

# Q4

HUFVUDSTADEN  
Year-End Report 2018



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## Year-End Report 2018

- **Gross profit from property management rose by 3 per cent to SEK 1,302 million (1,262). The increase can be attributed mainly to higher rental revenue.**
- **Net revenue from property management amounted to SEK 1,797 million (1,751), an increase of 3 per cent.**
- **Profit after tax for the period was SEK 4,320 million (3,035), equivalent to SEK 20.94 per share (14.71). 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 Board of Directors proposes an increase in the dividend to SEK 3.70 per share (3.50).**
- **The fair value of the property holdings was SEK 44.1 billion (39.7), resulting in a net asset value of SEK 171 per share (152). The unrealized change in value for the period was SEK 3,621 million (2,848).**
- **The equity ratio was 64 per cent (63), the net loan-to-value ratio was 14 per cent (15), and the interest coverage ratio multiple was 10.5 (9.3).**
- **The rental vacancy level at the period-end was 2.6 per cent (3.9). Excluding current development projects, the rental vacancy level was 1.3 per cent (2.4).**

### Key events during the fourth quarter

An expansion and redevelopment project commenced on the Skären 9 property at Norrmalmstorg in Stockholm.

At NK in Stockholm, the concept Art Bakery has opened next to the department store's new entrance on Regeringsgatan.

At Biblioteksgatan 12 in Stockholm, a redevelopment of approximately 2,300 square metres office space for the law firm White & Case has been completed.

A foundation reinforcement project has been completed at NK Gothenburg. At the same time, redistribution of the store floor space has resulted in improved customer areas and the establishment of the restaurant Swedish Taste.

### Performance measures

SEK m	Jan-Dec 2018	Jan-Dec 2017
Net revenue, property management	1,797	1,751
Gross profit, property management	1,302	1,262
Unrealized changes in value, investment properties	3,621	2,848
Operating profit	4,940	4,031
Profit for the period	4,320	3,035
Fair value, properties, SEK bn	44.1	39.7
Net loan to value ratio, properties, %	14.2	14.6
Interest coverage ratio, multiple	10.5	9.3
Rental vacancy level, excl. projects (EPRA vacancy rate), %	1.3	2.4
Result from property management after nominal tax (EPRA EPS) per share, SEK	5.16	4.84
Current net asset value (EPRA NNAV) per share, SEK	171.00	152.00

## GROUP

### RESULTS

#### Property management

Net revenue from property management during the year amounted to SEK 1,797.1 million (1,750.6). This is equivalent to an increase of 3 per cent, of which office premises increased by 6 per cent and retail/restaurant premises remained unchanged. Net revenue was affected by loss of income attributable to current projects, primarily the NK department store in Stockholm. Gross profit was SEK 1,301.8 million (1,261.5). The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases and indexation.

The turnover-based rent supplement is reported during the fourth quarter and amounted to SEK 12.1 million (15.7), of which the NK properties accounted for SEK 9.3 million (12.9). 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 85.8 million (89.9). The decrease can be attributed mainly to reduced revenue from short-term parking, which has been affected by the construction project in the NK Parkering multi-storey car park and its surroundings. Expenses totalled SEK -51.1 million (-50.7) and gross profit totalled SEK 34.7 million (39.2).

#### Other profit and loss items

Central administration totalled SEK -43.5 million (-41.3). Unrealized changes in the value of investment properties totalled SEK 3,620.8 million (2,848.2), and changes in interest derivatives totalled SEK 26.6 million (61.6). See page 4 for further information.

#### Financial income and expense

Net financial income and expense amounted to SEK -120.5 million (-135.7). The decrease is the result of a lower rate of interest on loans.

#### Tax

The Group's tax for the period was SEK -500.2 million (-859.9), of which SEK -147.1 million (-160.2) was actual tax, and SEK -353.1 million (-699.7) 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. Deferred tax was subsequently recalculated in the second quarter, which in accounting terms had a positive impact of SEK 532.7 million.

#### Profit for the year

The consolidated profit after tax amounted to SEK 4,319.7 million (3,035.0). 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. As at December 31, 2018, the assessed value was SEK 44,089 million (39,730). The increase can be attributed to unrealized changes in value, and investment in the property holdings. Rentable floor space totalled approximately 384,500 square metres (384,700).

The rental vacancy level as at December 31, 2018 was 2.6 per cent (3.9) and the total floor space vacancy level was 4.3 per cent (5.5). The level of rental vacancy, excluding current development projects (EPRA vacancy rate), totalled 1.3 per cent (2.4).

#### Acquisitions and investments

Total investment in properties and other non-current assets during the period was SEK 755.2 million (587.3).

In recent years, the Company has intensified its investment in development projects. At present, current and planned projects are worth approximately SEK 3-4 billion. Major projects are presented in the table below.

In Stockholm, work continued during the fourth quarter to develop NK with the aim of reinforcing its position as a world-class department store. Art Bakery was opened in NK Parkaden, beside the new entrance on Regeringsgatan. Alongside the redevelopment project, negotiations are taking place with international high-end brands, and in a number of cases lease agreements have already been signed.

At NK Gothenburg, a foundation reinforcement project and a store project have been in progress all year. The reinforcement work has been completed and the store project has resulted in improved customer areas, combined with a broader range of restaurants following the opening of Swedish Taste.

The planning phase of the major expansion and redevelopment project on the Skären 9 property in Bibliotekstan has been completed and construction work has now commenced. 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 schedule.

#### 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 and parking	50% of the department store floorspace and a 20% increase	-	700	2020/2021
Stockholm	Skären 9	Current	Office	10,700	2,600	750	2020/2021
Stockholm	Orgelpipan 7	Local planning	Office	-	-	-	-
Stockholm	Vildmannen 7	Local planning	Office and retail	-	-	-	-
Gothenburg	NK Gothenburg	Current	Retail and restaurant	2,100 and 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 during 2018 was SEK 3,620.8 million (2,848.2). The total value of the property holdings as at December 31, 2018 was SEK 44.1 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).

### 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 revenue, 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 44.1 billion, with a degree of uncertainty of +/- 5 per cent, which means that the fair value varies by +/- SEK 2.2 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 570 m
Yield requirement	0.25 percentage points	SEK 2,900 m

<sup>1)</sup>Valuation date: December 31, 2018.

### External valuation

To guarantee the valuation, external estimates were obtained from three independent valuation companies, Cushman & Wakefield, Forum Fastighets-ekonomi, and Newsec Advice. The external valuation as at December 31, 2018 covered 12 properties, equivalent to 36 per cent of the internally assessed fair value. The corresponding figure at the mid-year point was 38 per cent. The basis for selection was that the properties should represent variations in property category, town, location, technical standard and construction standard. The properties that underwent an external valuation as at December 31, 2018 were Grönlandet Södra 11, Hästhuvudet 13, Hästskon 10, Järnplåten 28, Kvasten 2, Kåkenhusen 40 (part of), Orgelpipan 7, Pumpstocken 10 (part of), Rännilen 8 and Rännilen 18 in Stockholm, and Inom Vallgraven 10:9 (NK Gothenburg) and Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies set a fair value for these properties of SEK 16.4 billion. Hufvudstaden's internal valuation of the same properties was SEK 15.9 billion. The internal valuation thus concurs well with the external valuations.

### Net asset value

Based on the valuation of the property holdings, the non-current net asset value (EPRA NAV) was SEK 37.2 billion or SEK 181 per share. The current net asset value (EPRA NNNAV) was SEK 35.2 billion or SEK 171 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, December 31, 2018

	SEK m	SEK/ share
Equity according to the Balance Sheet	28,999.5	141
<i>Reversal</i>		
Derivatives according to the Balance Sheet	3.7	0
Deferred tax investment properties	8,212.7	40
Non-current net asset value (EPRA NAV)	37,215.9	181
<i>Deductions</i>		
Derivatives as stated above	-3.7	0
Estimated actual deferred tax 5%	-1,993.4	-10
Current net asset value (EPRA NNNAV)	35,218.8	171

## RENTAL MARKET

The demand for modern, flexible office space in prime locations in central Stockholm continued to be strong during the year. 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 6,000-8,700 per square metre per year, excluding the property tax supplement, were noted. There has been continued interest in prime-location retail premises in the same sub-markets. 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.

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 2,600-3,700 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 57,200 square metres were renegotiated at a rental value of SEK 295 million. On average, the renegotiations in 2018 resulted in an increase in rent of approximately 26 per cent, with offices increasing by around 43 per cent and retail/restaurant premises by around 4 per cent. Renegotiations include offices in the Skären 9 property, which will begin to have an impact on the result 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 December 31, 2018 amounted to SEK 7,350 million (6,200). Interest-bearing net debt was SEK 6,279 million (5,805).

Hufvudstaden has an MTN programme totalling SEK 6,000 million, and a commercial paper programme totalling SEK 3,000 million. The outstanding amount in bonds was SEK 4,700 million and in commercial paper SEK 1,650 million. 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 2.6 years (1.8), the average capital tie-up period was 3.9 years (3.4), and the average equivalent rate of interest was 1.2 per cent (1.9). 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 450 million (1,750) is hedged via interest derivatives.

The fair value of all interest derivatives as at December 31, 2018 was SEK -3.7 million (-30.3). 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, December 31, 2018

Maturity, year	Credit amount	AER, % <sup>1)</sup>	Proportion, %
< 1	2,650	0.7	36
1 - 2	-	-	-
2 - 3	1,000	1.5	14
3 - 4	1,200	1.5	16
4 - 5	2,000	1.3	27
5 - 6	500	1.5	7
Total	7,350	1.2	100

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

## Capital tie-up structure SEK m, December 31, 2018

Maturity year	Credit Agreement	Utilized:			Total	Proportion, %
		Bank loans	Bonds	Commercial paper <sup>1)</sup>		
< - 1	-	-	-	-	-	-
1 - 2	1,500	500	-	-	500	7
2 - 3	2,000	-	1,000	650	1,650	23
3 - 4	1,700	500	1,200	-	1,700	23
4 - 5	2,000	-	2,000	-	2,000	27
5 - 6	1,500	-	500	1,000	1,500	20
Total	8,700	1,000	4,700	1,650	7,350	100

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

## FOURTH QUARTER

Net revenue from property management amounted to SEK 464.0 million (456.0). The increase of 2 per cent can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases, and indexation. Net revenue was affected by loss of income attributable to current projects, mainly the NK department store in Stockholm. Costs for property management amounted to SEK -134.1 million (-138.4). A provision is made in December for bonus costs for the whole year. Gross profit from property management was SEK 329.9 million (317.6).

Gross profit from parking operations was SEK 10.5 million (11.4). Net revenue was SEK 23.3 million (24.0). Costs totalled SEK -12.8 million (-12.6).

Unrealized changes in the value of investment properties amounted to SEK 1,154.1 million (970.3) and changes in the value of interest derivatives amounted to SEK 4.1 million (13.2). Net financial income and expense totalled SEK -26.3 million (-31.5).

## SHARES AND SHAREHOLDERS

Hufvudstaden, whose shares are listed on NASDAQ Stockholm, had 24,079 shareholders at the year-end. The proportion of foreign ownership as at December 31, 2018 was 28.1 per cent of the total number of outstanding shares (30.3). As at December 31, 2018, the series A share price was SEK 136.90, and market capitalization was SEK 33.5 billion.

## Largest shareholder groups, December 31, 2018

	Number of shares, %	Number of votes, %
L E Lundbergföretagen	44.2	87.6
State Street Bank and Trust	6.3	1.3
JP Morgan Funds	5.1	1.1
AMF Funds	4.3	0.9
BNY Mellon Funds	3.8	0.8
Citibank	3.8	0.8
Fourth Swedish National Pension Fund	2.6	0.5
BNP Paribas	2.4	0.5
SEB Funds	1.6	0.3
Other shareholders	23.5	5.7
Outstanding shares	97.6	99.5
Company holdings	2.4	0.5
Total number of issued shares	100.0	100.0

### Shares bought back

The total number of shares held by Hufvudstaden as at December 31, 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 General 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 Company shares. The Board of Directors will present a proposal at the Annual Meeting on March 21, 2019 that authorization to acquire and assign company shares be renewed.

### Buy-back of shares as at December 31, 2018, million shares

	Total number of shares	Company holdings	Held by other shareholders
As of January 1, 2018	211.3	5.0	206.3
Buy-back	-	-	-
As of December 31, 2018	211.3	5.0	206.3

### 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 Year-End 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 Year-End 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 vast majority of Hufvudstaden's revenue comprises debited rent, including indexation, supplementary charges for property tax, and investments, which are covered by IAS 17 Leasing. Other revenue comprises all other supplementary charges, including heating, cooling, waste management, and water. The application of IFRS 15 has resulted in that Hufvudstaden's revenue is divided into two parts – Rental revenue and Service revenue. This has not had a material impact on the Consolidated Financial Statements apart from expanded disclosure requirements. Otherwise new and amended standards that came into effect in 2018 have not had any material impact on the Consolidated Financial Statements.

Hufvudstaden will apply IFRS 16 Leases with effect from January 1, 2019 using the modified retroactive

method. Reported rights of use will be assigned the same value as the reported lease liability as at January 1, 2019. It is Hufvudstaden's assessment that IFRS 16 will not have any material impact on consolidated net income, consolidated financial position, or cash flow. In its capacity as lessee, Hufvudstaden has conducted a review and analysis of the Group's lease agreements, whereupon site leasehold agreements have been identified as the single most material agreement category. In addition to site leasehold agreements, only minor lease agreements have been identified, such as those covering external premises, office equipment and similar. The lease liability as at January 1 with regard to site leasehold agreements totalled SEK 676 million, where the equivalent right of use is reported. As a result of the transition to IFRS 16, ground rents will be reported in their entirety as a financial cost, which is different compared to the current application according to IAS 17 Lease Agreements, where these are reported as operating costs charged to gross profit and loss. The result from Property Management, however, will remain unchanged. The reported site leasehold cost in 2018 was SEK 21.8 million. Hufvudstaden has also conducted a review of the principles applied by the Group in its capacity as lessor in the transition to IFRS 16, where Hufvudstaden noted that the standard does not have any material impact on the Consolidated Financial Statements.

### PROPOSED DIVIDEND

The Board of Directors proposes that the dividend be increased to SEK 3.70 per share (3.50).

### PROPOSAL REGARDING ELECTION OF THE BOARD OF DIRECTORS AND AUDITORS

The Company's main shareholders have notified the Company of the intention to present a proposal at the Annual General Meeting that the current members of the Board of Directors, Claes Boustedt, Peter Egardt, Liv Forhaug, Louise Lindh, Fredrik Lundberg, Fredrik Persson, Sten Peterson, Anna-Greta Sjöberg and Ivo Stopner be re-elected, and that Fredrik Lundberg be re-elected as Chairman of the Board. It is proposed that KPMG AB be elected as the auditing company with Joakim Thilstedt as lead auditor.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 3.30pm on Thursday, March 21, 2019 at Grand Hôtel, Vinterträdgården, Stockholm. The Annual Report for 2018 will be available in week 9 at the Company's office and on the Company's website. At the same time, it will be distributed to those shareholders who have made a request to that effect.

### FORTHCOMING INFORMATION

Annual Report 2018	February 2019
Annual General Meeting in Stockholm 2019	March 21, 2019
Interim Report, January-March 2019	May 9, 2019
Half-year Report, January-June 2019	August 21, 2019
Interim Report, January-September 2019	November 7, 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 February 14, 2019.

*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

GROUP, SEK m	October-December 2018	October-December 2017	January-December 2018	January-December 2017
<b>Net revenue<sup>1)</sup></b>				
Property management	464.0	456.0	1,797.1	1,750.6
Parking operations	23.3	24.0	85.8	89.9
	<b>487.3</b>	<b>480.0</b>	<b>1,882.9</b>	<b>1,840.5</b>
<b>Property management expenses</b>				
Maintenance	-5.4	-10.8	-24.5	-29.8
Operation and administration	-81.7	-80.3	-283.1	-269.4
Ground rents	-5.5	-5.5	-21.8	-22.6
Property tax	-41.5	-41.8	-165.9	-167.3
<b>Property management expenses</b>	<b>-134.1</b>	<b>-138.4</b>	<b>-495.3</b>	<b>-489.1</b>
Parking operations, expenses	-12.8	-12.6	-51.1	-50.7
<b>Operating expenses</b>	<b>-146.9</b>	<b>-151.0</b>	<b>-546.4</b>	<b>-539.8</b>
<b>Gross profit</b>	<b>340.4</b>	<b>329.0</b>	<b>1,336.5</b>	<b>1,300.7</b>
- of which Property management	329.9	317.6	1,301.8	1,261.5
- of which Parking operations	10.5	11.4	34.7	39.2
Central administration	-13.8	-12.9	-43.5	-41.3
<b>Operating profit before items affecting comparability and changes in value</b>	<b>326.6</b>	<b>316.1</b>	<b>1,293.0</b>	<b>1,259.4</b>
Items affecting comparability <sup>2)</sup>	-	-138.6	-	-138.6
Changes in value, investment properties	1,154.1	970.3	3,620.8	2,848.2
Changes in value, interest derivatives	4.1	13.2	26.6	61.6
<b>Operating profit</b>	<b>1,484.8</b>	<b>1,161.0</b>	<b>4,940.4</b>	<b>4,030.6</b>
Financial income and expense	-26.3	-31.5	-120.5	-135.7
<b>Profit before tax</b>	<b>1,458.5</b>	<b>1,129.5</b>	<b>4,819.9</b>	<b>3,894.9</b>
Tax	-276.2	-226.2	-500.2	-859.9
<b>Profit after tax</b>	<b>1,182.3</b>	<b>903.3</b>	<b>4,319.7</b>	<b>3,035.0</b>
<b>Other comprehensive income</b>	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>1,182.3</b>	<b>903.3</b>	<b>4,319.7</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
Profit for the period after tax per share before and after dilution, SEK	5.73	4.38	20.94	14.71

<sup>1)</sup> Service revenue totals SEK 77.7 million, equivalent to 4% of the total net revenue for the period January-December 2018.

<sup>2)</sup> Includes 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

GROUP, SEK m	December 31, 2018	December 31, 2017
Investment properties	44,088.5	39,730.0
Other non-current assets	37.1	20.3
<b>Total non-current assets</b>	<b>44,125.6</b>	<b>39,750.3</b>
Current assets	1,249.6	544.6
<b>Total assets</b>	<b>45,375.2</b>	<b>40,294.9</b>
Equity	28,999.5	25,401.7
Non-current interest-bearing liabilities	5,700.0	3,700.0
Deferred tax liabilities	8,293.0	7,939.9
Other non-current liabilities	50.1	56.9
Provisions for pensions	19.6	16.3
<b>Total non-current liabilities</b>	<b>14,062.7</b>	<b>11,713.1</b>
Current interest-bearing liabilities	1,650.0	2,500.0
Other liabilities	663.0	680.1
<b>Total current liabilities</b>	<b>2,313.0</b>	<b>3,180.1</b>
<b>Total equity and liabilities</b>	<b>45,375.2</b>	<b>40,294.9</b>

## CHANGES IN EQUITY – SUMMARY

GROUP, SEK m	January-December 2018	January-December 2017
Equity, opening balance	25,401.7	23,047.4
Total comprehensive income for the period	4,319.7	3,035.0
Dividend	-721.9	-680.7
<b>Equity, closing balance</b>	<b>28,999.5</b>	<b>25,401.7</b>

## STATEMENTS OF CASH FLOWS – SUMMARY

GROUP, SEK m	January-December 2018	January-December 2017
Profit before tax	4,819.9	3,894.9
Depreciation/impairments	8.6	3.7
Items affecting comparability	-	138.6
Changes in value, investment properties	-3,620.8	-2,848.2
Changes in value, interest derivatives	-26.6	-61.6
Other changes	3.4	1.3
Income tax paid	-162.2	-150.6
<b>Cash flow from current operations before changes in working capital</b>	<b>1,022.3</b>	<b>978.1</b>
Increase/decrease in operating receivables	-37.4	-11.5
Increase/decrease in operating liabilities	18.0	32.5
<b>Cash flow from current operations</b>	<b>1,002.9</b>	<b>999.1</b>
Investment in properties	-737.7	-583.7
Investment in other non-current assets	-17.5	-3.6
<b>Cash flow from investments</b>	<b>-755.2</b>	<b>-587.3</b>
Loans raised	7,100.0	4,000.0
Amortization of loan debt	-5,950.0	-4,450.0
Dividend paid	-721.9	-680.7
<b>Cash flow from financing</b>	<b>428.1</b>	<b>-1,130.7</b>
<b>Cash flow for the period</b>	<b>675.8</b>	<b>-718.9</b>
Cash and cash equivalents at the beginning of the period	394.9	1,113.8
Cash and cash equivalents at the period-end	1,070.7	394.9
Cash flow for the period per share, SEK	3.28	-3.49

## SEGMENT REPORT – SUMMARY

The Group's operations are divided into two segments, property management and parking operations. The property management segment is divided into business areas, which follow the Company's operational control system. As part of the increased focus on business development and projects, Hufvudstaden carried out a reorganization, which came into effect on April 1, 2017. 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	
	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>
<b>Property management</b>								
Net revenue	1,003.5	951.9	465.6	487.5	328.0	311.2	1,797.1	1,750.6
Property costs	-231.7	-237.1	-170.9	-160.0	-92.7	-92.0	-495.3	-489.1
<b>Gross profit, property management</b>	<b>771.8</b>	<b>714.8</b>	<b>294.7</b>	<b>327.5</b>	<b>235.3</b>	<b>219.2</b>	<b>1,301.8</b>	<b>1,261.5</b>
<b>Gross profit Parking operations</b>			34.7	39.2			34.7	39.2
Central administration							-43.5	-41.3
Items affecting comparability <sup>2)</sup>							-	-138.6
<b>Changes in value:</b>								
Investment properties							3,620.8	2,848.2
Interest derivatives							26.6	61.6
<b>Operating profit</b>							<b>4,940.4</b>	<b>4,030.6</b>
Financial income and expense							-120.5	-135.7
<b>Profit before tax</b>							<b>4,819.9</b>	<b>3,894.9</b>

<sup>1)</sup> 2017 has been recalculated in the light of the new organization.

<sup>2)</sup> Includes the change in value and disposals for the full year 2017, SEK -219.2 million, and part of potential insurance compensation, SEK 80.6 million, resulting from the fire at the property Vildmannen 7.



## PERFORMANCE MEASURES

GROUP	Full year 2018	Full year 2017
<b>Property-related</b>		
Rentable floor space, 1,000 m <sup>2</sup>	384.5	384.7
Rental vacancy level, %	2.6	3.9
Floor space vacancy level, %	4.3	5.5
Fair value, SEK bn	44.1	39.7
<b>Financial</b>		
Return on equity, %	14.1	12.5
Return on capital employed, %	14.7	13.2
Equity ratio, %	64	63
Interest coverage ratio, multiple	10.5	9.3
Debt/equity ratio, multiple	0.2	0.2
Net loan-to-value ratio, properties, %	14.2	14.6
Surplus ratio, %	71.0	70.7
<b>Data per share</b>		
Profit/loss for the period, SEK	20.94	14.71
Equity, SEK	140.59	123.15
Properties, fair value, SEK	213.75	192.62
Number of outstanding shares, 1,000	206,266	206,266
Number of issued shares, 1,000	211,272	211,272
<b>EPRA</b>		
Result from property management after nominal tax (EPRA Earnings), SEK m	1,064	998
Result from property management after nominal tax (EPRA EPS) per share, SEK	5.16	4.84
Non-current net asset value (EPRA NAV), SEK m	37,215.9	33,255.3
Non-current net asset value (EPRA NAV) per share, SEK	181.00	161.00
Current net asset value (EPRA NNAV), SEK m	35,218.8	31,447.0
Current net asset value (EPRA NNAV) per share, SEK	171.00	152.00
EPRA Vacancy rate, %	1.3	2.4

## PERFORMANCE MEASURES PER QUARTER

GROUP	Oct-Dec 2018	Jul-Sept 2018	Apr-June 2018	Jan-Mar 2018	Oct-Dec 2017	July-Sept 2017	Apr-June 2017	Jan-Mar 2017
Net revenue, SEK m	487	465	464	467	480	456	453	452
Return on equity, %	14.7	10.7	9.4	5.3	12.9	9.9	8.6	4.7
Return on equity, adjusted, %	4.1	3.4	3.3	3.5	4.0	3.6	3.5	3.6
Equity ratio, %	64	63	63	61	63	62	62	60
Profit per share for the period, SEK	5.73	2.73	9.13	3.35	4.38	2.46	5.59	2.29
Equity per share, SEK	140.59	134.86	132.13	123.00	123.15	118.77	116.31	110.73
Result from property management after nominal tax (EPRA EPS) per share, SEK	1.36	1.26	1.28	1.27	1.22	1.24	1.20	1.18
Net asset value (EPRA NNAV), per share, SEK	171.00	164.00	161.00	153.00	152.00	147.00	144.00	138.00
Cash flow from current operations, per share SEK	1.69	1.08	1.40	0.69	1.25	0.77	1.41	1.42

## ALTERNATIVE PERFORMANCE MEASURES

SEK m	Full year 2018	Full year 2017
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)</b> see page 4.		
<b>Net debt</b>		
Non-current interest-bearing liabilities	5,700	3,700
Current interest-bearing liabilities	1,650	2,500
Cash and bank holdings	-1,071	-395
<b>Net debt</b>	<b>6,279</b>	<b>5,805</b>
<b>Equity ratio</b>		
Equity	29,000	25,402
Total assets	45,375	40,295
<b>Equity ratio, %</b>	<b>64</b>	<b>63</b>
<b>Net loan-to-value ratio, properties</b>		
Interest-bearing liabilities	7,350	6,200
Interest-bearing assets	-1,071	-395
<b>Total</b>	<b>6,279</b>	<b>5,805</b>
Carrying amount, properties	44,089	39,730
<b>Net loan-to-value ratio, properties, %</b>	<b>14.2</b>	<b>14.6</b>
<b>Interest coverage ratio</b>		
Profit before tax	4,820	3,895
Reversal of items affecting comparability and changes in value	-3,647	-2,771
Interest expense	123	136
<b>Total</b>	<b>1,296</b>	<b>1,260</b>
Interest expense	123	136
<b>Interest coverage ratio, multiple</b>	<b>10.5</b>	<b>9.3</b>
<b>Result from property management after nominal tax (EPRA Earnings)</b>		
Operating profit before items affecting comparability and changes in value	1,293	1,259
Financial income and expense	-120	-136
<b>Result from property management</b>	<b>1,173</b>	<b>1,123</b>
Current tax, result from property management	-109	-125
<b>Result from property management after nominal tax (EPRA Earnings)</b>	<b>1,064</b>	<b>998</b>
Number of outstanding shares, million	206.3	206.3
<b>Result from property management after nominal tax (EPRA EPS) per share, SEK</b>	<b>5.16</b>	<b>4.84</b>

## PARENT COMPANY

### RESULTS AND FINANCIAL POSITION

Net revenue amounted to SEK 1,210.8 million (1,145.9). The increase can be attributed mainly to higher gross rents in conjunction with new and renegotiated leases and indexation. Costs totalled SEK -656.5 million (-644.8). Gross profit was SEK 554.3 million (501.1). Profit from financial items amounted to SEK 37.8 million (127.3). Financial items include group contributions from subsidiaries totalling SEK 158.2 million (263.0).

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 1,060.0 million (364.6). Investment in properties and other fixed assets totalled SEK 143.1 million (170.6).

### 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	October-December 2018	October-December 2017	January-December 2018	January-December 2017
Net revenue <sup>1)</sup>	315.2	295.2	1,210.8	1,145.9
Operating expenses	-187.7	-172.1	-656.5	-644.8
<b>Gross profit</b>	<b>127.5</b>	<b>123.1</b>	<b>554.3</b>	<b>501.1</b>
Central administration	-13.8	-12.9	-43.5	-41.3
Items affecting comparability <sup>2)</sup>	-	0.0	-	0.0
Changes in value, interest derivatives	4.1	13.2	26.6	61.6
<b>Operating profit</b>	<b>117.8</b>	<b>123.4</b>	<b>537.4</b>	<b>521.4</b>
Group contributions received	158.2	263.0	158.2	263.0
Other financial income and expense	-26.2	-31.6	-120.4	-135.7
<b>Profit after financial items</b>	<b>249.8</b>	<b>354.8</b>	<b>575.2</b>	<b>648.7</b>
Appropriations	136.4	144.3	136.4	144.3
<b>Profit before tax</b>	<b>386.2</b>	<b>499.1</b>	<b>711.6</b>	<b>793.0</b>
Tax	-58.6	-87.9	-96.5	-177.7
<b>Profit for the period</b>	<b>327.6</b>	<b>411.2</b>	<b>615.1</b>	<b>615.3</b>
<b>Statement of comprehensive income, SEK m</b>				
Profit for the period	327.6	411.2	615.1	615.3
Other comprehensive income	-	-	-	-
<b>Profit for the period</b>	<b>327.6</b>	<b>411.2</b>	<b>615.1</b>	<b>615.3</b>

<sup>1)</sup> Service revenue totals SEK 38.7 million, equivalent to 3% of the total net revenue for the period January-December 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	December 31, 2018	December 31, 2017
Investment properties	7,980.7	8,017.9
Other non-current assets	2,908.4	2,904.9
Total non-current assets	10,889.1	10,922.8
Current assets	1,711.0	890.6
<b>Total assets</b>	<b>12,600.1</b>	<b>11,813.4</b>
Restricted equity	1,978.7	1,978.7
Non-restricted equity	1,592.5	1,699.3
Total equity	3,571.2	3,678.0
Untaxed reserves	340.5	516.2
Provisions	887.8	935.0
Non-current liabilities	5,745.1	3,752.0
Current liabilities	2,055.5	2,932.2
<b>Total equity and liabilities</b>	<b>12,600.1</b>	<b>11,813.4</b>

Stockholm, February 14, 2019

Fredrik Lundberg  
*Chairman*

Claes Boustedt  
*Board Member*

Peter Egardt  
*Board Member*

Liv Forhaug  
*Board Member*

Louise Lindh  
*Board Member*

Fredrik Persson  
*Board Member*

Sten Peterson  
*Board Member*

Anna-Greta Sjöberg  
*Board Member*

Ivo Stopner  
*President  
Board Member*

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

## DEFINITIONS AND GLOSSARY

### 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 on property holdings.

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

*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 minus current investments and cash and bank holdings.

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

*Result from property management.* Operating profit before items affecting comparability and changes in value minus financial income and expense.

*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.

*Fredstan.* The area around Fredsgatan between Brunnsparcken and Trädgårdsföreningen, where the vision is to offer a unique range of stores, restaurants and cultural events and facilities.

*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 Year-End 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



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Company registration number: 556012-8240

Registered office: Stockholm

