive offering that lets our tenants choose if they would like a more modern standard in their living.

The interest for that offering is large.

why we entered a new cooperation with Haninge municipality and the organization A Healthy Generation during the third quarter of the year. The cooperation is an ambitious and long-term project to improve public health. Through the project we will contribute to offering families with children in our communities the possibility to participate in activities for a year free of charge. This will give more families the opportunity to an active leisure, better health and increased quality of life.

During the third quarter, we have initiated a cooperation with Eskilstuna United's women's football club in a project targeting young girls living in Årby in Eskilstuna. Within the framework of the concept Ronjabollen, football is used as a tool to engage and strengthen young girls with limited experience from such activities. In this proven working method the participants are introduced to working with values on among other things health, self esteem and love in parallel to the football activities. Ronjabollen was developed in Gottsunda in Uppsala where the initiative has delivered good results. Through this, we are contributing to making Årby an even more safe and pleasant community.

Changes in ownership structure

During September it was announced that the German residential real estate company Vonovia had agreed to acquire the current majority owner Blackstone Group's shares in Hembla. The acquisition is subject to approval by competition authorities, which is expected to happen during October or November. The acquisition will also trigger a mandatory bid on all remaining shares, which is also expected during the fourth quarter.

It has been a great privilege to lead this company during the years with Blackstone as majority owner. The competence and experience they have contributed with in Hembla's development have been invaluable. We had not been where we are today, without them. We have focused our strategy towards creating vibrant communities where the tenants are in focus. Blackstone has through Hembla's chairman of the board James Seppala and the rest of the board of directors been a leading force in formulating this vision. All of us in the company have been given resources and the mandate to realize this vision. Therefore, I want to thank Blackstone and their team for these amazing years.

I would also like to welcome Vonovia as new majority owner. Vonovia is a company with a strategy that is similar to Hembla's for the most part. I have visited Vonovia's operations in Germany myself for a couple of years ago and I was impressed with their focus on service, the tenants and their ambition to develop their communities to pleasant living environments. I look forward to continuing working together with Vonovia in the coming quarter to continue along this path together.

Stockholm 25 October 2019

Svein Erik Lilleland
CEO Hembla



Consolidated statement of comprehensive income

Amounts in SEK million	2019 Jan - Sep	2018 Jan - Sep	2019 Jul - Sep	2018 Jul - Sep	2018 Jan - Dec
Rental income	1,435	1,316	479	464	1,787
Operating expenses	-544	-491	-154	-142	-676
Maintenance expenses	-99	-90	-41	-42	-132
Property tax	-28	-24	-10	-8	-33
Site leasehold rent	-	-12	-	-4	-15
Total property costs	-672	-617	-205	-196	-856
Net operating income	763	699	274	268	931
Central administration	-144	-142	-51	-65	-185
Restructuring	-25	-	-	-	-
Net finance items	-298	-291	-99	-106	-395
Leasehold fee	-11	-	-4	-	-
Breakage fees refinancing	-	-49	-	-	-49
Income from property management	285	217	121	97	302
Dividend income from investments	24	5	-	-	5
Realized value changes of investment property	-1	15	-0	-0	19
Changes in value of investment property	1,283	3,085	159	1,024	3,737
Realized value changes financial derivatives	32	-40	-	-	-9
Unrealized changes in value of financial instruments	-39	3	-1	7	-12
Impairment of goodwill	-	-41	-	-0	-41
Profit before tax	1,584	3,244	278	1,127	4,001
Tax	-373	-535	-71	-246	-694
Net profit for the period	1,212	2,709	208	881	3,308
Other comprehensive income	-	-	-	-	-
Total other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	1,212	2,709	208	881	3,308
Profit attributable to:					
Owners of the parent company	1,212	2,709	208	881	3,308
Non-controlling interests	-	-	-	-	-
Total comprehensive income for the period	1,212	2,709	208	881	3,308
Profit after tax per share SEK, before dilution	13.12	30.97	2.24	9.58	37.31
Profit after tax per share SEK, after dilution	13.06	30.91	2.22	9.55	37.23

The period January – September 2019

Income statement items are compared with the corresponding period of the previous year. Balance sheet items pertain to the position at the end of the period and are compared with the corresponding period of the previous year. The quarter refers to July–September. The year and period refer to January–September.

Rental income and net operating income

Income for the period increased to SEK 1,435 million (1,316). The increase in income is a consequence of acquisitions as well as a continued high pace in apartment refurbishments, which has positively impacted rental income. For a comparable portfolio the rental income increased by SEK 49 million corresponding to a 4.2 percent increase.

The total property costs for the period amounted to SEK -672 million (-617). For a comparable portfolio the operating costs increased by SEK 26 million, corresponding to 4.8 percent. The increase is mainly due to continued proactive approach in respect of maintenance in combination with strengthened property management and increased security measures.

The net operating income, i.e. total income minus bad debt losses, operating and maintenance costs, property administration and property taxes for the period amounted to SEK 763 million (699), yielding a gross margin of 53.2 percent (53.1)****. For a comparable portfolio the net operating income increased by SEK 22 million corresponding to a 3.6 percent increase and the gross margin has decreased by 0.3 percentage points to 52.8 percent.

Administration costs

Administration costs during the period amounted to SEK -144 million (-142). Restructuring refers to the reorganization that is carried out within the property management department in order to provide increased accessibility and service to our tenants and enable a more efficient work with the tenant in focus.

Net financial items

Net financial items during the period amounted to SEK -298 million (-291). The interest coverage ratio amounted to 2.0 times (1.6) for the period.

Income from property management

Income from property management (i.e. profit before changes in value and taxes) for the period amounted to SEK 285 million (217).

Changes in value in investment properties

During the period, changes in value on investment properties affected the profit in the amount of SEK 1,283 million (3,085). The average return requirement in the valuation is 3.66 percent (3.74) at the end of the period and the decrease is a result of stronger market conditions.

COMPARABLE PORTFOLIO*

Amounts in SEK million	2019 30 Sep	2018 30 Sep	
Number of apartments**	18,041	18,038	
Market value properties, SEK m	27,939	25,041	
Refurbished apartments, #	6,077	4,713	
Refurbished apartments, %	33.7%	26.1%	

Amounts in SEK million	2019 Jan - Sep	2018 Jan - Sep	Change %
Rental income	1,219	1,170	4.2%
Total property expenses***	-575	-549	4.8%
Net operating income	643	621	3.6%
Gross margin	52.8%	53.1%	

*Refers to properties owned and held throughout the period 1 January 2018 to 30 September 2019;
 **Increased numbers of apartments due to apartment splits
 *** Site leasehold rent has in the comparable portfolio had been moved from net operating income to income from property management for both 2019 and 2018 as a result of IFRS 16
 **** Site leasehold rent had been moved from net operating income to income from property management for 2019 in the income statement however not for 2018 as a result of IFRS 16

The value changes during the quarter related to the investment properties mainly pertain to improved net operating income.

Changes in values of financial instruments

The changes in market value for the period affected the profit by SEK -7 million (-37). The decrease is primarily due to a previous non-recurring cost related to a termination of a swap agreement in connection to a refinancing which closed in the first quarter 2018.

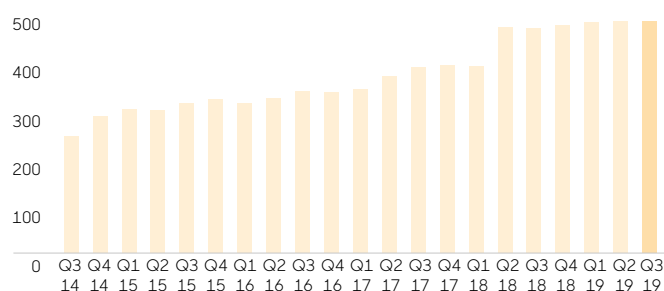
Tax

The profit before tax amounted to SEK 1,584 million (3,244). The tax cost for the period amounted to SEK -373 million (-535), of which SEK -6 million (0) consists of income tax, SEK -455 million (-634) consists of deferred tax related to temporary differences on investment properties, SEK 6 million (-15) consists of changes in value for derivatives, SEK 2 million (0) consists of deferred tax temporary differences on shares and SEK 80 million (118) consists of an increase in loss carryforwards. The effective tax rate for the period is 23.5 (16.5) percent.

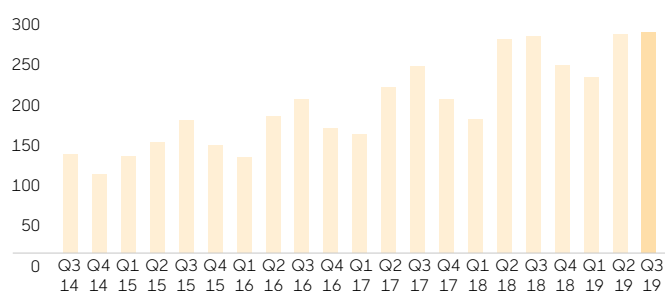
Profit

The profit for the period after tax amounted to SEK 1,212 million (2,709), which corresponds to SEK 13.12 (30.97) per ordinary share before dilution, and SEK 13.06 (30.91) per share after full dilution.

RENTAL INCOME PER QUARTER, SEK MILLION



NET OPERATING INCOME PER QUARTER, SEK MILLION



Consolidated statement of financial position

Amounts in SEK million	2019 30 Sep	2018 30 Sep	2018 31 Dec
ASSETS			
Non-current assets			
Intangible fixed assets	629	598	598
Leaseholds	410	-	-
Investment properties	33,508	30,139	31,091
Equipment	9	15	15
Shares	3	3	3
Non-current receivables	1	1	1
Deferred tax assets	-	565	630
Interest rate derivatives	1	27	18
Total non-current assets	34,560	31,348	32,356
Current assets			
Current assets	81	237	204
Cash and cash equivalents	1,172	836	892
Total current assets	1,252	1,073	1,095
TOTAL ASSETS	35,812	32,421	33,451
EQUITY AND LIABILITIES			
Shareholders' equity	13,857	11,954	12,552
Non-current liabilities			
Non-current interest-bearing liabilities	16,544	15,558	15,385
Leasing liabilities	410	-	-
Deferred tax liabilities	3,164	3,205	3,427
Interest rate derivatives	17	1	5
Total non-current liabilities	20,135	18,764	18,817
Current liabilities			
Current interest-bearing liabilities	1,251	1,109	1,483
Other current liabilities	570	594	598
Total current liabilities	1,821	1,703	2,082
TOTAL EQUITY AND LIABILITIES	35,812	32,421	33,451
Equity attributable to:			
Parent Company shareholders	13,857	11,954	12,552
Non-controlling interests	-	-	-
Total equity	13,857	11,954	12,552

Consolidated statement of financial position

Investment properties

The Group's property portfolio at the end of the period consisted of 1,688,871 sq m (1,693,623) with a current residential rental value of SEK 1,824 million (1,754). The investment properties are reported at real value and amounted, at the end of the period to SEK 33,508 million (30,139) which corresponds to a value of SEK 19,841 SEK/m² (17,796). The Group's property portfolio at the end of the period consisted of 21,413 apartments (21,481). For further information, please refer to pages 12-13.

Intangible fixed assets

The value of intangible fixed assets amounted to SEK 629 million (598) at the end of the period and consists of goodwill primarily from the acquisition of Hyresbostäder i Sverige II AB, SEK 597 million (598), and of capitalized development costs SEK 32 million (-). Leaseholds consists of capitalized site-leasehold fees SEK 377 million (-) and capitalized agreed future rental payments of SEK 33 million (-), according to IFRS16. Further see page 19.

Current assets

Other current assets at the close of the period amounted to SEK 81 million (237), and relate primarily to prepaid expenses of SEK 29 million (70) and other short term assets of SEK 42 million (68). The amount in the previous year contains short-term investments in shares of SEK 92 million.

Cash and cash equivalents

The Group's cash and cash equivalents at the end of the period amounted to SEK 1,172 million (836). In addition Hembla has an unused credit facility amounting to SEK 300 million (100). The largest items that have affected cash on account for the period was cash flow from

operating activities SEK 429 million (125), investments in properties of SEK -1,133 million (-1,030) and net borrowing of SEK 899 million (3,709) during the period.

Equity

The Group's shareholders' equity amounted to SEK 13,857 million (11,954) as per 30 September 2019 and the equity ratio was 38.7 percent (36.9). The change in the Group's shareholders' equity is mainly related the profit for the period. During the period 807,000 warrants have been exercised in exchange for 836,859 shares of series B, within the framework of the company's incentive program which was adopted at the annual general meeting 2016.

Deferred tax

The deferred tax liabilities amounts to SEK 3,164 million (3,205) and consists of deferred tax liabilities of SEK 3,859 million (3,205), less tax assets SEK 695 million (-). Previously the items in specific have been reported, but are now reported net.

Interest-bearing liabilities

The Group's total interest-bearing liabilities amount to SEK 17,795 million (16,667) and is decreased by prepaid arrangement fees of SEK -129 million (-162). Further see pages 14-15. Leasing liability amounts to SEK 410 million (-) and consists of capitalized site-leasehold fees of SEK 377 million (-) and capitalized agreed future rental payments of SEK 33 million (-).

Other current liabilities

Total other current liabilities amount to SEK 570 million (594) and mainly consist of accounts payable, other current liabilities as well as accrued expenses and prepaid income.



Consolidated statement of changes in equity

Amounts in SEK million	Share capital	Other additional paid-in capital	Retained earnings including profit for the year	Equity attributable to Parent Company shareholders	Total equity capital attributable to shareholders
Equity, 2018-01-01	1,004	2,566	4,473	8,043	8,043
Total comprehensive income January - September 2018	-	-	2,709	2,709	2,709
Other comprehensive income January - September 2018	-	-	-	-	-
New share issue	143	856	-	999	999
Directed new share issue	13	112	-	125	125
Subscription of warrants	13	64	-	77	77
Closing equity, 2018-09-30	1,173	3,597	7,182	11,954	11,954
Total comprehensive income October - December 2018	-	-	599	599	599
Other comprehensive income October - December 2018	-	-	-	-	-
Subscription of warrants	-	-	-	-	-
Closing equity, 2018-12-31	1,173	3,597	7,781	12,552	12,552
Total comprehensive income January - September 2019	-	-	1,212	1,212	1,212
Other comprehensive income January - September 2019	-	-	-	-	-
Subscription of warrants	11	82	-	93	93
Closing equity, 2019-09-30	1,184	3,680	8,993	13,857	13,857



Consolidated statement of cash flows

Amounts in SEK million	2019 Jan-Sep	2018 Jan-Sep	2019 Jul-Sep	2018 Jul-Sep	2018 Jan-Dec
Income from property management	285	216	121	97	302
Adjustment for items not included in cashflow	9	12	16	-15	11
Taxes paid	-0	-2	0	-0	-2
Cash flow before change in working capital	294	226	137	81	311
Increase (-) decrease (+) of working capital	135	-101	36	79	9
Cash flow from operating activities	429	125	173	160	320
Investing activities					
Investments in existing properties	-1,133	-1,030	-386	-366	-1,392
Acquisition of Group companies/properties	-	-4,007	-	6	-4,081
Acquisition of inventories	-0	-9	-0	-4	-7
Acquisition of intangible assets	-31	-	-1	-	-
Sale of properties	-1	37	-1	-0	161
Investments in financial fixed assets	-	-28	-	-30	-29
Cash flow from investing activities	-1,166	-5,037	-388	-393	-5,348
Financing activities					
New issue	93	1,202	11	7	1,202
Raised loans	4,283	7,440	199	134	7,640
Amortization of loans	-3,384	-3,731	-6	-4	-3,759
Dividend from investments	24	5	-	0	5
Cash flow from financing activities	1,016	4,916	204	138	5,087
Cash flow for the period	280	3	-10	-95	59
Cash and cash equivalents at beginning of the period	892	833	1,182	931	833
Cash and cash equivalents at end of the period	1,172	836	1,172	836	892

Property portfolio

Hembla's property portfolio consists primarily of residential properties in the Greater Stockholm region, Mälardalen and Östergötland. The property portfolio mainly comprises properties built between 1965-1974. The majority of the total property portfolio, 64 percent of the market value, is located in Greater Stockholm.

Investments and divestments

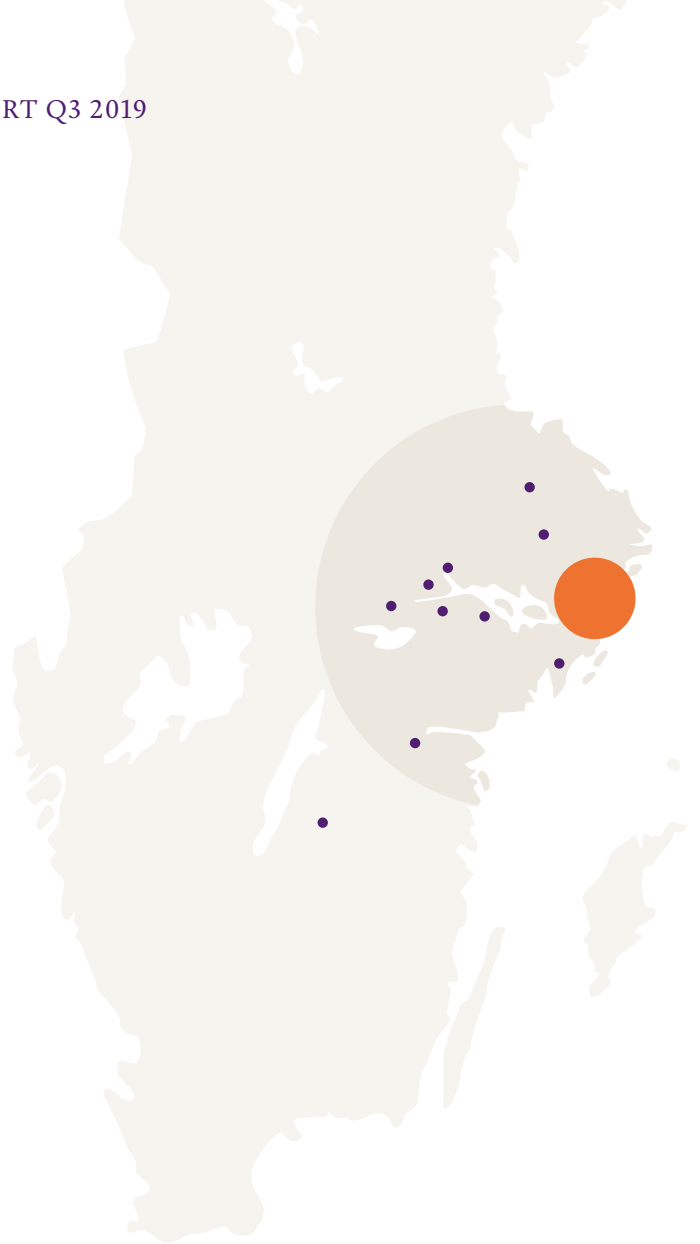
Total investments during the period amounted to SEK 1,133 million (5,624), of which SEK 558 million (674) relates to units modernization, SEK 575 million (351) relates to other investments in the properties.

Units modernization

Out of the existing portfolio of 21,413 apartments 6,719 apartments (5,189) have been renovated since 2014. During 2019, Hembla has renovated 1,072 apartments (1,169). Rents for the apartments completed during the quarter have increased from an opening average of SEK 1,052 /sq m to SEK 1,524 / sq m and 69 percent (76) of the apartments in the property portfolio remain unrenovated at the end of the period.

Property value

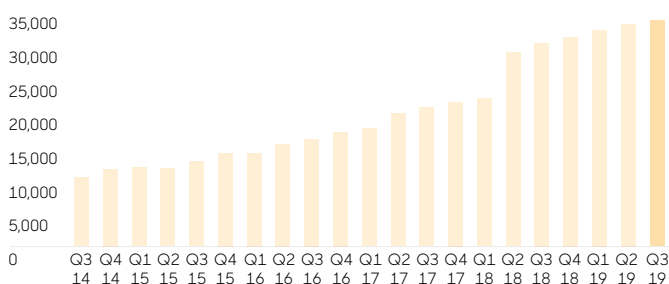
As of 30 September 2019, Hembla's property portfolio has been valued to an assessed market value of SEK 33,508 million. The valuation is based on the methodology described below, where 100 percent of the portfolio is valued externally on a quarterly basis. The external property valuations were carried out by Savills. The valuation is based on a cash flow analysis whereby the property's value is based on the present value of forecasted cash flows and the residual value during the calculation period of five years.



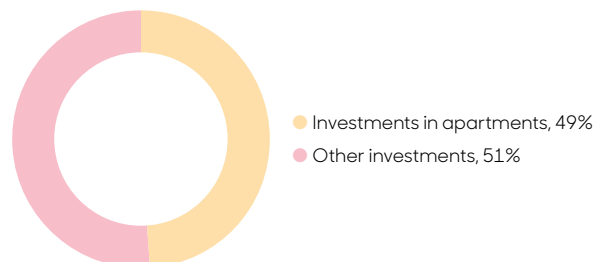
CHANGE IN CARRYING AMOUNT OF PROPERTIES

Amounts in SEK million	2019 Jan - Sep	2018 Jan - Sep
Property holdings at the beginning of the period, 1 January	31,091	21,456
Acquisitions	-	4,599
Investments in existing properties	1,133	1,025
whereof investments in apartments	558	674
whereof other investments in existing properties	575	351
Divestments	-	-27
Change in value investment properties, unrealized	1,283	3,085
Property portfolio at the end of the period, 30 September	33,508	30,139
Change in value during the period	4.0%	11.4%

PORTFOLIO VALUE BY QUARTER, SEK MILLION



INVESTMENTS DURING THE PERIOD



HEMBLA PROPERTY PORTFOLIO 2019-09-30

City/Area	Lettable area	Number of apartments	Average rent	Percentage renovated	Market value building rights, SEK m	Market value properties, SEK m
Greater Stockholm						
Kista/Husby	110,512	1,528	1,224	35.0%	71	2,608
Bromsten/Rinkeby	111,544	1,281	1,173	31.4%	84	2,292
Sollentuna	34,586	458	1,288	25.3%	26	711
Flemingsberg	40,572	573	1,092	25.0%	82	863
Värby/Värberg	66,859	863	1,137	17.1%	29	1,239
Jordbro	157,774	1,955	1,261	37.3%	88	3,191
Nynäshamn	22,677	232	1,329	50.0%	1	488
Alby	96,017	1,151	1,057	12.4%	183	2,003
Södertälje	248,029	3,351	1,306	32.8%	78	6,021
Bro	43,691	540	1,150	28.3%	27	873
Märsta	59,523	693	1,168	36.5%	49	1,115
Total Greater Stockholm	991,784	12,625	1,215	30.4%	717	21,403
Other locations						
Uppsala	75,330	985	1,224	39.3%	30	1,575
Eskilstuna	143,884	1,938	1,206	39.7%	35	2,904
Strängnäs	35,559	411	1,284	39.7%	22	723
Norrköping	173,830	2,303	1,182	37.0%	-	3,239
Katrineholm	61,326	718	1,188	38.2%	1	1,037
Arboga	47,934	549	991	22.4%	1	532
Köping	35,060	373	1,136	33.0%	-	421
Tranås	69,938	762	1,028	16.9%	-	762
Västerås	54,226	749	1,025	8.5%	2	913
Total other locations	697,087	8,788	1,155	32.8%	92	12,105
Total	1,688,871	21,413	1,190	31.4%	809	33,508

The average exit yield on units included in the valuation amounted to 3.66 percent, to be compared with 3.74 percent at the end of 2018. The average cost of capital for the period was 5.72 percent (5.80 in the end of 2018). The parameters that influence value and are used in the valuation correspond to the external appraiser's interpretation of how a prospective buyer in the market would reason, and the sum of the present value of net operating income and the residual value constitutes the market value. The assumption regarding the future cash flows is based on an analysis of:

- Future development of the market and the immediate vicinity
- The market conditions and market position of the property
- Rent terms and conditions in line with the market
- Operating and maintenance costs of similar properties in comparison with those in the property in question

The total change in value in the property portfolio during the period was 4.0 percent (11.4). The value changes during the quarter related to the investment properties pertain to improved net operating income and lower return requirements as a result of stronger market fundamentals.

Building rights

There is an opportunity to develop projects on land that is currently unexploited across the portfolio or used for other purposes than housing.

Hembla is therefore working actively to secure approvals necessary to develop building rights on its own land. The total area of potential building rights is estimated at 735,900 sq m GFA (gross floor area), covering estimated 5,136 residential units. As of 30 September 2019, potential building rights have been assigned a market value of SEK 809 million, compared to SEK 804 million at 30 September 2018.

Municipality	Estimated potential new building rights, sq m GFA	Estimated number of apartments	Initiated zoning process, sq m GFA	Approved zoning plan, sq m GFA
Stockholm	83,800	955	28,800	-
Haninge	88,000	950	-	-
Huddinge	59,500	660	8,000	-
Södertälje	78,000	600	20,000	-
Uppsala	42,500	530	-	-
Eskilstuna	24,000	272	-	6,600
Sigtuna	30,000	300	30,000	-
Strängnäs	28,000	340	28,000	-
Upplands-Bro	22,400	295	-	2,400
Sollentuna	8,000	110	8,000	-
Katrineholm	2,300	30	-	2,300
Alby*	254,900	82	-	5,400
Västerås	10,000	n/a	-	-
Arboga	1,000	12	-	1,000
Nynäshamn	3,500	n/a	-	-
Total	735,900	5,136	122,800	17,700

*Of 254,900 GFA there is a building permit on 5,400 sq m.

Financing

Hembla strives to achieve a balance between debt financing and equity, with the long-term objective that the equity ratio should not fall below 30 percent and that the loan-to-value ratio shall not exceed 65 percent.

Capital structure

On 30 September 2019, Hembla's assets were valued at SEK 35,812 million (32,421), financed through equity of SEK 13,857 million (11,954), deferred tax liability of SEK 3,164 million (3,205), interest-bearing liabilities of SEK 18,205 million (16,667), as well as non-interestbearing liabilities SEK 587 million (594).

Interest-bearing liabilities

At the end of the period, Hembla had interest-bearing liabilities to credit institutions totalling SEK 17,924 million, corresponding to a loan-to-value of approximately 53 percent including building rights (53). Out of the interest-bearing liabilities to credit institutions SEK-129 million (-162) refers to prepaid arrangement fees. The senior unsecured bond has been repaid in the period (SEK 1,000 million).

Maturity

The average term to maturity on loans owed to credit institutions is 5.6 years. No interest-bearing liabilities to credit institutions mature in 2019.

Fixed interest and average interest rate

The average interest rate on total interest-bearing liabilities at the end of the period was 2.0 percent (2.1).

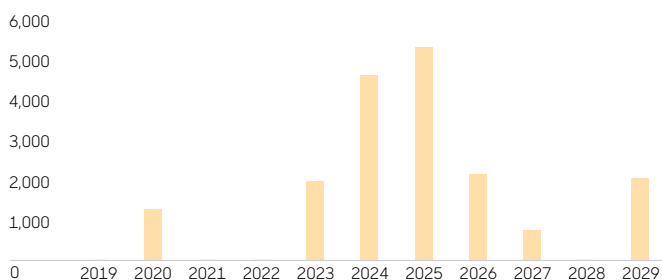
Interest rate derivatives, interest rate caps

Hembla uses interest rate derivatives and interest cap agreements. As of 30 September 2019, the market value of the interest rate derivatives portfolio was SEK -16 million (26). Hembla has seven interest rate cap agreements amounting to SEK 4,430 million, with approximately 4 years duration with an agreed rate cap of Stibor 3 percent and one interest rate cap agreement amounting to SEK 4,331 million, with approximately 5 years duration with an agreed rate cap of Stibor 2.5 percent.

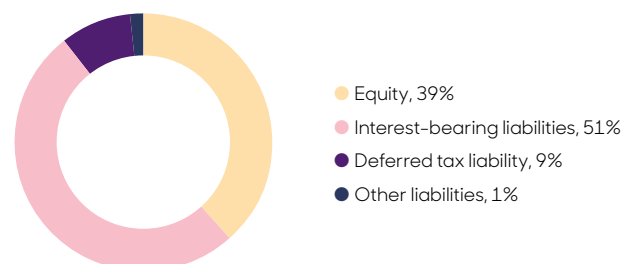
FINANCIAL TARGETS

Goals	Comment
Gross margin of at least 50 percent	The gross margin for the period amounted to 53.2 percent (53.1). The first and the fourth quarter are typically the quarters with highest costs.
Loan-to-value ratio not exceeding 65 percent	Loan-to-value ratio on properties and building rights adjusted for cash & cash-equivalents amounted to 50 percent (53) as of 30 September 2019.
Equity ratio of at least 30 percent	As of 30 September 2019, the equity ratio was 38.7 percent (36.9) which is above the long-term financial target.

MATURITY SCHEDULE 30-09-2019 TOTAL INTEREST-BEARING DEBTS, SEK MILLION



CAPITAL STRUCTURE



INTEREST RATE TERM AND LOAN MATURITY 30-09-2019, TOTAL INTEREST-BEARING DEBTS

Maturity	Interest maturity schedule			Principal maturity	
	SEK million	Interest	Percentage	SEK million	Percentage
Floating	16,184	1.9%	90%	-	0%
2019	-	-	0%	-	0%
2020	795	2.3%	4%	1,251	7%
2021	-	-	0%	-	0%
2022	-	-	0%	-	0%
2023	944	2.3%	5%	1,956	11%
2024	-	-	0%	4,589	26%
2025	-	-	0%	5,267	29%
2026	-	-	0%	2,118	12%
2027	-	-	0%	725	4%
2028	-	-	0%	-	0%
2029	-	-	0%	2,018	11%
Total/average	17,924	2.0%	100%	17 924	100%
Prepaid arrangement fee	-129			-129	
Total	17,795			17,795	

DERIVATIVES 30-09-2019

Amounts in SEK million	Nominal amounts	Percentage	Fair value 30-09-2019	Fair value 31-12-2018	Change for the period
Nominal interest rate swaps & Caps	10,500	100%	-16	13	-29
Total	10,500	100%	-16	13	-29



Parent company

INCOME STATEMENT IN BRIEF

Amounts in SEK million	2019 Jan - Sep	2018 Jan - Sep
Net sales	52	69
Operating expenses	-109	-145
Restructuring reserve	-25	-
Profit/loss before financial items	-82	-76
Financial items		
Net interest	-37	-48
Received dividend	24	5
Changes in value, financial instruments	32	23
Profit/loss before tax	-64	-96
Group contribution	-	-
Taxes	4	24
Profit for the period	-59	-72

Parent Company

The operations conducted by Hembla AB consist of overarching group functions. The parent company does not own any properties directly. During the period, the parent company's revenues amounted to SEK 52 million (69) and the loss for the period was SEK -59 million (-72). Revenues relate mainly to services on behalf of group companies. Cash and cash equivalents at the end of the period amounted to SEK 62 million (226). Subsidiaries have repaid debts to the parent company of SEK 1 billion during the period in connection with the repayment of the un-secured bond.

BALANCE SHEET

Amounts in SEK million	2019 30 Sep	2018 30 Sep
ASSETS		
Non-current assets		
Intangible assets	5	-
Equipment	2	2
Shares and participations in subsidiaries	5,573	5,571
Shares, other companies	0	0
Receivables from group companies	782	327
Non-current receivables	1	1
Derivatives	0	1
Deferred tax assets	150	146
Total non-current assets	6,513	6,047
Current assets		
Receivables from group companies	947	4,690
Current placement	13	11
Current receivables	0	33
Cash and cash equivalents	62	226
Total current assets	1,022	4,960
TOTAL ASSETS	7,535	11,005
EQUITY AND LIABILITIES		
Shareholders equity	4,068	4,079
Non-current liabilities		
Interest-bearing liabilities	0	-
Liabilities to group companies	418	-
Total non-current liabilities	418	-
Current liabilities		
Interest-bearing liabilities	-	996
Other non-interest bearing liabilities	56	53
Liabilities to group companies	2,992	5,877
Total current liabilities	3,048	6,926
TOTAL EQUITY AND LIABILITIES	7,535	11,005

The shares and shareholders

The share

At the end of the period, Hembla had 7,185 (7,585) shareholders. The market capitalization was SEK 18,703 million (14,629) (refers to listed class B shares). Hembla has two share classes: class A (five votes) and class B (one vote) ordinary shares.

The class B shares are listed on Nasdaq Stockholm, Midcap. In total, there are 6,136,989 class A shares, 86,787,317 class B shares totaling 92,924,306 ordinary shares. After full exercise of warrants LTIP 2017 (2,831,010 shares), the total number of shares would amount to 95,755,316 ordinary shares. The shares have a quotient value of 12.74.

Dividend

At the annual general meeting it was decided that no dividend is to be paid for the 2018 financial year.

Warrants program

The Company has one active warrants programs, LTIP 2017, carrying an entitlement to subscribe for class B shares. During the period 807,000 warrants have been exercised in exchange for 836,851 shares of series B, within the framework of the company's incentive program which was adopted at the annual general meeting 2016.

Share performance

The share price has increased in 2019, with the price rising during the period from the year-end price of SEK 148 for class B share to SEK 215.5 on 30 September 2019.

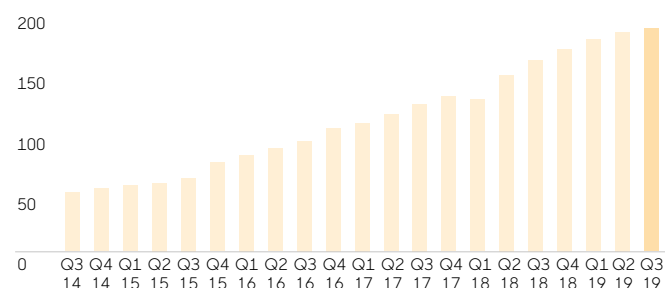
LARGEST SHAREHOLDERS 30-09-2019*

	Holding, A-shares	Holding, B-shares	Capital	Votes
**Vega Holdco S.à r.l.	6,136,989	50,722,985	61.2%	69.3%
Länsförsäkringar Fastighetsfond	-	4,464,580	4.8%	3.8%
Didner & Gerge Småbolag	-	2,354,789	2.5%	2.0%
BNY Mellon SA/NV (Former BNY), W8IMY	-	2,327,791	2.5%	2.0%
State Street Bank and Trust Co, W9	-	2,181,025	2.3%	1.9%
J.P. Morgan Securities PLC, W8BENE	-	1,584,391	1.7%	1.3%
Svenskt Näringsliv	-	1,100,000	1.2%	0.9%
CBNY-Norges Bank	-	932,211	1.0%	0.8%
HomeStar InvestCo AB	-	789,690	0.8%	0.7%
Sensor Sverige Select	-	750,580	0.8%	0.6%
Other	-	19,579,275	21.1%	16.7%
Total	6,136,989	86,787,317	100.0%	100.0%

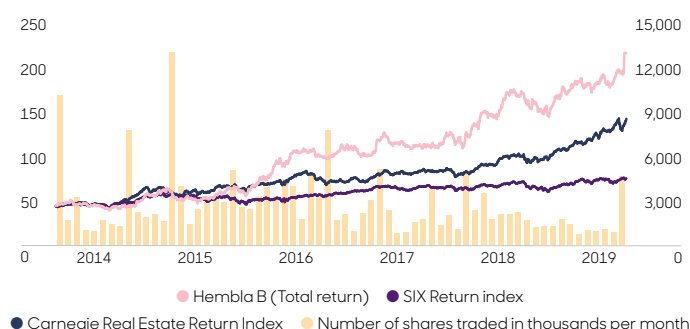
* Source: Euroclear

** Vega Holdco S.à r.l., an entity wholly owned by real estate funds advised by affiliates of The Blackstone Group L.P

EPRA NAV BY QUARTER, SEK PER SHARE



THE SHARE



Other disclosures

Employees

At the end of the period, the parent company had 53 (36) employees. The Group had 265 (273) employees at the end of the period. The breakdown was 111 women (117) and 154 men (156).

Related-party transactions

Hembla's relationships with related parties are set out in Note 24 of Hembla's Annual Report for 2018. Apart from this, related-party transactions have occurred through purchases from companied related to board member Karolina Keyzer with SEK 5 million.

Otherwise, no transactions no related-party transactions during the period other than remuneration to board of directors and group management.

Risks

Risks and uncertainty factors mainly relate to changes in macroeconomic factors that may lead to higher vacancy rates and interest rates, increased costs and lower rents. Other than these risks and uncertainty factors, which are described on pages 46–47 of the Hembla AB (publ) 2018 annual report, no other material risks have been identified during the period.

Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The same accounting and valuation principles and calculation methods apart from IFRS 16 were applied as in the most recently published financial information; see the Hembla AB (publ) annual report, pages 72–76.

Investment properties are valued in accordance with IFRS 13 in accordance with level 3. The fair value of financial instruments corresponds in all material respects to the reported values. Derivatives are valued in accordance with level 2 in the fair value hierarchy, based on external valuation. The Parent Company applies the Swedish Annual Accounts Act and RFR 2 Accounting for Legal Entities.

IFRS 16 Leases is applied from 1 January, 2019. The standard requires that lessees report assets and liabilities attributable to all lease agreements, with the exception of contracts that are shorter than 12 months and / or refer to small amounts. The standard replaces IAS 17 Leases and related interpretations.

Hembla is a lessee for leaseholds and considers the leaseholds as eternal lease agreements. Leaseholds are accounted for in the balance sheet using perpetual capitalization under the item Leaseholds, this amounts to SEK 377 million. The amount is not depreciated but is valued at fair value. The corresponding amount has been accounted for as a leasing liability within the item non-current liabilities. The liability is not amortized but remains until the next renegotiation of each leasehold agreement. In the income statement, the site leasehold has been reclassified from property costs and the net operating income level to income from property management.

Hembla is a lessee for commercial premises and has accounted for a capitalized amount of future agreed rental payments under the item Leaseholds. The amount is SEK 33 million as of 30 September 2019. A corresponding amount has been accounted for as a leasing liability within the item non-current liabilities. In the income statement the rental payments have been split into one depreciation component

and one interest component using the annuity method. The interest component is included in the net finance items. As a lessee, IFRS 16 Leases has not affected Hembla's accounting.

Alternative performance measures (apm)

Hembla uses a number of Alternative Performance Measures (APMs) in interim reports and annual reports that are not defined in International Financial Reporting Standards (IFRS) or the guidelines of the European Securities and Markets Authority (ESMA). These measures are used to provide valuable, complementary information to investors as well as company management in order to analyse and evaluate the company's business. The APMs are not always comparable with measures that are used by other companies and shall be viewed as a complement to measures defined in IFRS. For definitions and descriptions of key ratios, see Hembla's website: <https://www.hemblagroup.se/en/definitions-of-key-ratios/>.

Significant events

No significant events have occurred after the period.

The board's affirmation

The Board of Directors and the CEO affirm that the report provides a fair review of the operations, financial position and results of the Parent Company and the Group and describes the material risks and uncertainty factors facing the Parent Company and the companies included in the Group.

James Seppala, Chairman of the Board

Fredrik Brodin

Donatella Fanti

Melissa Pianko

Karolina Keyzer

Patrick Forslund

Svein Erik Lilleland, CEO

Stockholm, 25 October 2019

This is a translation from the swedish original

Review report

To the Board of directors at Hembla AB (publ)
Corporate identity number 556498-9449

Introduction

We have reviewed the condensed interim report for Hembla AB (publ) as at September 30, 2019 and for the nine months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 Review of Interim Financial Statements Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, October 25, 2019
Ernst & Young AB

Mikael Ikonen
Authorized Public Accountant

Ingemar Rindstig
Authorized Public Accountant

Earnings capacity

Current earnings capacity for comparable portfolio

The table below reflects Hembla's earnings capacity on a 12-month basis as of 30 September 2019.

The rental value is based on the property portfolio's rent roll on 30 September 2019, assessed property expenses and central administration costs during 2019. For ongoing refurbishments as of 30 September 2019, post-refurbishment rent is used. Net financial items were calculated based on interest-bearing liabilities and assets as of 30 September 2019 and with consideration given to the interest rate terms applicable on that date. It is important to note that the current earnings capacity is not to be equated with a forecast for the coming twelve months. For example, the earnings capacity does not include any assessment of rent trends, vacancies, or changes in interest rates.

The figures for the comparable portfolio are adjusted, which means that the divested and aquired properties during the period 30 September 2018 to 30 September 2019, are eliminated. Also, due to adjustments made related to other income and divestments, earnings capacity numbers stated below are not fully comparable to earnings capacity from previous reporting periods.

Furthermore, Hembla's income statement is affected by changes in the value of investment properties as well as future property acquisitions and/or property divestments. Additional items affecting earnings include changes in the value of derivative instruments. None of the foregoing factors have been taken into account in the current earnings capacity.

The current earnings capacity also does not take into consideration the effects of coming general changes in rent levels or changes in rent levels on future renovated apartments.

CURRENT EARNINGS CAPACITY, COMPARABLE PORTFOLIO

Amounts in SEK million	Current portfolio	Comparable portfolio				
	2019 30 Sep	2019 30 Sep	2019 30 Jun	2019 31 Mar	2018 31 Dec	2018 30 Sep
Rental income	1,967	1,963	1,948	1,919	1,901	1,888
Operating expenses	-744	-743	-721	-721	-702	-702
Maintenance expenses	-132	-132	-106	-106	-100	-100
Property tax	-38	-38	-35	-35	-36	-36
Net operating income	1,052	1,050	1,086	1,056	1,062	1,050
Central administration	-194	-194	-187	-187	-126	-126
Net financial items	-365	-365	-362	-342	-323	-330
Financial cost convertible bond/other bond	0	0	0	-40	-40	-40
Site leasehold rent*	-15	-15	-15	-15	-16	-16
Income from property management	478	476	522	472	558	538

*Site leasehold rent has been moved from net operating income to income from property management as a result of IFRS 16.



Key Figures

	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Finance										
Equity, SEK m	13,856.9	13,638.4	13,128.5	12,552.5	11,954.0	11,065.6	9,166.2	8,043.2	7,695.4	7,160.3
Return on equity, %	1.5	3.2	4.5	4.9	7.7	16.5	2.5	4.4	6.8	6.6
Equity ratio, %	38.7	38.6	37.7	37.5	36.9	35.5	33.9	34.0	34.8	34.0
Equity ratio, Adjusted, %*	47.8	47.7	46.3	46.0	44.9	43.1	41.5	42.6	43.5	42.3
Interest coverage ratio	2.2	1.9	1.7	1.8	1.9	2.1	1.0	1.7	2.8	2.4
Loan-to-value ratio, %	50.0	50.2	50.8	51.7	52.8	54.6	49.8	53.9	54.4	55.7
Loan-to-value ratio properties, %	53.5	53.8	52.6	51.5	52.5	54.5	57.7	49.1	46.5	46.7
Financial cost, total interest-bearing debts, average interest rate, %	2.0	2.0	2.1	2.1	2.1	2.1	2.2	2.5	2.4	2.5
Financial cost, interest-bearing debts financial institutions, average interest rate, %	2.0	2.0	2.0	2.0	1.9	2.0	1.9	2.2	2.0	2.1
Property related**										
Income, SEK m	479.0	478.9	477.0	470.6	463.6	466.1	386.3	387.7	382.8	364.6
Net operating income, SEK m	274.3	270.9	217.6	232.0	267.6	265.4	166.0	191.0	231.1	205.3
Income from property management, SEK m	123.2	94.4	69.5	85.2	97.2	118.2	1.4	62.0	135.2	100.2
Changes in value in management properties, SEK m	158.6	465.7	659.2	652.2	1,023.6	1,839.5	221.9	390.0	514.2	457.2
Net profit for the period, SEK m	207.5	428.2	576.1	598.1	881.1	1,672.0	155.8	350.1	524.8	475.1
Gross margin, %	57.3	56.6	45.6	49.3	57.7	56.9	43.0	49.3	60.4	56.3
Yield, %	3.3	3.4	2.8	3.0	3.6	4.2	3.1	3.6	4.6	4.5
Market value, SEK m	33,508.1	32,963.8	32,115.5	31,091.2	30,138.9	28,761.3	21,952.5	21,455.6	20,593.6	19,726.0
Lettable area, thousand sq m	1,688.9	1,688.8	1,688.7	1,689.9	1,693.6	1,692.7	1,427.5	1,426.8	1,425.7	1,424.9
Market value, SEK/sq m	19,840.5	19,518.9	19,018.3	18,398.3	17,795.5	16,990.9	15,378.1	15,038.0	14,444.9	13,843.5
Refurbished apartments during the quarter, number***	340	411	321	457	355	441	373	507	351	428
Refurbished apartments during accumulated year, number***	1,072	732	321	1,626	1,169	814	373	1,673	1,166	815
Total number refurbished apartments, number***	6,314	5,972	5,561	5,240	4,783	4,428	3,987	3,614	3,107	2,756
Percentage unrefurbished apartments, %	69	70	72	74	76	78	78	80	85	85
Average exit yield in the valuation, %	3.66	3.66	3.66	3.74	3.74	3.86	4.10	4.15	4.21	4.29
Average rent prior to renovation for apartments which have been renovated during the period, SEK/sq m***	1,052	1,047	1,034	1,023	1,037	1,022	1,028	1,023	1,038	1,044
Average rent post renovation for apartments which have been renovated during the period, SEK/sq m***	1,524	1,541	1,548	1,528	1,506	1,484	1,498	1,529	1,486	1,493
The Share										
Equity per share, SEK	149.12	146.93	142.57	136.31	129.81	120.29	102.38	102.09	97.70	90.90
Equity EPRA NAV per share, SEK°	184.41	181.25	175.29	167.09	158.13	145.98	125.35	127.90	122.04	113.12
Equity EPRA NNNNAV per share, SEK	171.00	168.12	162.70	152.58	144.61	137.47	114.37	114.95	109.44	101.23
Profit after tax per share, SEK****	2.24	4.64	6.26	6.50	9.58	18.41	1.98	4.51	6.76	6.14
Profit after tax per share after dilution, SEK	2.22	4.62	6.23	6.47	9.55	18.37	1.96	4.48	6.73	6.11

*Definitions please refer to Hembla's website; <https://www.hemblagroup.se/en/definitions-of-key-ratios/>.

**Operational key ratios not considered alternative key ratios according to ESMA guidelines.

***Renovated apartments by Hembla.

****Key figures defined according to IFRS.

*****The new IFRS 16 (see page 19) has a smaller effect on the key ratios Equity figures, Adjusted equity ratio, Net operating income, Gross margin and Yield. Previous Quarters have not been adjusted.

Definitions

FINANCIAL KEY RATIOS

Return on equity, percent

Profit for the year in relation to average shareholders' equity.

Loan-to-value ratio (LTV), percent

Interest-bearing liabilities including net reported vendor notes after deductions for market value on listed shareholdings and cash and cash equivalents in relation to the fair value of the properties at the close of the period.

Loan-to-value ratio properties (LTV), percent

Interest-bearing liabilities with security in properties in relation to the fair value of the properties at the close of the period.

Interest coverage ratio, times

Income from property management plus financial costs in relation to financial costs.

Equity ratio, percent

Reported shareholders' equity in relation to reported total assets at the close of the period.

Equity ratio, adjusted, percent

Reported shareholders' equity adjusted for the value of derivatives, goodwill and deferred tax liabilities.

PROPERTY RELATED KEY RATIOS

Yield, percent

Net operating income recalculated on an annual basis in relation to the average market value of the management properties during the period.

Net operating income, SEK '000

Total income minus bad debt losses, operating and maintenance costs, property administration, and property taxes.

Income from property management, SEK '000

Profit before changes in value and taxes.

Realized changes in value in management properties, SEK '000

Property sales carried out after deductions for the most recent reported fair value of the properties and costs in conjunction with sale.

Total return, percent

Profit before tax in relation to market value of the property portfolio.

Changes in value in investment properties, SEK '000

This measure shows the real change of reported fair value of the properties after deductions for investments made in existing properties.

Gross margin, percent

Net operating income as a percentage of rental income.

SHARE RELATED KEY RATIOS

Shareholders' equity per share, SEK

Shareholders' equity in relation to the number of outstanding ordinary shares on the balance sheet date.

Adjusted shareholders' equity per share

Normally designated EPRA NAV, SEK, reported shareholders' equity adjusted for the value of derivatives, goodwill and deferred tax liability, in relation to the number of outstanding ordinary shares on the balance sheet date. Measurements that show long-term Net Asset Value (EPRA NAV).

Adjusted current shareholder's equity per share

Normally designated EPRA NNNNAV, SEK reported shareholders' equity adjusted for goodwill and estimated fair value of deferred tax liability, in relation to the number of outstanding ordinary shares on the balance sheet date. Tax rate used for the calculation amounts to 8%.

Profit per share, SEK

Profit for the period after taxes in relation to the average number of outstanding ordinary shares prior to dilution.

Profit per share after dilution, SEK

Profit for the period after taxes in relation to the average number of outstanding ordinary shares, including the dilutive effect of outstanding option programmes, whose subscription price exceeds market price.



Calendar 2019

Year End Report 2019

2020-02-17

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This constitutes information that Hembla AB is legally obliged to publish under the EU's Market Abuse Regulation. The information was released for publication on 25 October 2019 at 07.00 a.m. (CEST).

hembla

Hembla AB (publ) Hamngatan 15 SE-111 47 Stockholm hembla.se