

# Q2

HUFVUDSTADEN  
Half-year Report January – June 2018



# HUFVUDSTADEN

## Half-year Report January–June 2018

- **Gross profit from property management rose by 4 per cent to SEK 648 million (623). The increase can be attributed mainly to higher rental revenue.**
- **Net revenue from property management amounted to SEK 888 million (859), an increase of 3 per cent.**
- **Profit after tax for the period was SEK 2,575 million (1,625), equivalent to SEK 12.48 per share (7.88). 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 42.1 billion (39.7 at the turn of the year), resulting in a net asset value of SEK 161 per share (152 at the turn of the year). The unrealized change in value for the period was SEK 2,038 million (1,518).**
- **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 10.5 (9.0).**
- **The rental vacancy level at the period-end was 4.2 per cent (4.3). Excluding current development projects, the rental vacancy level was 2.8 per cent (2.2).**

### Key events during the second quarter

Agreements have been signed with new proprietors for NK Saluhall in Stockholm. The redeveloped market hall will offer a traditional market hall experience in combination with a range of catering establishments and food retailers. The market hall will open during the first quarter 2019.

The international brands Jimmy Choo and lululemon have signed agreements to open stores in Bibliotekstan in Stockholm.

The local planning process has commenced for the property Vildmannen 7 in Bibliotekstan, which has suffered extensive fire damage.

A lease agreement covering 2,300 square metres of office space at Biblioteksgatan 12 in Stockholm has been renegotiated with the law firm White & Case. Redevelopment of the premises is in progress and is scheduled for completion at the end of this year.

### Performance measures

SEK m	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net revenue, property management	888	859	1,751
Gross profit, property management	648	623	1,262
Unrealized changes in value, investment properties	2,038	1,518	2,848
Operating profit	2,701	2,174	4,031
Profit for the period	2,575	1,625	3,035
Fair value, properties, SEK bn	42.1	38.3	39.7
Rental vacancy level, excl. projects (EPRA vacancy level) %	2.8	2.2	2.4
Net loan-to-value ratio, properties, %	15.3	15.4	14.6
Interest coverage ratio, multiple	10.5	9.0	9.3
Result from property management after nominal tax (EPRA EPS), per share, SEK	2.54	2.38	4.84
Current net asset value (EPRA NNNAV) per share, SEK	161.00	144.00	152.00



## GROUP

### RESULTS

#### Property management

Net rents from property management during the period amounted to SEK 887.6 million (859.1). The gross profit was SEK 647.6 million (623.3). The increase can be attributed mainly to higher gross rents in conjunction with renegotiated and new leases and indexation. Gross rents were affected by a certain loss of revenue attributable to current projects, primarily in the NK department stores.

The turnover-based rent supplement is reported during the fourth quarter and last year amounted to SEK 15.7 million. Apart from the 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 42.7 million (45.5). The decrease can be attributed mainly to reduced revenue from short-term parking. Expenses totalled SEK -25.1 million (-25.6) and gross profit SEK 17.6 million (19.9).

#### Other profit and loss items

Central administration totalled SEK -19.8 million (-19.0). Unrealized changes in the value of investment properties totalled SEK 2,037.7 million (1,517.6) and changes in interest derivatives totalled SEK 17.5 million (32.6).

#### Financial income and expense

Net financial income and expense amounted to SEK -60.2 million (-69.2). The decrease can be attributed to a lower rate of interest on loans.

#### Tax

The Group's tax for the period was SEK -65.3 million (-480.3), of which SEK -77.4 million (-80.9) was actual tax, and SEK 12.1 million (-399.4) 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 2,575.1 million (1,624.9). 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 June 30, 2018 was SEK 42,090 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 June 30, 2018 was 4.2 per cent (3.9 at the turn of the year) and the total floor space vacancy level was 5.1 per cent (5.5 at the turn of the year). The increase can be attributed mainly to a small number of office tenants vacating premises. New leases have already been signed for a number of the vacated premises. The level of vacant space, excluding projects in progress (EPRA vacancy rate), totalled 2.8 per cent (2.4 at the turn of the year).

#### Acquisitions and investments

The total investment in properties and equipment during the period was SEK 324.3 million (271.2).

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 has continued to develop NK with the aim of reinforcing its position as a world-class department store. Extensive redevelopment of NK Saluhall, the NK market hall, is part of this work. Leases have been signed with several prominent proprietors. The new NK Saluhall will offer a traditional market hall experience in combination with a range of catering establishments and food retailers. The interest of both international and Swedish brands to establish themselves in the NK department store is great. The extent of the project in the department store has increased slightly.

Work on the Skären 9 property is continuing and is now in 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 some 2,600 square metres is added floorspace. Around 75 per cent of the floor space has been leased to Advokatfirman Vinge.

Work on the Vildmannen 7 property, which was badly damaged by fire, continues as planned. A memo was received from the City of Stockholm during the quarter and local planning is now under way.

#### 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 first half of 2018 is SEK 2,037.7 million (1,517.6). The total value of the property holdings as at June 30, 2018 was SEK 42.1 billion, including investments made during the period. The unrealized increase in value can be attributed to rising rents and slightly lower yield requirements.

The yield requirement has on average fallen by 8 points compared with the first quarter and in conjunction with the above valuation it 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 42.1 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.

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

	Change, +/-	Impact on profit before tax, +/-
Rental revenue	SEK 100/sqm	SEK 1,030 m
Property costs	SEK 50/sqm	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: June 30, 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 valuations covered 10 properties, equivalent to 38 per cent of the internally assessed fair value. 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 were Achilles 1, Kungliga Trädgården 5, Kvasten 6, Kåkenhusen 40 (part of), Oxhuvudet 18, Orgelpipan 7, Packarhuset 4, Rännilen 8 and Rännilen 19 (part of) in Stockholm, as well as Nordstaden 8:24 (part of) in Gothenburg.

The external valuation companies have set a fair value for these properties of SEK 16,098 million. Hufvudstaden's internal valuation of the same properties was SEK 16,006 million. 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 35.1 billion or SEK 170 per share. The current net asset value (EPRA NNNAV) was SEK 33.2 billion or SEK 161 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, June 30, 2018

	SEK m	SEK/ share
Equity according to the Balance Sheet	27,254.9	132
Reversal		
Derivatives according to the Balance Sheet	12.8	0
Deferred tax according to the Balance Sheet	7,809.7	38
Non-current net asset value (EPRA NAV)	35,077.4	170
Deductions		
Derivatives as stated above	-12.8	0
Estimated deferred tax 5%	-1,895.5	-9
Current net asset value (EPRA NNNAV)	33,169.1	161

#### 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 Normmalstorg/Hamngatan, and in the Hötorget area – office rents of SEK 6,000-8,500 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.

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 2,500-3,500 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 37,400 square metres were renegotiated at a rental value of SEK 191 million. On average, the renegotiations resulted in an increase in rent of approximately 20 per cent, including Skären 9, 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 June 30, 2018 amounted to SEK 7,450 million (6,200 at the turn of the year). Interest-bearing net debt was SEK 6,420 million (5,805 at the turn of the year).

Hufvudstaden has an MTN programme totalling SEK 6.0 billion and the outstanding amount is SEK 4.7 billion. Outstanding commercial paper amounted to SEK 1.75 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 2.6 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 1.5 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. The underlying credit of SEK 950 million (1,750 at the turn of the year) is hedged via interest derivatives. Of the total borrowings, SEK 4,700 million carries a fixed rate of interest.

The fair value of all interest derivatives as at June 30, 2018 was SEK -12.8 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, June 30, 2018

Maturity, year	Credit amount	Interest derivatives	Net	AER, % <sup>1)</sup>	Proportion, %
< - 1	3,250	-100	3,150	1.5	42
1 - 2	-	100	100	1.9	1
2 - 3	500	-	500	1.8	7
3 - 4	900	-	900	1.3	12
4 - 5	2,300	-	2,300	1.4	31
5 - 6	500	-	500	1.5	7
Total	7,450	-	7,450	1.5	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, June 30, 2018

Maturity year	Credit Agreement	Utilized:				Proportion, %
		Bank loans	Bonds	Commercial paper <sup>1)</sup>	Total	
< - 1	500	-	500	-	500	7
1 - 2	1,000	-	-	-	-	-
2 - 3	1,000	500	500	-	1,000	13
3 - 4	2,400	500	900	750	2,150	29
4 - 5	2,300	-	2,300	-	2,300	31
5 - 6	500	-	500	-	500	7
6 - 7	1,000	-	-	1,000	1,000	13
Total	8,700	1,000	4,700	1,750	7,450	100

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

## SECOND QUARTER

Gross profit from property management amounted to SEK 322.3 million (312.6), an increase of 3 per cent. Net rents amounted to SEK 442.5 million (429.8), an increase of 3 per cent. The increase can be attributed mainly to higher gross rents in conjunction with renegotiated and new leases and indexation. Costs amounted to SEK -120.2 million (-117.2).

Gross profit from parking operations was SEK 8.7 million (9.7). Net revenue was SEK 21.2 million (22.7) and costs totalled SEK -12.5 million (-13.0).

Changes in the value of investment properties amounted to SEK 1,444.7 million (1,195.9) and changes in the value of interest derivatives amounted to SEK 8.7 million (14.7). Net financial income and expense totalled SEK -31.8 million (-34.8).

## SHARES AND SHAREHOLDERS

Hufvudstaden, whose shares are listed on NASDAQ Stockholm, had 23,653 shareholders at the period-end. The proportion of foreign ownership as at June 30, 2018 was 29.0 per cent of the total number of outstanding shares (30.3 at the turn of the year). The series A share price as at June 30, 2018 was SEK 128.30, and market capitalization was SEK 29.4 billion.

### Shares bought back

The total number of shares held by Hufvudstaden as at June 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 Half-Year 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 Half-Year Report. Apart from the in-

roduction 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 analys-

ing 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**

Interim Report, January-September 2018	November 9, 2018
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 Half-year 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 August 21, 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

GROUP, SEK m	April-June 2018	April-June 2017	January-June 2018	January-June 2017	January-December 2017
<b>Net revenue<sup>1)</sup></b>					
Property management	442.5	429.8	887.6	859.1	1,750.6
Parking operations	21.2	22.7	42.7	45.5	89.9
	<b>463.7</b>	<b>452.5</b>	<b>930.3</b>	<b>904.6</b>	<b>1,840.5</b>
<b>Property management expenses</b>					
Maintenance	-6.3	-7.4	-9.9	-12.0	-29.8
Operation and administration	-67.0	-62.0	-136.0	-128.8	-269.4
Ground rents	-5.2	-6.0	-10.8	-11.4	-22.6
Property tax	-41.7	-41.8	-83.3	-83.6	-167.3
	<b>-120.2</b>	<b>-117.2</b>	<b>-240.0</b>	<b>-235.8</b>	<b>-489.1</b>
Parking operations, expenses	-12.5	-13.0	-25.1	-25.6	-50.7
<b>Operating expenses</b>	<b>-132.7</b>	<b>-130.2</b>	<b>-265.1</b>	<b>-261.4</b>	<b>-539.8</b>
<b>Gross profit</b>	<b>331.0</b>	<b>322.3</b>	<b>665.2</b>	<b>643.2</b>	<b>1,300.7</b>
- of which Property management	322.3	312.6	647.6	623.3	1,261.5
- of which Parking operations	8.7	9.7	17.6	19.9	39.2
Central administration	-9.9	-9.5	-19.8	-19.0	-41.3
<b>Operating profit before items affecting comparability and changes in value</b>	<b>321.1</b>	<b>312.8</b>	<b>645.4</b>	<b>624.2</b>	<b>1,259.4</b>
Items affecting comparability <sup>2)</sup>	-	-	-	-	-138.6
Changes in value, investment properties	1,444.7	1,195.9	2,037.7	1,517.6	2,848.2
Changes in value, interest derivatives	8.7	14.7	17.5	32.6	61.6
<b>Operating profit</b>	<b>1,774.5</b>	<b>1,523.4</b>	<b>2,700.6</b>	<b>2,174.4</b>	<b>4,030.6</b>
Financial income and expense	-31.8	-34.8	-60.2	-69.2	-135.7
<b>Profit before tax</b>	<b>1,742.7</b>	<b>1,488.6</b>	<b>2,640.4</b>	<b>2,105.2</b>	<b>3,894.9</b>
Tax	140.8	-335.8	-65.3	-480.3	-859.9
<b>Profit after tax</b>	<b>1,883.5</b>	<b>1,152.8</b>	<b>2,575.1</b>	<b>1,624.9</b>	<b>3,035.0</b>
<b>Other comprehensive income</b>	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>1,883.5</b>	<b>1,152.8</b>	<b>2,575.1</b>	<b>1,624.9</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	9.13	5.59	12.48	7.88	14.71

<sup>1)</sup> Service and other revenue totals SEK 49.8 million, equivalent to 5% of the total net revenue for the period January-June 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

GROUP, SEK m	June 30, 2018	June 30, 2017	December 31, 2017
Investment properties	42,090.4	38,304.1	39,730.0
Other non-current assets	22.0	20.0	20.3
<b>Total non-current assets</b>	<b>42,112.4</b>	<b>38,324.1</b>	<b>39,750.3</b>
Current assets	1,268.5	671.5	544.6
<b>Total assets</b>	<b>43,380.9</b>	<b>38,995.6</b>	<b>40,294.9</b>
Equity	27,254.9	23,991.6	25,401.7
Non-current interest-bearing liabilities	5,200.0	3,200.0	3,700.0
Deferred tax liabilities	7,927.8	7,639.6	7,939.9
Other non-current liabilities	51.7	72.7	56.9
Provisions for pensions	18.3	16.0	16.3
<b>Total non-current liabilities</b>	<b>13,197.8</b>	<b>10,928.3</b>	<b>11,713.1</b>
Current interest-bearing liabilities	2,250.0	3,250.0	2,500.0
Other liabilities	678.2	825.7	680.1
<b>Total current liabilities</b>	<b>2,928.2</b>	<b>4,075.7</b>	<b>3,180.1</b>
<b>Total equity and liabilities</b>	<b>43,380.9</b>	<b>38,995.6</b>	<b>40,294.9</b>



## CHANGES IN EQUITY – SUMMARY

GROUP, SEK m	January- June 2018	January- June 2017	January- December 2017
Equity, opening balance	25,401.7	23,047.4	23,047.4
Total comprehensive income for the period	2,575.1	1,624.9	3,035.0
Dividend	-721.9	-680.7	-680.7
<b>Equity, closing balance</b>	<b>27,254.9</b>	<b>23,991.6</b>	<b>25,401.7</b>

## STATEMENTS OF CASH FLOWS – SUMMARY

GROUP, SEK m	January- June 2018	January- June 2017	January- December 2017
Profit before tax	2,640.4	2,105.2	3,894.9
Depreciation/impairments	4.8	4.4	3.7
Items affecting comparability	-	-	138.6
Changes in value, investment properties	-2,037.7	-1,517.6	-2,848.2
Changes in value, interest derivatives	-17.5	-32.6	-61.6
Other changes	2.1	1.2	1.3
Income tax paid	-77.5	-79.6	-150.6
<b>Cash flow from current operations before changes in working capital</b>	<b>514.6</b>	<b>481.0</b>	<b>978.1</b>
Increase/decrease in operating receivables	-93.8	-71.9	-11.5
Increase/decrease in operating liabilities	10.7	173.3	32.5
<b>Cash flow from current operations</b>	<b>431.5</b>	<b>582.4</b>	<b>999.1</b>
Investment in properties	-322.7	-269.2	-583.7
Investment in equipment	-1.6	-2.0	-3.6
<b>Cash flow from investments</b>	<b>-324.3</b>	<b>-271.2</b>	<b>-587.3</b>
Loans raised	4,050.0	1,700.0	4,000.0
Amortization of loan debt	-2,800.0	-1,900.0	-4,450.0
Dividend paid	-721.9	-680.7	-680.7
<b>Cash flow from financing</b>	<b>528.1</b>	<b>-880.7</b>	<b>-1,130.7</b>
<b>Cash flow for the period</b>	<b>635.3</b>	<b>-569.5</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	1,030.2	544.3	394.9
Cash flow for the period per share, SEK	3.08	-2.76	-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-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
<b>Property management</b>								
Net revenue	491.7	470.9	235.0	236.5	160.9	151.7	887.6	859.1
Property costs	-111.1	-113.9	-84.5	-77.9	-44.4	-44.0	-240.0	-235.8
<b>Gross profit</b>	<b>380.6</b>	<b>357.0</b>	<b>150.5</b>	<b>158.6</b>	<b>116.5</b>	<b>107.7</b>	<b>647.6</b>	<b>623.3</b>
Parking operations			17.6	19.9			17.6	19.9
Central administration							-19.8	-19.0
<b>Changes in value</b>								
Investment properties							2,037.7	1,517.6
Interest derivatives							17.5	32.6
<b>Operating profit</b>							<b>2,700.6</b>	<b>2,174.4</b>
Financial income and expense							-60.2	-69.2
<b>Profit before tax</b>							<b>2,640.4</b>	<b>2,105.2</b>

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



## PERFORMANCE MEASURES

GROUP	June 30, 2018	June 30, 2017	Full year 2017
<b>Property-related</b>			
Rentable floor space, 1,000 m <sup>2</sup>	385	389	385
Rental vacancy level, %	4.2	4.3	3.9
Floor space vacancy level, %	5.1	6.2	5.5
Fair value, SEK bn	42.1	38.3	39.7
<b>Financial</b>			
Return on equity, %	9.4	8.6	12.5
Return on capital employed, %	10.1	9.2	13.2
Equity ratio, %	63	62	63
Interest coverage ratio, multiple	10.5	9.0	9.3
Debt/equity ratio, multiple	0.2	0.2	0.2
Net loan-to-value ratio, properties, %	15.3	15.4	14.6
Surplus ratio, %	71.5	71.1	70.7
<b>Data per share</b>			
Profit/loss for the period, SEK	12.48	7.88	14.71
Equity, SEK	132.13	116.31	123.15
Properties, fair value, SEK	204.06	185.70	192.62
Current net asset value, SEK	161.00	144.00	152.00
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	525	491	998
Result from property management after nominal tax (EPRA EPS) per share, SEK	2.54	2.38	4.84
Non-current net asset value (EPRA NAV), SEK m	35,077.4	31,546.2	33,255.3
Non-current net asset value (EPRA NAV) per share, SEK	170.00	152.00	161.00
Current net asset value (EPRA NNNAV), SEK m	33,169.1	29,783.2	31,447.0
Current net asset value (EPRA NNNAV) per share, SEK	161.00	144.00	152.00
EPRA Vacancy rate, %	2.8	2.2	2.4

## PERFORMANCE MEASURES PER QUARTER

GROUP	Apr-Jun 2018	Jan-Mar 2018	Okt-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017	Okt-Dec 2016	Jul-Sep 2016
Net revenue, SEK m	464	467	480	456	453	452	468	451
Return on equity, %	9.4	5.3	12.9	9.9	8.6	4.7	19.4	13.5
Return on equity, adjusted, %	3.3	3.5	4.0	3.6	3.5	3.6	4.0	4.2
Equity ratio, %	63	61	63	62	62	60	61	61
Profit per share for the period, SEK	9.13	3.35	4.38	2.46	5.59	2.29	7.59	4.40
Equity per share, SEK	132.13	123.00	123.15	118.77	116.31	110.73	111.74	104.15
Result from property management after nom. tax (EPRA EPS) per share, SEK	1.28	1.27	1.22	1.24	1.20	1.18	1.20	1.19
Net asset value (EPRA NNNAV), per share, SEK	161.00	153.00	152.00	147.00	144.00	138.00	138.00	129.00
Cash flow per share from current operations, SEK	2.09	0.69	1.25	0.77	1.41	1.42	0.86	1.26

## 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.

**Net asset value (EPRA NNAV)** see page 4.

	June 30, 2018	June 30, 2017	Full year 2017
<b>Net debt, SEK m</b>			
Non-current interest-bearing liabilities	5,200	3,200	3,700
Current interest-bearing liabilities	2,250	3,250	2,500
Cash and bank holdings	-1,030	-544	-395
<b>Net debt</b>	<b>6,420</b>	<b>5,906</b>	<b>5,805</b>
<b>Equity ratio, SEK m</b>			
Equity	27,255	23,992	25,402
Total assets	43,381	38,996	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	7,450	6,450	6,200
Interest-bearing assets	-1,030	-544	-395
<b>Total</b>	<b>6,420</b>	<b>5,906</b>	<b>5,805</b>
Carrying amount, properties	42,090	38,304	39,730
<b>Net loan-to-value ratio, properties, %</b>	<b>15.3</b>	<b>15.4</b>	<b>14.6</b>
<b>Interest coverage ratio, SEK m</b>			
Profit before tax	3,226 <sup>1)</sup>	2,660 <sup>1)</sup>	3,895
Reversal of items affecting comparability and changes in value	-2,055	-1,550	-2,771
Interest expense	123 <sup>1)</sup>	139 <sup>1)</sup>	136
<b>Total</b>	<b>1,294</b>	<b>1,249</b>	<b>1,260</b>
Interest expense	123 <sup>1)</sup>	139 <sup>1)</sup>	136
<b>Interest coverage ratio, multiple</b>	<b>10.5</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	645	624	1,259
Financial income and expense	-60	-69	-136
<b>Result from property management</b>	<b>585</b>	<b>555</b>	<b>1,123</b>
Current tax, result from property management	-61	-64	-125
<b>Result from property management after nominal tax (EPRA Earnings)</b>	<b>524</b>	<b>491</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>2.54</b>	<b>2.38</b>	<b>4.84</b>

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

## PARENT COMPANY

### RESULTS AND FINANCIAL POSITION

Net revenue amounted to SEK 592.3 million (564.6). The increase can be attributed mainly to higher gross rents in conjunction with renegotiated and new leases and indexation. Costs totalled SEK -309.8 million (-318.0). Gross profit was SEK 282.5 million (246.6). Net financial income and expense was SEK -60.1 million (-69.2).

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 1,029.8 million (514.6). Investment in properties and equipment for the period was SEK 57.7 million (81.0).

### 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 Half-year 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	April- June 2018	April- June 2017	January- June 2018	January- June 2017	January- December 2017
Net revenue <sup>1)</sup>	298.1	281.4	592.3	564.6	1,145.9
Operating expenses	-149.3	-159.5	-309.8	-318.0	-644.8
<b>Gross profit</b>	<b>148.8</b>	<b>121.9</b>	<b>282.5</b>	<b>246.6</b>	<b>501.1</b>
Central administration	-9.9	-9.5	-19.8	-19.0	-41.3
Items affecting comparability <sup>2)</sup>	-	-	-	-	0.0
Changes in value, interest derivatives	8.7	14.7	17.5	32.6	61.6
<b>Operating profit</b>	<b>147.6</b>	<b>127.1</b>	<b>280.2</b>	<b>260.2</b>	<b>521.4</b>
Group contributions received	-	-	-	-	263.0
Other financial income and expense	-31.8	-34.8	-60.1	-69.2	-135.7
<b>Profit after financial items</b>	<b>115.8</b>	<b>92.3</b>	<b>220.1</b>	<b>191.0</b>	<b>648.7</b>
Appropriations	-	-	-	-	144.3
<b>Profit before tax</b>	<b>115.8</b>	<b>92.3</b>	<b>220.1</b>	<b>191.0</b>	<b>793.0</b>
Tax	25.0	-28.3	-6.5	-58.7	-177.7
<b>Profit for the period</b>	<b>140.8</b>	<b>64.0</b>	<b>213.6</b>	<b>132.3</b>	<b>615.3</b>
<b>Statement of comprehensive income, SEK m</b>					
Profit for the period	140.8	64.0	213.6	132.3	615.3
Other comprehensive income	-	-	-	-	-
<b>Profit for the period</b>	<b>140.8</b>	<b>64.0</b>	<b>213.6</b>	<b>132.3</b>	<b>615.3</b>

<sup>1)</sup> Service and other revenue totals SEK 28.4 million, equivalent to 5% of the total net revenue for the period January-June 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	June 30, 2018	June 30, 2017	December 31, 2017
Investment properties	7,996.4	8,095.2	8,017.9
Other non-current assets	2,906.4	2,904.4	2,904.9
Total non-current assets	10,902.8	10,999.6	10,922.8
Current assets	1,575.4	856.7	890.6
<b>Total assets</b>	<b>12,478.2</b>	<b>11,856.3</b>	<b>11,813.4</b>
Restricted equity	1,978.7	1,978.7	1,978.7
Non-restricted equity	1,191.0	1,216.3	1,699.3
Total equity	3,169.7	3,195.0	3,678.0
Untaxed reserves	516.2	665.0	516.2
Provisions	883.2	925.9	935.0
Non-current liabilities	5,246.9	3,269.4	3,752.0
Current liabilities	2,662.2	3,801.0	2,932.2
Total liabilities	9,308.5	8,661.3	8,135.4
<b>Total equity and liabilities</b>	<b>12,478.2</b>	<b>11,856.3</b>	<b>11,813.4</b>

## BOARD CERTIFICATION

The Board of Directors and the President hereby certify that this Half-Year Report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and results,

and presents material risks and uncertainties that are considered to face the Parent Company and the companies that are included in the Group.

Stockholm, August 20, 2018

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 and  
Board Member*

## REVIEW REPORT

To the Board of Directors of Hufvudstaden AB (publ).

### Introduction

We have reviewed the Half-Year Report for Hufvudstaden AB (publ), registration number 556012-8240, as at June 30, 2018 and the six-month period ending as of this date. The Board of Directors and the President are responsible for the preparation and fair presentation of this Half-Year Report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express an opinion on this Half-Year Report based on our review.

### Scope of review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily involving persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different orientation and is substantially more limited in scope than an audit conducted in accordance with International Auditing Standards (IAS) and generally accepted auditing standards in Sweden.

The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. An opinion based on a review therefore does not have the certainty of an opinion based on an audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Half-Year Report for the Group has not been prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, and for the Parent Company in accordance with the Swedish Annual Accounts Act.

Stockholm, August 20, 2018  
KPMG AB

Joakim Thilstedt  
*Authorized Public Accountant*



## 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 Jarlgatan, 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 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 and is today 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 co-operation 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

