

# Q3

HUFVUDSTADEN  
Interim Report January – September 2018



# HUFVUDSTADEN

## Interim Report January–September 2018

- **Gross profit from property management rose by 3 per cent to SEK 972 million (944). The increase can be attributed mainly to higher rental revenue.**
- **Net revenue from property management amounted to SEK 1,333 million (1,295), an increase of 3 per cent.**
- **Profit after tax for the period was SEK 3,137 million (2,132), equivalent to SEK 15.21 per share (10.33). The increase can be attributed mainly to higher unrealized changes in the value of the property holdings, and a deferred tax recalculation following a reduction in corporation tax.**
- **The fair value of the property holdings was SEK 42.7 billion (39.7 at the turn of the year), resulting in a net asset value of SEK 164 per share (152 at the turn of the year). The unrealized change in value for the period was SEK 2,467 million (1,878).**
- **The equity ratio was 63 per cent (62), the net loan-to-value ratio was 15 per cent (15), and the interest coverage ratio multiple was 10.0 (9.0).**
- **The rental vacancy level at the period-end was 4.1 per cent (4.3). Excluding current development projects, the rental vacancy level was 2.5 per cent (1.8).**
- **Hufvudstaden, with its highest score ever, has emerged as the company in the industry with the most satisfied office tenants according to the *Fastighetsbarometern* Customer Satisfaction Survey, Large Company category.**

### Key events during the third quarter

The new entrance to the NK department store in Stockholm has been opened in the neighbouring property Parkaden, and the new cosmetics department, NK Beauty, has been officially opened.

A new food concept, with both eat-in and take-away facilities, will open in Birger Jarlspassagen in Bibliotekstan in Stockholm. Behind the concept are the owners Adam Dahlberg and Albin Wessman.

HUGO BOSS has signed an agreement to open a store in Fredstan in Gothenburg.

Two new office tenants have signed lease agreements for premises in Nordstan in Gothenburg totalling approximately 4,800 square metres. The agreements are with Folksam, which will move into Fyran, and Alektum, which will expand their floor space rental in Femman.

### Performance measures

SEK m	Jan-Sept 2018	Jan-Sept 2017	Jan-Dec 2017
Net revenue, property management	1,333	1,295	1,751
Gross profit, property management	972	944	1,262
Unrealized changes in value, investment properties	2,467	1,878	2,848
Operating profit	3,456	2,870	4,031
Profit for the period	3,137	2,132	3,035
Fair value, properties, SEK bn	42.7	38.8	39.7
Net loan-to-value ratio, properties, %	14.9	15.3	14.6
Interest coverage ratio, multiple	10.0	9.0	9.3
Rental vacancy level, excl. projects (EPRA vacancy level), %	2.5	1.8	2.4
Result from property management after nominal tax (EPRA EPS), per share, SEK	3.80	3.62	4.84
Current net asset value (EPRA NNNAV) per share, SEK	164.00	147.00	152.00

## GROUP

### RESULTS

#### Property management

Net revenue from property management during the period amounted to SEK 1,333.1 million (1,294.6). This is equivalent to an increase of 3 per cent, of which office premises increased by 6 per cent and retail/restaurant premises by 1 per cent. Net revenue was affected by loss of income attributable to current projects, primarily the NK department store in Stockholm. The gross profit was SEK 971.9 million (943.9). The increase can be attributed mainly to higher gross rents in conjunction with renegotiated leases, new leases, and indexation.

The turnover-based rent supplement is reported during the fourth quarter, and last year it amounted to SEK 15.7 million. Apart from the turnover-based rent supplement, there are no other material seasonal variations in rents.

The property management results for each business area are reported on page 8.

#### Parking operations

Operations comprise parking provision at Parkaden AB in Stockholm. Net revenue was SEK 62.5 million (65.9). The decrease can be attributed mainly to reduced revenue from short-term parking which is affected by the construction project in the Parkaden multi-storey car park and its surroundings. Expenses totalled SEK -38.3 million (-38.1) and gross profit SEK 24.2 million (27.8).

#### Other profit and loss items

Central administration totalled SEK -29.7 million (-28.4). Unrealized changes in the value of investment properties totalled SEK 2,466.7 million (1,877.9), and changes in interest derivatives totalled SEK 22.5 million (48.4). See page 4 for further information.

#### Financial income and expense

Net financial income and expense amounted to SEK -94.2 million (-104.2). The decrease is the result of a lower rate of interest on loans.

#### Tax

The Group's tax for the period was SEK -224.0 million (-633.7), of which SEK -113.3 million (-117.8) was actual tax, and SEK -110.7 million (-515.9) was deferred tax. In June, the Swedish Government decided to reduce the Swedish corporation tax in two stages, from 22.0 per cent to 21.4 per cent in 2019, and to 20.6 per cent in 2021. Following this decision, deferred tax has been recalculated in the second quarter, resulting in a positive impact in accounting terms of SEK 532.7 million.

#### Profit for the period

The consolidated profit after tax amounted to SEK 3,137.4 million (2,131.7). The increase can be attributed mainly to higher unrealized changes in the value of the property holdings and a deferred tax recalculation following a reduction in corporation tax.

#### PROPERTY HOLDINGS

The fair value of the Hufvudstaden property holdings is based on an internal valuation, where the classification takes place on level 3 according to IFRS 13. The value assessed as at September 30, 2018 was SEK 42,693 million (39,730 at the turn of the year). The increase can be attributed to unrealized changes in value, and investment in the property holdings. Rentable floor-space totalled approximately 385,000 square metres (385,000 at the turn of the year).

The rental vacancy level as at September 30, 2018 was 4.1 per cent (3.9 at the turn of the year) and the total floor space vacancy level was 5.2 per cent (5.5 at the turn of the year). The level of vacant space, excluding current development projects (EPRA vacancy rate), totalled 2.5 per cent (2.4 at the turn of the year).

#### Acquisitions and investments

The total investment in properties and other non-current assets during the period was SEK 505.1 million (449.7).

In recent years, the company has intensified its investment in development projects. At present, current and planned projects are worth approximately SEK 3 billion. Major projects are presented in the table below.

In Stockholm, work continued during the third quarter to develop NK with the aim of reinforcing its position as a world-class department store. The new entrance to the department store in the neighbouring property Parkaden has been completed, and the Parkaden multi-storey parking facility has been renovated and become part of NK operations. The new cosmetics department, NK Beauty, with several leading international brands, has been officially opened. Alongside the redevelopment work, negotiations are taking place with several international high-end brands, and in a number of cases lease agreements have already been signed.

Planning work on the Skären 9 property is continuing and is now at the pre-construction stage. Construction is due to commence at the beginning of 2019. The project covers around 10,700 square metres of office space, of which approximately 2,600 square metres will be newly created. Around 75 per cent of the floor space has been leased to Advokatfirman Vinge.

Local planning work on the Vildmannen 7 property in Stockholm and the Inom Vallgraven 12 property in Gothenburg is continuing according to plan.

#### Major current and planned projects

City	Property	Status	Type of premises	Project floor space (sq m)	Of which added floor space (sq m)	Estimated investment <sup>1)</sup> (SEK m)	Estimated completion
Stockholm	NK Stockholm, Hästskon 10	Current	Retail, restaurant & parking	50 % of the department store floorspace & 20 % increase	-	700	2020/2021
Stockholm	Skären 9	Pre-construction	Office	10,700	2,600	750	2020/2021
Stockholm	Orgelpipan 7	Local planning	Office	-	-	-	-
Stockholm	Vildmannen 7	Local planning	Office & retail	-	-	-	-
Gothenburg	NK Gothenburg	Current	Retail & restaurant	2,100 & foundation reinforcement	-	150	2018/2019
Gothenburg	Inom Vallgraven 12 block	Local planning	Office, retail & restaurant	-	-	-	-

<sup>1)</sup> Includes estimated costs for rental losses and financing that are continuously charged to the income statement as well as costs for evacuation.

## Property value and net asset value

At the end of each quarter, Hufvudstaden makes an internal valuation of each individual property. The purpose of the valuation is to assess the fair value of the property holdings. To assure the valuation, external valuations of parts of the property holdings are obtained at least once a year.

A continuous update is made during the year of the internal valuation of the properties in order to take account of purchases, sales, and investments. Hufvudstaden also examines on a continuous basis whether there are other indications of changes in the fair value of the properties. This could take the form, for example, of major lettings, terminations, and material changes in yield requirements.

In the light of the above, the assessed unrealized change in the value of the property holdings for the period is SEK 2,466.7 million (1,877.9). The total value of the property holdings as at September 30, 2018 was SEK 42.7 billion, including investments made during the period. The unrealized increase in value can be attributed to rising rents and slightly lower yield requirements.

The average yield requirement in conjunction with the above valuation stood at 3.8 per cent (3.8 at the turn of the year).

### Valuation method

Valuation of the property holdings is done by assessing the fair value of each individual property. The valuation is made using a variation on the location price method, known as the net capitalization method. The method means that the market's yield requirement is set in relation to the net operating income of the properties. In the case of other project properties and undeveloped land, the valuation was based on a completed building with a deduction for construction costs, as well as financial costs and the cost of vacant space that arose during the construction period.

The yield requirement is based on information compiled about the market's yield requirement for actual purchases and sales of comparable properties in similar locations. If there have been few or no transactions within the property's subarea, an analysis is made of transactions in neighbouring areas. Even transactions that have yet to be finalized provide guidance on market yield requirements. The yield requirement can vary between different regions and different subareas within the regions. Account is also taken of the type of property, the technical standard, the construction of the building, and major investment needs. For leasehold properties, the calculation is based on a yield requirement that was 0.20 percentage points higher than for equivalent properties where the land is freehold. The net operating income of the properties is based on market rental income, the long-term rental vacancy level, and normalized operating and maintenance costs.

When making the valuation, the following yield requirement figures for office and retail properties have been applied:

### Yield requirements, property valuation

Stockholm	3.3-3.8 per cent
Gothenburg	4.1-4.8 per cent
Property holdings, average	3.8 per cent

### Sensitivity analysis

Fair value is an assessment of the probable sales price on the market at the time of the valuation. However, the price can only be set when a transaction has been completed. In the case of an external property valuation, a range is often given to indicate the

degree of uncertainty surrounding the estimates of fair value. The range is usually +/- 5 per cent but can vary depending, in part, on the market situation, the technical standard of the property and investment requirements. Hufvudstaden's property holdings are valued at SEK 42.7 billion, with a degree of uncertainty of +/- 5 per cent, which means that the fair value varies by +/- SEK 2.1 billion. Below are the key factors that influence the valuation and the consequent impact on profit before tax.

### Sensitivity analysis, property valuation <sup>1)</sup>

	Change, +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sq m	SEK 1,030 m
Property costs	SEK 50/sq m	SEK 515 m
Rental vacancy level	1.0 percentage points	SEK 540 m
Yield requirement	0.25 percentage points	SEK 2,800 m

<sup>1)</sup>Valuation date: September 30, 2018.

### Net asset value

Based on the valuation of the property holdings, the non-current net asset value (EPRA NAV) was SEK 35.8 billion or SEK 173 per share. The current net asset value (EPRA NNAV) was SEK 33.8 billion or SEK 164 per share following a deduction for estimated deferred tax. This assessment is made in the light of current tax legislation, which means that properties can be sold via a limited company without tax implications. The estimated deferred tax has been set at 5 per cent.

### Net asset value, September 30, 2018

	SEK m	SEK/ share
Equity according to the Balance Sheet	27,817.2	135
<i>Reversal</i>		
Derivatives according to the Balance Sheet	7.8	0
Deferred tax according to the Balance Sheet	7,931.7	38
Non-current net asset value (EPRA NAV)	35,756.7	173
<i>Deductions</i>		
Derivatives as stated above	-7.8	0
Estimated deferred tax 5%	-1,925.2	-9
Current net asset value (EPRA NNAV)	33,823.7	164

## HUFVUDSTADEN HAS THE MOST SATISFIED OFFICE TENANTS IN THE INDUSTRY

This year Hufvudstaden achieved its highest score since the property industry's *Fastighetsbarometern*<sup>1)</sup> Customer Satisfaction Survey began back in 1997. With an increase of three percentage points to 85 out of 100, Hufvudstaden was the clear winner in the Large Company category. The average for the industry was 73. Hufvudstaden had the highest score for image, service, adaptation of premises and location.

### RENTAL MARKET

The demand for modern, flexible office space in prime locations in central Stockholm continued to be strong during the period. Vacant space in this category has remained at low levels and market rents have risen slightly. In Stockholm's most attractive locations – in Bibliotekstan, at Norrmalmstorg/Hamngatan, and in the Hötorget area – office rents of SEK 6,000-8,600 per square metre per year, excluding the property tax supplement, were noted. Interest in prime-location retail premises in the same sub-markets continues to be strong. For retail premises in prime locations, the market rents were SEK 14,000-25,000 per square metre per year, excluding the property tax supplement.

<sup>1)</sup> The organisations behind *Fastighetsbarometern* are the Swedish Property Federation and the consulting company CFI Group.

Demand for modern office premises in central sub-markets in Gothenburg continued to be positive, with a low level of vacant space. Market rents in prime locations have risen slightly and are SEK 2,500-3,600 per square metre per year, excluding the property tax supplement. For retail premises, the market rents are SEK 6,000-15,000 per square metre per year, excluding the property tax supplement.

The outcome from Group renegotiations for both retail and office premises has been positive. During the period, a total of 41,300 square metres were renegotiated at a rental value of SEK 215 million. On average, the renegotiations result in an increase in rent of approximately 22 per cent, with offices increasing by around 38 per cent and retail/restaurant by around 4 per cent. Renegotiations include offices in the Skären 9 property, which will begin to have an impact in 2021 following completion of the redevelopment project.

## FINANCING

Hufvudstaden's financing requirements are obtained by the major Nordic banks and the capital market. Total borrowing as at September 30, 2018 amounted to SEK 7,600 million (6,200 at the turn of the year). Interest-bearing net debt was SEK 6,377 million (5,805 at the turn of the year).

Hufvudstaden has an MTN programme totalling SEK 6.0 billion and a commercial paper programme totalling SEK 3.0 billion. The outstanding amount in bonds was SEK 4.7 billion and in commercial paper SEK 1.9 billion. Hufvudstaden ensures that at any point in time there are unutilized loan assurances to cover all outstanding commercial paper. The average fixed interest period was 2.7 years (1.8 at the turn of the year), the average capital tie-up period was 4.1 years (3.4 at the turn of the year), and the average equivalent rate of interest was 1.3 per cent (1.9 at the turn of the year). To achieve the desired interest payment structure, borrowing takes place at both a fixed and variable rate of interest, and use is made of interest derivatives. Of the total borrowings, SEK 4,700 million carries a fixed rate of interest. In addition, credit of SEK 700 million (1,750 at the turn of the year) is hedged via interest derivatives.

The fair value of all interest derivatives as at September 30, 2018 was SEK -7.8 million (-30.3 at the turn of the year). The negative figure can be explained by a general fall in market interest rates since the derivative contracts were signed. Derivatives are valued at fair value in the balance sheet. All derivatives are classified as level 2 according to IFRS 13. There is no set-off of financial assets and liabilities, and there are no agreements that permit netting. Other financial assets and liabilities are reported at the accrued acquisition cost, which in all material respects concurs with the fair value.

## Fixed interest structure, SEK m, September 30, 2018

Maturity, year	Credit amount	AER, % <sup>1)</sup>	Proportion, %
< 1	2,900	1.0	38
1 - 2	-	-	-
2 - 3	500	1.8	7
3 - 4	1,200	1.5	15
4 - 5	2,500	1.3	33
5 - 6	500	1.5	7
Total	7,600	1.3	100

<sup>1)</sup> The credit margins in the tables are allocated to the period in which the credit is reported.

## Capital tie-up structure SEK m, September 30, 2018

Maturity year	Credit Agreement	Utilized:				Proportion, %
		Bank loans	Bonds	Commercial paper <sup>1)</sup>	Total	
< - 1	-	-	-	-	-	-
1 - 2	1,000	-	-	-	-	-
2 - 3	1,000	500	500	-	1,000	13
3 - 4	2,700	500	1,200	900	2,600	34
4 - 5	2,500	-	2,500	-	2,500	33
5 - 6	500	-	500	-	500	7
6 - 7	1,000	-	-	1,000	1,000	13
Total	8,700	1,000	4,700	1,900	7,600	100

<sup>1)</sup> Capital tie-up for commercial paper loans has been calculated according to the underlying loan assurances.

## THIRD QUARTER

Gross profit from property management amounted to SEK 324.3 million (320.6). Net revenue amounted to SEK 445.5 million (435.5), an increase of 2 per cent. The increase can be attributed mainly to higher gross rents in conjunction with renegotiated leases, new leases, and indexation. Net revenue was affected by loss of income attributable to current projects, mainly the NK department store in Stockholm. Costs amounted to SEK -121.2 million (-114.9).

Gross profit from parking operations was SEK 6.6 million (7.9). Net revenue was SEK 19.8 million (20.4). Costs totalled SEK -13.2 million (-12.5).

Changes in the value of investment properties amounted to SEK 429.0 million (360.3) and changes in the value of interest derivatives amounted to SEK 5.0 million (15.8). Net financial income and expense totalled SEK -34.0 million (-35.0).

## SHARES AND SHAREHOLDERS

Hufvudstaden, whose shares are listed on NASDAQ Stockholm, had 23,952 shareholders at the period-end. The proportion of foreign ownership as at September 30, 2018 was 29.6 per cent of the total number of outstanding shares (30.3 at the turn of the year). The series A share price as at September 30, 2018 was SEK 135.20, and market capitalization was SEK 32.9 billion.

## Shares bought back

The total number of shares held by Hufvudstaden as at September 30, 2018 was 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of issued shares. No buy-backs were made during or after the end of the reporting period. At the 2018 Annual Meeting, the Board was granted renewed authorization to acquire series A shares up to 10 per cent of all the issued shares, and to assign own shares held by Hufvudstaden.

## MATERIAL RISKS AND UNCERTAINTY FACTORS

The Group is mainly exposed to financing, interest and credit risks and changes in the value of the property holdings. The Group has not identified any material risks and uncertainties other than those described in the 2017 Annual Report.

## MATERIAL TRANSACTIONS WITH RELATED PARTIES

There were no material transactions with related parties during the period.

## ACCOUNTING PRINCIPLES

Hufvudstaden applies the EU-endorsed IFRS standards. This Interim Report for the Group has been prepared in accordance with IAS 34 Interim Financial Reporting, and applicable stipulations in the Annual Accounts Act. Disclosures according to IAS 34.16A

are presented in both the financial statements and in other parts of the Interim Report. Apart from the introduction of IFRS 9 and IFRS 15, see below, the accounting principles and computation basis are the same as those applied in the most recent Annual Report.

#### **New standards and interpretations**

IFRS 9 Financial instruments has been applied since January 1, 2018. The standard means that the principles for making provisions for credit losses will be based on an estimate of expected losses. The credit losses for Hufvudstaden are very low, and the transition has not had any material impact on the consolidated financial statements.

IFRS 15 Revenue Recognition has been applied since January 1, 2018. The standard means that the reporting of income must be divided into different categories depending on the performance indicator. Hufvudstaden's primary source of revenue is rental revenue, and the change has not had any material impact on the consolidated financial statements apart from expanded disclosure requirements.

IFRS 16 Leasing will be applied from January 1, 2019. Hufvudstaden has begun the task of analysing the consequences of the new standard. At present, the transition is not expected to have any material impact on the consolidated financial statements.

#### **FORTHCOMING INFORMATION**

Year-End Report for 2018	February 14, 2019
Annual Report 2018	March 2019
Annual Meeting 2019 in Stockholm	March 21, 2019

The information in this Interim Report is information that Hufvudstaden AB (publ) is obliged to publish under the EU Market Abuse Regulation and the Securities Market Act. The information was published through the auspices of the persons named below on November 9, 2018.

*This information is also published on Hufvudstaden's website, [www.hufvudstaden.se](http://www.hufvudstaden.se).*

*Questions can be answered by Ivo Stopner, President, or Åsa Roslund, CFO, telephone +46-8-762 90 00.*

**INCOME STATEMENTS – SUMMARY**

<b>GROUP, SEK m</b>	<b>July- September 2018</b>	<b>July- September 2017</b>	<b>January- September 2018</b>	<b>January- September 2017</b>	<b>January- December 2017</b>
<b>Net revenue<sup>1)</sup></b>					
Property management	445.5	435.5	1,333.1	1,294.6	1,750.6
Parking operations	19.8	20.4	62.5	65.9	89.9
	<b>465.3</b>	<b>455.9</b>	<b>1,395.6</b>	<b>1,360.5</b>	<b>1,840.5</b>
<b>Property management expenses</b>					
Maintenance	-9.2	-7.0	-19.1	-19.0	-29.8
Operation and administration	-65.4	-60.3	-201.4	-189.1	-269.4
Ground rents	-5.5	-5.7	-16.3	-17.1	-22.6
Property tax	-41.1	-41.9	-124.4	-125.5	-167.3
<b>Property management expenses</b>	<b>-121.2</b>	<b>-114.9</b>	<b>-361.2</b>	<b>-350.7</b>	<b>-489.1</b>
Parking operations, expenses	-13.2	-12.5	-38.3	-38.1	-50.7
<b>Operating expenses</b>	<b>-134.4</b>	<b>-127.4</b>	<b>-399.5</b>	<b>-388.8</b>	<b>-539.8</b>
<b>Gross profit</b>	<b>330.9</b>	<b>328.5</b>	<b>996.1</b>	<b>971.7</b>	<b>1,300.7</b>
- of which Property management	324.3	320.6	971.9	943.9	1,261.5
- of which Parking operations	6.6	7.9	24.2	27.8	39.2
Central administration	-9.9	-9.4	-29.7	-28.4	-41.3
<b>Operating profit before items affecting comparability and changes in value</b>	<b>321.0</b>	<b>319.1</b>	<b>966.4</b>	<b>943.3</b>	<b>1,259.4</b>
Items affecting comparability <sup>2)</sup>	-	-	-	-	-138.6
Changes in value, investment properties	429.0	360.3	2,466.7	1,877.9	2,848.2
Changes in value, interest derivatives	5.0	15.8	22.5	48.4	61.6
<b>Operating profit</b>	<b>755.0</b>	<b>695.2</b>	<b>3,455.6</b>	<b>2,869.6</b>	<b>4,030.6</b>
Financial income and expense	-34.0	-35.0	-94.2	-104.2	-135.7
<b>Profit before tax</b>	<b>721.0</b>	<b>660.2</b>	<b>3,361.4</b>	<b>2,765.4</b>	<b>3,894.9</b>
Tax	-158.7	-153.4	-224.0	-633.7	-859.9
<b>Profit after tax</b>	<b>562.3</b>	<b>506.8</b>	<b>3,137.4</b>	<b>2,131.7</b>	<b>3,035.0</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>562.3</b>	<b>506.8</b>	<b>3,137.4</b>	<b>2,131.7</b>	<b>3,035.0</b>
Average number of outstanding shares following buy-backs during the period	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Profit for the period after tax per share before and after dilution, SEK	2.73	2.46	15.21	10.33	14.71

<sup>1)</sup> Service and other revenue totals SEK 74.6 million, equivalent to 5% of the total net revenue for the period January-September 2018.

<sup>2)</sup> The change in value and disposals for the full year 2017, SEK -219.2 million, as well as part of possible insurance compensation, SEK 80.6 million, as a result of a fire at the property Vildmannen 7.

**BALANCE SHEETS – SUMMARY**

<b>GROUP, SEK m</b>	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>December 31, 2017</b>
Investment properties	42,692.8	38,842.0	39,730.0
Other non-current assets	29.3	20.4	20.3
<b>Total non-current assets</b>	<b>42,722.1</b>	<b>38,862.4</b>	<b>39,750.3</b>
Current assets	1,445.3	616.8	544.6
<b>Total assets</b>	<b>44,167.4</b>	<b>39,479.2</b>	<b>40,294.9</b>
Equity	27,817.2	24,498.4	25,401.7
Non-current interest-bearing liabilities	5,700.0	3,200.0	3,700.0
Deferred tax liabilities	8,050.6	7,756.2	7,939.9
Other non-current liabilities	50.5	64.7	56.9
Provisions for pensions	19.3	16.2	16.3
<b>Total non-current liabilities</b>	<b>13,820.4</b>	<b>11,037.1</b>	<b>11,713.1</b>
Current interest-bearing liabilities	1,900.0	3,250.0	2,500.0
Other liabilities	629.8	693.7	680.1
<b>Total current liabilities</b>	<b>2,529.8</b>	<b>3,943.7</b>	<b>3,180.1</b>
<b>Total equity and liabilities</b>	<b>44,167.4</b>	<b>39,479.2</b>	<b>40,294.9</b>

## CHANGES IN EQUITY – SUMMARY

GROUP, SEK m	January-September 2018	January-September 2017	January-December 2017
Equity, opening balance	25,401.7	23,047.4	23,047.4
Total comprehensive income for the period	3,137.4	2,131.7	3,035.0
Dividend	-721.9	-680.7	-680.7
<b>Equity, closing balance</b>	<b>27,817.2</b>	<b>24,498.4</b>	<b>25,401.7</b>

## STATEMENTS OF CASH FLOWS – SUMMARY

GROUP, SEK m	January-September 2018	January-September 2017	January-December 2017
Profit before tax	3,361.4	2,765.4	3,894.9
Depreciation/impairments	6.7	6.0	3.7
Items affecting comparability	-	-	138.6
Changes in value, investment properties	-2,466.7	-1,877.9	-2,848.2
Changes in value, interest derivatives	-22.5	-48.4	-61.6
Other changes	3.0	1.3	1.3
Income tax paid	-119.6	-111.9	-150.6
<b>Cash flow from current operations before changes in working capital</b>	<b>762.3</b>	<b>734.5</b>	<b>978.1</b>
Increase/decrease in operating receivables	-79.9	-37.8	-11.5
Increase/decrease in operating liabilities	-27.7	44.6	32.5
<b>Cash flow from current operations</b>	<b>654.7</b>	<b>741.3</b>	<b>999.1</b>
Investment in properties	-496.1	-446.8	-583.7
Investment in other non-current assets	-9.0	-2.9	-3.6
<b>Cash flow from investments</b>	<b>-505.1</b>	<b>-449.7</b>	<b>-587.3</b>
Loans raised	6,250.0	2,400.0	4,000.0
Amortization of loan debt	-4,850.0	-2,600.0	-4,450.0
Dividend paid	-721.9	-680.7	-680.7
<b>Cash flow from financing</b>	<b>678.1</b>	<b>-880.7</b>	<b>-1,130.7</b>
<b>Cash flow for the period</b>	<b>827.7</b>	<b>-589.1</b>	<b>-718.9</b>
Cash and cash equivalents at the beginning of the period	394.9	1,113.8	1,113.8
Cash and cash equivalents at the period-end	1,222.6	524.7	394.9
Cash flow for the period per share, SEK	4.01	-2.86	-3.49

## SEGMENT REPORT – SUMMARY <sup>1)</sup>

As part of the increased focus on business development and projects, Hufvudstaden has carried out a reorganization. The new organization came into effect on April 1, 2017, and Hufvudstaden continues to have three business areas. The division of properties has changed for the Stockholm Business Area (previously Stockholm City East Business Area) and the NK Business Area (previously Stockholm City West Business Area) but remains the same for the Gothenburg Business Area.

Group, SEK m	Stockholm Business Area		NK Business Area		Gothenburg Business Area		Total	
	Jan-Sept 2018	Jan-Sept 2017	Jan-Sept 2018	Jan-Sept 2017	Jan-Sept 2018	Jan-Sept 2017	Jan-Sept 2018	Jan-Sept 2017
<b>Property management</b>								
Net revenue	742.8	708.5	347.1	356.4	243.2	229.7	1,333.1	1,294.6
Property costs	-169.3	-170.3	-125.2	-115.4	-66.7	-65.0	-361.2	-350.7
<b>Gross profit</b>	<b>573.5</b>	<b>538.2</b>	<b>221.9</b>	<b>241.0</b>	<b>176.5</b>	<b>164.7</b>	<b>971.9</b>	<b>943.9</b>
Parking operations			24.2	27.8			24.2	27.8
Central administration							-29.7	-28.4
<b>Changes in value</b>								
Investment properties							2,466.7	1,877.9
Interest derivatives							22.5	48.4
<b>Operating profit</b>							<b>3,455.6</b>	<b>2,869.6</b>
Financial income and expense							-94.2	-104.2
<b>Profit before tax</b>							<b>3,361.4</b>	<b>2,765.4</b>

<sup>1)</sup> Previous periods have been recalculated in the light of the new organization.



## PERFORMANCE MEASURES

GROUP	September 30, 2018	September 30, 2017	Full year 2017
<b>Property-related</b>			
Rentable floor space, 1,000 m <sup>2</sup>	385	389	385
Rental vacancy level, %	4.1	4.3	3.9
Floor space vacancy level, %	5.2	6.1	5.5
Fair value, SEK bn	42.7	38.8	39.7
<b>Financial</b>			
Return on equity, %	10.7	9.8	12.5
Return on capital employed, %	11.3	10.5	13.2
Equity ratio, %	63	62	63
Interest coverage ratio, multiple	10.0	9.0	9.3
Debt/equity ratio, multiple	0.2	0.2	0.2
Net loan-to-value ratio, properties, %	14.9	15.3	14.6
Surplus ratio, %	71.4	71.4	70.7
<b>Data per share</b>			
Profit/loss for the period, SEK	15.21	10.33	14.71
Equity, SEK	134.86	118.77	123.15
Properties, fair value, SEK	206.98	188.31	192.62
Number of outstanding shares, 1,000	206,266	206,266	206,266
Number of issued shares, 1,000	211,272	211,272	211,272
<b>EPRA</b>			
Result from property management after nominal tax (EPRA Earnings), SEK m	784	746	998
Result from property management after nominal tax (EPRA EPS) per share, SEK	3.80	3.62	4.84
Non-current net asset value (EPRA NAV), SEK m	35,756.7	32,150.0	33,255.3
Non-current net asset value (EPRA NAV) per share, SEK	173.00	156.00	161.00
Current net asset value (EPRA NNAV), SEK m	33,823.7	33,377.4	31,447.0
Current net asset value (EPRA NNAV) per share, SEK	164.00	147.00	152.00
EPRA Vacancy rate, %	2.5	1.8	2.4

## PERFORMANCE MEASURES PER QUARTER

GROUP	July-Sept 2018	Apr-June 2018	Jan-Mar 2018	Oct-Dec 2017	July-Sept 2017	Apr-June 2017	Jan-Mar 2017	Oct-Dec 2016
Net revenue, SEK m	465	464	467	480	456	453	452	468
Return on equity, %	10.7	9.4	5.3	12.9	9.9	8.6	4.7	19.4
Return on equity, adjusted, %	3.4	3.3	3.5	4.0	3.6	3.5	3.6	4.0
Equity ratio, %	63	63	61	63	62	62	60	61
Profit per share for the period, SEK	2.73	9.13	3.35	4.38	2.46	5.59	2.29	7.59
Equity per share, SEK	134.86	132.13	123.00	123.15	118.77	116.31	110.73	111.74
Result from property management after nom. tax (EPRA EPS) per share, SEK	1.26	1.28	1.27	1.22	1.24	1.20	1.18	1.20
Net asset value (EPRA NNAV), per share, SEK	164.00	161.00	153.00	152.00	147.00	144.00	138.00	138.00
Cash flow per share from current operations, SEK	1.08	1.40	0.69	1.25	0.77	1.41	1.42	0.86

## ALTERNATIVE PERFORMANCE MEASURES

Hufvudstaden applies the European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures. A number of the performance measures above are alternative performance measures, i.e. a set of financial metrics not defined in IFRS or the Annual Accounts Act, and which are used to present the Company's development and improve comparability between periods. Definitions of performance measures are given in the glossary. Below is the derivation of alternative performance measures.

<b>Net asset value (EPRA NNAV) see page 4.</b>			
	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>Full year 2017</b>
<b>Net debt, SEK m</b>			
Non-current interest-bearing liabilities	5,700	3,200	3,700
Current interest-bearing liabilities	1,900	3,250	2,500
Cash and bank holdings	-1,223	-525	-395
<b>Net debt</b>	<b>6,377</b>	<b>5,925</b>	<b>5,805</b>
<b>Equity ratio, SEK m</b>			
Equity	27,817	24,498	25,402
Total assets	44,167	39,479	40,295
<b>Equity ratio, %</b>	<b>63</b>	<b>62</b>	<b>63</b>
<b>Net loan-to-value ratio, properties, SEK m</b>			
Interest-bearing liabilities	7,600	6,450	6,200
Interest-bearing assets	-1,223	-525	-395
<b>Total</b>	<b>6,377</b>	<b>5,925</b>	<b>5,805</b>
Carrying amount, properties	42,693	38,842	39,730
<b>Net loan-to-value ratio, properties, %</b>	<b>14.9</b>	<b>15.3</b>	<b>14.6</b>
<b>Interest coverage ratio, SEK m</b>			
Profit before tax	3,652 <sup>1)</sup>	3,045 <sup>1)</sup>	3,895
Reversal of items affecting comparability and changes in value	-2,489	-1,926	-2,771
Interest expense	129 <sup>1)</sup>	139 <sup>1)</sup>	136
<b>Total</b>	<b>1,292</b>	<b>1,258</b>	<b>1,260</b>
Interest expense	129 <sup>1)</sup>	139 <sup>1)</sup>	136
<b>Interest coverage ratio, multiple</b>	<b>10.0</b>	<b>9.0</b>	<b>9.3</b>
<b>Result from property management after nominal tax (EPRA Earnings), SEK m</b>			
Operating profit before items affecting comparability and changes in value	966	943	1,259
Financial income and expense	-94	-104	-136
<b>Result from property management</b>	<b>872</b>	<b>839</b>	<b>1,123</b>
Current tax, result from property management	-88	-93	-125
<b>Result from property management after nominal tax (EPRA Earnings)</b>	<b>784</b>	<b>746</b>	<b>998</b>
Number of outstanding shares, million	206.3	206.3	206.3
<b>Result from property management after nominal tax (EPRA EPS) per share, SEK</b>	<b>3.80</b>	<b>3.62</b>	<b>4.84</b>

<sup>1)</sup> Recalculated 12 months.

## PARENT COMPANY

### RESULTS AND FINANCIAL POSITION

Net revenue amounted to SEK 895.6 million (850.7). The increase can be attributed mainly to higher gross rents in conjunction with renegotiated and new leases and indexation. Costs totalled SEK -468.8 million (-472.7). Gross profit was SEK 426.8 million (378.0). Net financial income and expense was SEK -94.2 million (-104.1).

In June, the Swedish Government decided to reduce the Swedish corporation tax in two stages, from 22.0 per cent to 21.4 per cent in 2019, and to 20.6 per cent in 2021. Following this decision, deferred tax has been recalculated in the second quarter, resulting in a positive impact in accounting terms of SEK 58.9 million.

Cash and cash equivalents at the period-end amounted to SEK 1,222.1 million (495.8). Investment in properties and equipment for the period was SEK 89.8 million (141.4).

### MATERIAL RISKS AND UNCERTAINTY FACTORS

The Company is mainly exposed to financing, interest and credit risks. The Company has not identified any material risks and uncertainties other than those described in the 2017 Annual Report.

### MATERIAL TRANSACTIONS WITH RELATED PARTIES

No material transactions with related parties took place during the period.

### ACCOUNTING PRINCIPLES

The Interim Report for the Parent Company has been prepared in accordance with Section 9 of the Annual Accounts Act, Interim Financial Statements. The accounting principles and computation basis are the same as those applied in the most recent Annual Report.

## INCOME STATEMENTS – SUMMARY

PARENT COMPANY, SEK m	July- September 2018	July- September 2017	January- September 2018	January- September 2017	January- December 2017
Net revenue <sup>1)</sup>	303.3	286.1	895.6	850.7	1,145.9
Operating expenses	-159.0	-154.7	-468.8	-472.7	-644.8
<b>Gross profit</b>	<b>144.3</b>	<b>131.4</b>	<b>426.8</b>	<b>378.0</b>	<b>501.1</b>
Central administration	-9.9	-9.4	-29.7	-28.4	-41.3
Items affecting comparability <sup>2)</sup>	-	-	-	-	0.0
Changes in value, interest derivatives	5.0	15.8	22.5	48.4	61.6
<b>Operating profit</b>	<b>139.4</b>	<b>137.8</b>	<b>419.6</b>	<b>398.0</b>	<b>521.4</b>
Group contributions received	-	-	-	-	263.0
Other financial income and expense	-34.1	-34.9	-94.2	-104.1	-135.7
<b>Profit after financial items</b>	<b>105.3</b>	<b>102.9</b>	<b>325.4</b>	<b>293.9</b>	<b>648.7</b>
Appropriations	-	-	-	-	144.3
<b>Profit before tax</b>	<b>105.3</b>	<b>102.9</b>	<b>325.4</b>	<b>293.9</b>	<b>793.0</b>
Tax	-31.4	-31.1	-37.9	-89.8	-177.7
<b>Profit for the period</b>	<b>73.9</b>	<b>71.8</b>	<b>287.5</b>	<b>204.1</b>	<b>615.3</b>
<b>Statement of comprehensive income, SEK m</b>					
Profit for the period	73.9	71.8	287.5	204.1	615.3
Other comprehensive income	-	-	-	-	-
<b>Profit for the period</b>	<b>73.9</b>	<b>71.8</b>	<b>287.5</b>	<b>204.1</b>	<b>615.3</b>

<sup>1)</sup> Service and other revenue totalled SEK 43.5 million, equivalent to 5% of the total net revenue for the period January-September 2018.

<sup>2)</sup> Disposals for the full year 2017, SEK -80.6 million, as well as part of possible insurance compensation, SEK 80.6 million, as a result of a fire at the property Vildmannen 7.

## BALANCE SHEETS – SUMMARY

PARENT COMPANY, SEK m	September 30, 2018	September 30, 2017	December 31, 2017
Investment properties	7,986.9	8,117.5	8,017.9
Other non-current assets	2,907.8	2,904.8	2,904.9
Total non-current assets	10,894.7	11,022.3	10,922.8
Current assets	1,814.3	783.9	890.6
<b>Total assets</b>	<b>12,709.0</b>	<b>11,806.2</b>	<b>11,813.4</b>
Restricted equity	1,978.7	1,978.7	1,978.7
Non-restricted equity	1,264.9	1,288.1	1,699.3
Total equity	3,243.6	3,266.8	3,678.0
Untaxed reserves	516.2	665.0	516.2
Provisions	885.8	930.6	935.0
Non-current liabilities	5,745.6	3,261.4	3,752.0
Current liabilities	2,317.8	3,682.4	2,932.2
Total liabilities	8,949.2	7,874.4	7,619.2
<b>Total equity and liabilities</b>	<b>12,709.0</b>	<b>11,806.2</b>	<b>11,813.4</b>

Stockholm, November 9, 2018

Ivo Stopner  
President

This Interim Report has not been the subject of an examination by the Company's auditors.

## DEFINITIONS AND GLOSSARY

For details of derivations of performance measures, see page 10.

### Finance

*Capital employed.* Total assets reduced by non-interest-bearing liabilities and deferred tax liabilities.

*Central administration.* Costs for Group management and Group staff functions, costs for maintaining the Company's stock exchange listing, and other costs common to the Company.

*Debt/equity ratio.* Net debt in relation to equity at the period-end.

*EPRA.* European Public Real Estate Association. An interest organization for listed property companies in Europe.

*EPRA Earnings.* Result from property management after nominal tax. Operating profit before items affecting comparability and changes in value with a deduction for financial income and expense and computed actual tax, excluding a carry-forward of unutilized tax losses. The tax deducted has been calculated with account taken of, among other things, tax-deductible depreciation and investments.

*EPRA NAV - Non-current net asset value.* Shareholders' equity plus reversal of interest derivatives and deferred tax.

*EPRA NNAV - Current net asset value.* Shareholders' equity following adjustment for actual deferred tax instead of nominal deferred tax.

*Equity ratio.* Equity at the period-end in relation to total assets.

*Interest coverage ratio.* Profit after financial items, excluding items affecting comparability and changes in value, plus interest expense in relation to interest expense. In the interim accounts, profit after financial items, excluding items affecting comparability and changes in value, as well as interest expense, have been recalculated on a full-year basis without account being taken of seasonal variations that normally arise in operations.

*MTN programme.* Medium Term Note is a bond programme with a term of 1-15 years.

*Net liabilities.* Interest-bearing liabilities, including the decided dividend less current investments and cash and bank holdings.

*Net loan-to-value ratio, properties.* Net liabilities in relation to the carrying value of properties.

*Return on capital employed.* Profit before tax plus interest expense in relation to the average capital employed. In the interim accounts, the return has been recalculated on a full-year basis without account being taken of seasonal variations that normally arise in operations and with the exception of changes in value.

*Return on equity.* Profit after tax in relation to average equity. In the interim accounts, the return has been recalculated on a full-year basis without account being

taken of seasonal variations that normally arise in operations and with the exception of changes in value.

*Return on equity, adjusted.* Profit after tax, excluding changes in value, in relation to average equity. In the interim accounts, the return has been recalculated on a full-year basis without taking account of seasonal variations that normally arise in operations.

*Surplus ratio.* Gross profit in relation to net revenue.

*Tax.* Total tax for the Group comprises both actual tax and deferred tax.

### Shares

*EPRA EPS.* EPRA Earnings in relation to the average number of outstanding shares during the period.

*Equity per share.* Equity in relation to the number of outstanding shares at the period-end.

*Profit per share.* Profit for the period after tax in relation to the average number of outstanding shares during the period.

*Outstanding shares.* Total number of shares, reduced by the number of shares bought back by the Company.

### Properties

*Annual rent.* Gross rent at the period-end, including supplements, calculated on an annual basis. Vacant premises are reported at the market rent.

*Bibliotekstan.* The area between Norrmalmstorg, Birger Jarlsgatan, Stureplan and Norrlandsgatan, and which contains stores with high-class brands as well as restaurants and cafes.

*EPRA Vacancy rate.* Estimated Market Rental Value (ERV) of vacant space divided by the ERV of the whole portfolio. Current development projects are excluded.

*Fair value.* The estimated market value of the properties.

*Fair value, properties.* The amount at which the properties could be transferred on condition that the transaction takes place between parties that are independent of each other and have an interest in the transaction being completed. In accounting terms, this is known as fair value.

*Floor space vacancy level.* Vacant floor space in square metres in relation to the total lettable floor space.

*Property tax supplement.* Property tax payments received from tenants.

*Rental vacancy level.* Vacant floor space at an estimated market rent in relation to the total annual rent.

*In some cases, there has been rounding off, which means the tables and calculations do not always tally.*

*This document is in all respects a translation of the original Interim Report in Swedish.  
In the event of any differences between this translation and the Swedish original, the latter shall prevail.*

# HUFVUDSTADEN

## Hufvudstaden

Hufvudstaden was founded in 1915 and rapidly became one of the leading property companies in Sweden. Today it is one of the country's strongest brands in the property sector. The brand is well known and represents high quality, good service and long-term thinking in the management and development of the Company's commercial properties in the most attractive business locations in Stockholm and Gothenburg.

## Vision

Hufvudstaden will be consistently perceived as, and prove to be, the most attractive property company in Sweden.

## Business concept

With properties in central Stockholm and central Gothenburg, Hufvudstaden will offer successful companies high-quality office and retailing premises in attractive marketplaces.

## Financial objectives

- Hufvudstaden shares will have good dividend growth over time, and the dividend will amount to more than half the net profit from current operations.
- The equity ratio will be at least 40 per cent over time

## Operating objectives

Hufvudstaden will:

- gradually increase profit from current operations.
- have the most satisfied customers in the industry.
- have the most developed property holdings in the industry.
- have the most professional personnel in the industry, with firm commitment to the customer, good business acumen, and professional know-how.

## Strategies to achieve the objectives

*Customer focus.* Hufvudstaden will work in close cooperation with its customers and contribute continuously to improving their business potential and competitiveness.

*Quality.* Quality and environmental systems will ensure the highest possible level of quality in all the Company's products and services.

*Competence development.* Systematic development of the knowledge and skills of the personnel will be ensured with a focus on professional know-how and values.

*Business development.* Active business development and adaptation to the digitalization of society will create added value in the property holdings.



BIBLIOTEKSTAN



## Hufvudstaden AB (publ)

NK 100, SE-111 77 Stockholm

Visiting address: Regeringsgatan 38

Telephone: +46 8-762 90 00 Fax: +46 8-762 90 01

Email: [info@hufvudstaden.se](mailto:info@hufvudstaden.se) Website: [www.hufvudstaden.se](http://www.hufvudstaden.se)

Company registration number: 556012-8240

Registered office: Stockholm

