

Year-end report 2018

AB | SAGAX

*AB Sagax is a property company whose business concept is to invest in commercial properties, primarily in the warehouse and light industry segment.*

# Year-end report

## 2018 FISCAL YEAR

- Rental revenue increased 20% to SEK 2,247 M (SEK 1,870 M for the preceding year).
- Profit from property management increased 20% to SEK 1,603 M (1,334). Profit from property management per Class A and B share after dilution rose 16% to SEK 8.61 (7.40).
- In total, property revaluation affected profit by SEK 1,878 M (1,656), of which joint ventures accounted for SEK 635 M (541).
- Revaluation of financial instruments impacted profit by a total of SEK 289 M (572), of which joint ventures accounted for SEK 42 M (65).
- Profit after tax for the year was SEK 3,166 M (2,965).
- Cash flow from operating activities before changes in working capital rose 25% to SEK 1,490 M (1,194), corresponding to SEK 7.89 (6.52) per Class A and B share after dilution.
- During the year, Sagax invested a net SEK 3,437 M (1,680), of which acquisitions of property accounted for SEK 3,026 M (1,382).
- Sagax completed new share issues that generated equity of SEK 1,125 M for the company.
- Moody's Investors Service raised Sagax's rating to Baa3 with a stable outlook.
- Sagax issued an unsecured bond loan of EUR 500 M at a fixed interest rate of 2.00% and a maturity until 2024.
- The Board of Directors proposes that the dividend per Class A and B share be raised to SEK 2.00 (1.80). The Board also proposes a dividend of SEK 2.00 per Class D and preference share through a quarterly payment of SEK 0.50. The dividend is in accordance with the company's dividend policy and corresponds to 34.6% (33.4) of profit from property management.

## FOURTH QUARTER OF 2018

- Rental revenue rose 19% to SEK 591 M (498).
- Profit from property management increased 19% to SEK 403 M (340). Profit from property management per Class A and B share after dilution rose 15% to SEK 2.17 (1.89).
- In total, property revaluation affected profit by SEK 479 M (763), of which joint ventures accounted for SEK 263 M (222).
- Revaluation of financial instruments impacted profit by a total of SEK 13 M (98), of which joint ventures accounted for SEK -3 M (16).
- Profit after tax for the period amounted to SEK 767 M (991).
- Cash flow from operating activities before changes in working capital rose 15% to SEK 316 M (275), corresponding to SEK 1.62 (1.48) per Class A and B share after dilution.
- Sagax invested a net SEK 994 M (646) during the quarter, of which the acquisition of properties accounted for SEK 776 M (557).
- In connection with the acquisition of a property in Finland, SEK 165 M was paid in purchase consideration in the form of a private placement of Class D common shares.

## FORECAST FOR 2019

Profit from property management for 2019, meaning profit before revaluations and tax, based on the current property portfolio as well as announced acquisitions and divestments, is expected to amount to SEK 1,900 M.

## Selected key performance indicators

	2018 Jan-Dec	2017 Jan-Dec	2016 Jan-Dec	2015 Jan-Dec	2014 Jan-Dec	2013 Jan-Dec
Profit from property management per Class A and B share after dilution, SEK	8.61	7.40	5.96	4.90	3.73	2.73
<i>Change compared with preceding year, %</i>	16	24	22	31	37	27
Earnings per Class A and B share after dilution, SEK	18.47	17.69	14.50	9.85	4.05	4.44
Earnings per Class A and B share, SEK (2018 proposed)	2.00	1.80	1.45	1.15	0.80	0.55
Interest coverage ratio, multiple	4.3	4.0	3.7	3.3	2.9	2.7
Debt ratio, %	47	50	54	59	59	60
Properties' market value, SEK M	29,024	23,771	20,628	16,189	13,428	10,825
Property yield, %	6.8	6.9	7.1	7.4	7.6	7.7



In the fourth quarter, Sagax acquired a portfolio of eight properties in the Netherlands, encompassing 10,600 square metres of lettable area. The photos show one of the properties from the portfolio that is situated in the ring road in Rotterdam. The property comprises 2,400 square metres of warehouse and office premises and is fully leased.

# Business concept, goals and strategies

## BUSINESS CONCEPT

AB Sagax is a property company whose business concept is to invest in commercial properties, primarily in the warehouse and light industry segment.

## COMPANY GOALS

The overriding objective is the long-term generation of the maximum possible risk-adjusted return to the company's owners. To achieve this objective, Sagax has set the following business targets:

- Operations must generate a long-term sustainable return and strong cash flows.
- The company is to continue to grow through property acquisitions after taking into account the risk-adjusted return.
- Cash flows from the existing property portfolio are to rise more than inflation.

## FINANCIAL TARGETS

The table and charts below illustrate the outcome for the past five years in relation to the financial targets.

## STRATEGIES

### Investment strategy

Sagax invests primarily in warehouse and industrial properties. Properties designed as warehouses and for light industries are

attractive investment opportunities, since they generate a high yield combined with a low rate of new production and stable occupancy rates. Sagax invests in add-on acquisitions and in existing properties. Property acquisitions and investments in the existing portfolio aim to increase cash flow and diversify rental revenue, thereby reducing the company's operational and financial risks. The chart on page 3 illustrates the trend in the properties' market value and lettable area.

### Financing strategy

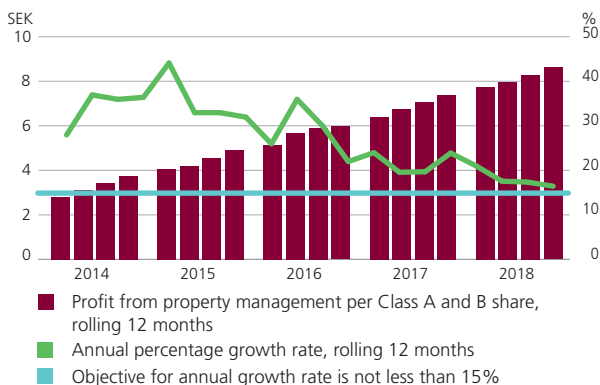
The financial structure of Sagax is designed with a clear focus on operating cash flow and the interest coverage ratio. This is expected to create both excellent prerequisites for expansion and an attractive return on equity. The charts on page 3 show Sagax's profit from property management and cash flow from operating activities. As illustrated, cash flow corresponds closely to profit from property management. The deviation is due mainly to profit from joint ventures, which is not recognised as cash flow. Dividends received from joint ventures are recognised as cash flow from operating activities.

Sagax endeavours to have well-balanced fixed-interest and debt maturity profiles to secure its operating cash flow. The average fixed-interest period was 3.0 years (2.1) at year end. The average maturity period at year end was 3.6 (3.1) years.

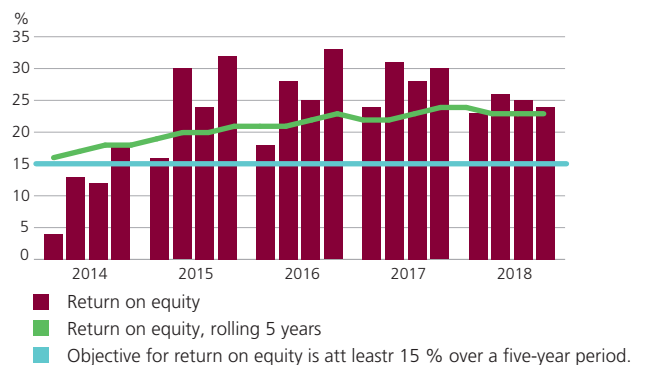
## Financial targets

	Outcome Jan-Dec 2018	Five-year average
Return on equity, measured over a five-year period, should not fall below 15% per year	24%	23%
Profit from property management per Class A and B share should increase by a minimum of 15% per year	16%	28%

## Profit from property management per Class A and B share



## Return on equity



The company has four classes of shares: Class A, B and D common shares, and preference shares. The aim of the Class D shares, like the preference shares, is to attract investor categories that value steady ongoing dividends.

### Management strategy

Sagax pursues efficiency and sustainability in its management strategy. The management strategy includes working actively to achieve long leases. This applies equally to new leases and to the management of existing leases. The company's policy is to abstain from maximising rent levels at all points of time in favour of signing leases of a longer duration with solvent tenants. This is regarded as being advantageous since it reduces the risk of vacancies, while leading to lower costs for letting premises and adapting premises to tenant needs.

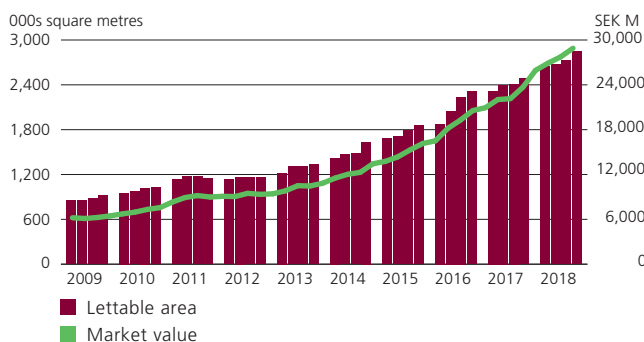
### Strategy for tenants

Sagax endeavours to attract reputable and creditworthy tenants. The company mainly enters into leases that exclude the cost of heating and hot water and that are thus only affected to a limited extent by changes in consumption or changed rates for such utilities as heating, electricity, property tax, water and sewage.

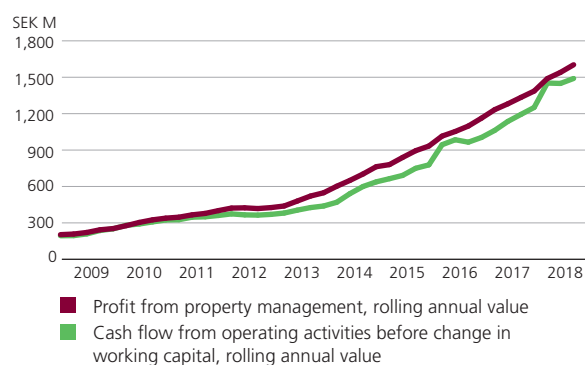
### Strategy for the rental market

Sagax invests primarily in regions experiencing stable population growth and that have diversified business activities. Sagax's largest markets are Stockholm and Helsinki, which regarded as offering the favourable conditions for long-term growth. The risk of a decline in the occupancy rate and rent levels due to a weaker rental market is regarded as relatively low due to the stable demographic growth and the diversified business operations in these markets. Read more about this in the Sagax Annual Report for 2017.

### Market value and area of properties



### Profit from property management and cash flow



# Earnings, revenue and expenses

The profit/loss and cash-flow items below refer to the January to December 2018 period. The comparative items refer to the year-earlier period. Amounts for the balance-sheet items and comparative figures refer to the position at the end of the current year and end of the year-earlier period.

## EARNINGS

Profit from property management rose 20% to SEK 1,603 M (1,334), of which joint ventures accounted for SEK 312 M (278). The increase was mainly attributable to property acquisitions. Profit from property management per Class A and B share after dilution rose 16% to SEK 8.61 (7.40).

Changes in the value of properties increased profit by SEK 1,878 M (1,656), of which the revaluation of joint ventures accounted for SEK 635 M (541).

The revaluation of financial instruments had an impact totaling SEK 289 M (572) on profit. The revaluation of listed shares accounted for SEK 109 M (27), while fixed-income derivatives accounted for SEK 103 M (172), of which joint ventures ac-

counted for SEK 42 M (65). The time factor was the reason for the changes in the value of the fixed-income derivatives.

Profit after tax for the period was SEK 3,166 M (2,965).

## REVENUE

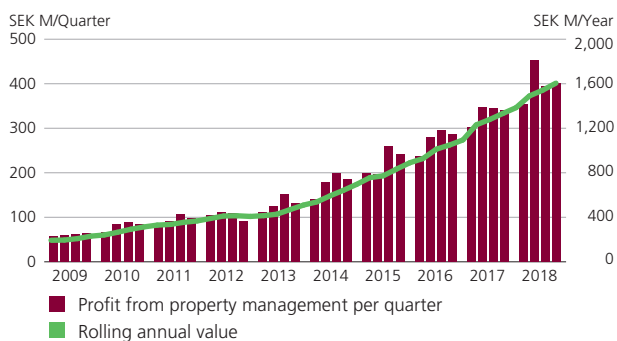
Rental revenue rose 20% to SEK 2,247 M (1,870). Revenue was primarily positively affected by property acquisitions. In 2018, rental revenue in comparable portfolios increased 2.2% excluding currency effects.

Other revenue of SEK 30 M (4) primarily comprised compensation from tenants who prematurely vacated premises and insurance compensation.

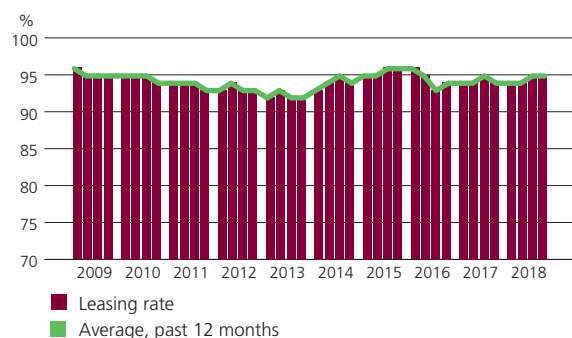
## CHANGE IN THE ECONOMIC OCCUPANCY RATE

The economic occupancy rate was 95%, compared with 94% at year-end 2017. During the period, the vacancy value rose SEK 89 M (60) due to tenants vacating premises and declined SEK 86 M (75) due to new lettings. Discounts provided on a fixed-term basis amounted to SEK 19 M (16) on an annu-

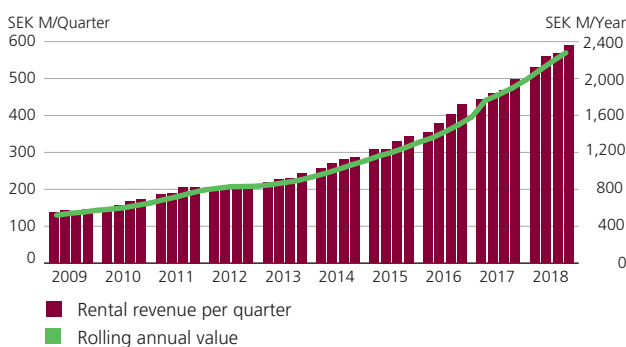
### Profit from property management



### Economic leasing rate



### Rental revenue



al basis at the end of the period, up SEK 2 M (5) during the period. The terms for the discounts are described in the table below. Exchange-rate fluctuations increased the vacancy value by SEK 4 M (2).

The closing vacancy value increased a total of SEK 10 M (1) during the period to SEK 132 M (122) at the end of the period. Stockholm and Helsinki accounted for 75% (80) of the vacancy value.

#### FUTURE VACANCY CHANGES

Notice of termination had been served for leases with a rental value of SEK 49 M (41) at the end of the period, of which notice of vacating the premises accounted for SEK 44 M (41) and notice of renegotiation of the premises for SEK 5 M (0). Of the leases for which notice had been received, vacancies corresponding to SEK 26 M will occur in 2019. The rate of vacating premises is described in the table below. New lettings

that have not yet been occupied reduced the adjusted vacancy value by SEK 29 M (9).

The adjusted closing vacancy value was SEK 152 M (154), a net decline of SEK 2 M since year end. The change was due to the vacancy value for new lettings that have not yet been occupied rising SEK 20 M in parallel with the vacancy value for notices of vacating premises or renegotiated leases increasing SEK 8 M, while the closing vacancy value increased SEK 10 M.

#### PROPERTY EXPENSES

Operating and maintenance costs rose to a total of SEK 256 M (190). Property tax and site leaseholds amounted to a cost of SEK 115 M (96). Other property expenses amounted to SEK 37 M (29). All of these cost increases were mainly attributable to property acquisitions.

#### Vacancy changes

Amounts in SEK M	2018 Jan-Dec	2017 Jan-Dec
Opening vacancy for each year	122	121
Vacancies	89	60
Lettings	-86	-75
Change in discounts provided	2	5
Vacancy value, acquired properties	6	22
Vacancy value, sold properties	-5	-8
Demolition of buildings	-	-5
Change in exchange rates	4	2
<b>Closing vacancy value</b>	<b>132</b>	<b>122</b>
Terminated for renegotiation	5	0
Terminated lease, not vacated	44	41
New letting, not occupied	-29	-9
<b>Adjusted closing vacancy value</b>	<b>152</b>	<b>154</b>

#### Terms for discounts provided

Year of expiry	SEK M
2019	14
2020	1
2021	2
2022	0
2023	1
>2023	1
<b>Total</b>	<b>19</b>

#### Leases terminated for vacancy

Year of vacancy	No. of leases	Rental value, SEK M
2019	37	26
2020	3	1
2021	2	17
2024	1	1
<b>Total</b>	<b>43</b>	<b>44</b>

#### Vacancies on 1 January 2019

Area	Rental value, SEK M	Vacancy value, SEK M <sup>1)</sup>	Economic vacancy rate <sup>1)</sup>	Lettable area, sqm	Vacant area, sqm	Vacancy rate by area
Stockholm	689	33	5%	644,000	30,000	5%
Helsinki	599	66	11%	575,000	67,000	12%
Finland, university cities	286	10	3%	304,000	13,000	4%
Paris	197	6	3%	219,000	5,000	2%
Netherlands	168	9	5%	222,000	11,000	5%
Rest of Sweden	213	2	1%	407,000	2,000	0%
Rest of Finland	226	5	2%	338,000	13,000	4%
Rest of Europe	131	1	1%	140,000	1,000	1%
<b>Total</b>	<b>2,510</b>	<b>132</b>	<b>5%</b>	<b>2,850,000</b>	<b>141,000</b>	<b>5%</b>

1) The vacancy value and vacancy rate take into account both vacancies and discounts provided.

## CENTRAL ADMINISTRATION

Costs for the Group's central administration amounted to SEK 132 M (77), corresponding to 5.9% (4.1) of the Group's rental revenue. The cost increase was mainly attributable to a larger organisation.

The Parent Company, AB Sagax, is responsible for stock market issues, such as financial reporting and stock market information. Services between Group companies are charged on commercial terms and conditions and in accordance with market-based pricing. Intra-Group services comprise management services and internal interest charging. The Parent Company's management fees from Group companies for the period amounted to SEK 46 M (35). The Parent Company's income statement and balance sheet are shown on page 23.

At year end, the Group had 59 (50) employees, refer to the table below. Functions such as property care-taking and on-call operations are outsourced. The company has offices in Stockholm, Helsinki, Rotterdam, Paris, Jyväskylä and Tampere.

### Number of employees

Country	Men	Women	Total
Sweden	17	12	29
Finland	8	12	20
France	4	2	6
Netherlands	4	–	4
Total	33	26	59

## PROFIT FROM JOINT VENTURES

Profit from joint ventures pertained to Sagax's shares in the earnings of the company's joint ventures; refer also to page 14 for more information.

Profit for the period amounted to SEK 830 M (727), of which profit from property management accounted for SEK 312 M (278), changes in the value of fixed-income derivatives for SEK 42 M (65) and changes in the value of properties for SEK 635 M (541). Profit was charged with of SEK 160 M (157) in tax.

## NET FINANCIAL ITEMS

Financial expenses amounted to SEK 481 M (444). SEK 24 M of the SEK 37 M increase comprised nonrecurring expenses attributable to early repayments of secured bank loans. The company's average interest rate was 2.2% (3.0%) at 31 December 2018. Interest-bearing liabilities increased to SEK 15,763 M (13,691) due to financing of property acquisitions. For more information about financing at Sagax, see page 15.

Financial income of SEK 35 M (19) primarily pertained to dividends received from listed shares.

## REVALUATION OF PROPERTIES

The value trend for the properties amounted to SEK 1,243 M (1,114), of which unrealised changes in value amounted to SEK 1,265 M (1,113) excluding currency effects. The change in the market value of the property portfolio is also described on page 13.

New lettings and renegotiations of leases increased the market value of the properties by SEK 677 M (415). Vacancies and renegotiations reduced the value by SEK 216 M (110). The general change in market value for the company's properties amounted to SEK 804 M (808), primarily due to lower yield requirements.

### Unrealised changes in value

Amounts in SEK M	Jan-Dec 2018
New lettings/Renegotiations	677
Vacancies/Renegotiations	–216
General change in market value	804
Total	1,265

Realised changes in the value of properties amounted to SEK –22 M (1) for the period, see also page 12.

The weighted yield requirement used in the valuations was 7.1% (7.3). The weighted cost of capital for the present value calculation of cash flows and residual values amounted to 7.9% (8.1) and 8.4% (8.6), respectively. See also the section on analysis and general conditions on page 13.

## REVALUATION OF FINANCIAL INSTRUMENTS

The change in the value of financial instruments amounted to SEK 247 M (507) for the period.

The changes in value attributable to fixed-income derivatives amounted to SEK 61 M (107), of which SEK 37 M (107) comprised unrealised changes in value and SEK 24 M (–) realised changes in value. The fixed-income derivatives comprised interest-rate swaps and interest-rate caps. The changes in value were due primarily to the time factor. The total market value of Sagax's fixed-income derivatives at the end of the year amounted to SEK –117 M (–420); refer to the section on financing on page 15.

Revaluation of listed shares resulted in an unrealised change in value of SEK 97 M (24). The divestment of shares resulted in a realised change in value of SEK 12 M (3) for the period.

The revaluation of financial instruments attributable to joint ventures amounted to SEK 76 M (373).



## TAX

Sagax recognised a current tax expense of SEK 10 M (49). The deferred tax expense for the period amounted to SEK 435 M (391). As a result of the new corporate taxation in Sweden, deferred tax liabilities pertaining to operations in Sweden are restated at the new tax rate of 20.6%, which is applicable from 2021. The recalculation resulted in an SEK 46 M reduction in deferred tax liabilities. The Group's deferred tax liabilities at year end amounted to SEK 1,599 M (1, 141).

### *New tax rules*

On 3 May 2018, the Swedish government submitted a bill entitled "New tax rules for the corporate sector" to parliament. This bill included a reduction of the corporate tax rate and the introduction of general interest-rate restrictions for the corporate sector that were designed based on an EU Directive from 2016.

The bill was adopted by the Swedish parliament on 13 June 2018 and the new rules came into effect on 1 January 2019. In brief, the new interest-rate restrictions entail that a company is only entitled to deduct negative net interest income, corresponding to a maximum of 30% of the company's taxable EBITDA (the company's earnings before amortisation, interest and tax). This type of interest-rate restriction based on taxable EBITDA has also been introduced, or already existed, in other countries in which Sagax conducts operations. Given the current interest rate scenario, Sagax's deduction rights for its negative net interest income are not expected to be materially affected by the new interest-rate restriction rules.

## Deferred tax liabilities by country

Amounts in SEK M	31 Dec 2018
Sweden	820
Finland	662
Germany	89
Netherlands	24
Denmark	4
France	–
<b>Tax liabilities</b>	<b>1,599</b>

## CASH FLOW

Cash flow from operating activities before changes in working capital amounted to SEK 1,490 M (1,194). Changes in working capital had an impact of SEK 100 M (–26) on cash flow. Investing activities had an impact of SEK –3,771 M (–1,855) on cash flow, while cash flow from financing activities contributed SEK 2,195 M (464) to Sagax. In total, cash and cash equivalents rose SEK 14 M (–223) during the period. See page 20 for the statement of cash flows.

# Forecast and current earnings capacity

## FORECAST FOR 2019

Profit from property management for 2019, meaning profit before revaluations and tax, based on the current property portfolio and announced acquisitions and divestments, is expected to amount to SEK 1,900 M.

## CURRENT EARNINGS CAPACITY

Current earnings capacity is reported in conjunction with interim reports and year-end reports.

The table below reflects earnings capacity on a 12-month basis at 1 January 2019. It is important to note that this capacity cannot be compared with a forecast for the forthcoming 12 months because it does not contain assessments about, for example, future vacancies, the interest rate scenario, currency effects, rent trends or changes in value.

The rental value is based on contractual rental revenue on an annual basis, with supplements for estimated market rents

for vacant premises. Property expenses are based on actual outcomes over the past 12 months adjusted for the holding period. Central administration costs are based on actual outcomes over the past 12 months. Net financial items are calculated based on interest-bearing liabilities and assets on the balance sheet date. Expenses for interest-bearing liabilities are based on the Group's estimated average interest rate, plus financing costs allocated over time and costs attributable to credit facilities that were unutilised on the balance sheet date. Dividends attributable to the company's holdings of listed shares were not taken into account in the earnings capacity. Tax is calculated at the standard tax rate of 22%.

Shares in profit in joint ventures are calculated in accordance with the same assumptions as for Sagax, taking into account the size of the participations.

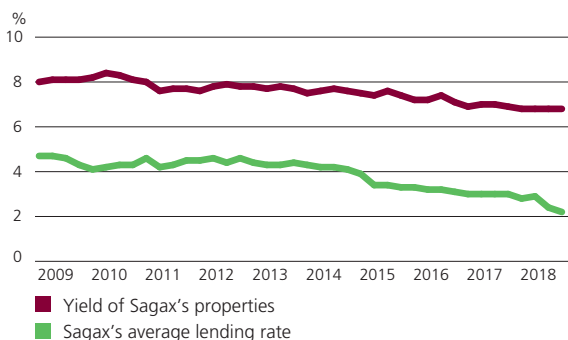
## Current earnings capacity

Amounts in SEK M	1 Jan 2019	1 Jan 2018
Rental value	2,510	2,099
Vacancy	-132	-122
<b>Rental revenue</b>	<b>2,378</b>	<b>1,977</b>
Property expenses	-415	-333
<b>Net operating income</b>	<b>1,963</b>	<b>1,644</b>
Central administration	-132	-77
Joint ventures	372	290
Financial expenses	-387	-448
<b>Profit from property management</b>	<b>1,816</b>	<b>1,410</b>
Tax	-400	-310
<b>Profit after tax</b>	<b>1,416</b>	<b>1,100</b>
– of which, holders of preference shares	34	34
– of which, holders of Class D shares	204	127
– of which, holders of Class A and B shares	1,178	939

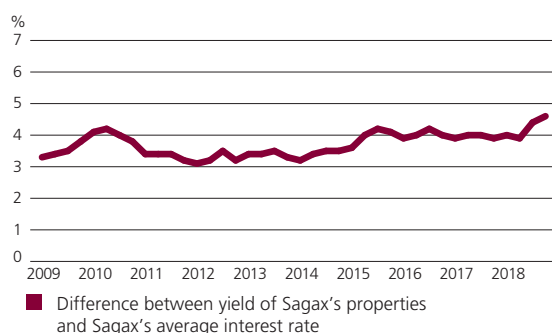
## Current earnings capacity before tax



## Yield and lending rate



## Difference between yield and lending rate



# Property portfolio

At 31 December 2018, the property portfolio comprised 512 (495) properties with a lettable area of 2,850,000 square metres (2,489,000). The two largest market areas are Stockholm and Helsinki, where 56% (58) of the market value and 51% (55) of the rental value is concentrated. At the end of the period, the total rental value and contractual annual rent amounted to SEK 2,510 M (2,099) and SEK 2,378 M (1,977), respectively. This corresponds to an economic occupancy rate of 95% (94).

## INVESTMENTS

During the period, Sagax invested SEK 3,482 M (1,723), of which property acquisitions accounted for SEK 3,026 M (1,382).

A total of 48 properties were acquired with a total lettable area of 402,000 square metres. The largest investment was Tikkurilantie 5 in Helsinki with a lettable area of 62,300 square metres. Refer also to the list on page 11.

A total of SEK 456 M (341) was invested in the existing property portfolio. SEK 51 M of the investments for the pe-

riod were made against rent supplements, SEK 155 M was invested in conjunction with new lettings, SEK 137 M in conjunction with new production and SEK 112 M pertained to property maintenance.

At the end of the year, agreements were signed for eight property acquisitions for a total of SEK 410 M in Finland and France. Possession of these properties had not yet been taken at year end.

## DIVESTMENTS

During the period, 31 properties with a total lettable area of 43,400 square metres were divested for a total of SEK 24 M; see compilation on page 12. The largest divestment was Hillerstorp 3:106 in Gnosjö, with a lettable area of 23,400 square metres. Other divestments comprised smaller properties in Finland.

## PROPERTY PORTFOLIO YIELD

The yield for the period in relation to market value amounted to 6.8% (6.9). The total yield was 11.7% (12.0) in 2018.

### Summary of property portfolio, 1 January 2019

Segment	No. of properties	Lettable area, sqm	Vacant area, sqm	Market value		Rental value, SEK M	Percentage of rental value	Economic occupancy rate	Rental revenue	
				SEK M	SEK per sqm				SEK M	Share
Stockholm	81	644,000	30,000	9,821	15,200	689	27%	95%	655	28%
Helsinki	71	575,000	67,000	6,333	11,000	599	24%	89%	533	22%
Finland, university cities	62	304,000	13,000	2,732	9,000	286	11%	97%	277	12%
Paris	48	219,000	5,000	1,995	9,100	197	8%	97%	192	8%
Netherlands	33	222,000	11,000	1,817	8,200	168	7%	95%	159	7%
Rest of Sweden	47	407,000	2,000	2,392	5,900	213	8%	99%	211	9%
Rest of Finland	150	338,000	13,000	2,373	7,000	226	9%	98%	221	9%
Rest of Europe	20	140,000	1,000	1,560	11,100	131	5%	99%	130	5%
<b>Total</b>	<b>512</b>	<b>2,850,000</b>	<b>141,000</b>	<b>29,024</b>	<b>10,200</b>	<b>2,510</b>	<b>100%</b>	<b>95%</b>	<b>2,378</b>	<b>100%</b>

### Property investments January-December 2018

Amounts in SEK M	Property acquisitions	Existing portfolio	Total	Share of total investments	Divestments	Net investments
Stockholm	290	232	522	15%	–	522
Helsinki	541	177	718	21%	–	718
Finland, university cities	694	19	713	20%	–	713
Paris	501	9	510	15%	–	510
Netherlands	895	4	899	26%	–	899
Rest of Sweden	–	3	3	0%	-16	-13
Rest of Finland	–	10	10	0%	-29	-19
Rest of Europe	105	1	106	3%	–	106
<b>Total</b>	<b>3,026</b>	<b>456</b>	<b>3,482</b>	<b>100%</b>	<b>-45</b>	<b>3,437</b>

## LEASE STRUCTURE

Sagax has a diverse lease structure, which better allows the company to maintain an even occupancy rate. To further reduce the risk of lower rental revenue, Sagax endeavours to create long-term relationships with the company's existing tenants and to achieve favourable diversification in terms of the length and size of its leases.

Sagax's contractual annual rent at the end of the period was distributed between 1,545 leases, with about 1,000 tenants. The table below presents the size of Sagax's leases in relation to the Group's contractual annual rent at the end of the period. The table shows that 1,536 leases each had a rental value of less than 1% of the Group's contractual annual rent. The total rental value for these leases accounted for 82% of Sagax's contractual annual rent. In addition, Sagax is party to six leases with a rental value corresponding to 1–2% of the Group's contractual annual rent. Combined, these leases total 9% of Sagax's contractual annual rent. Only three of Sagax's leases had an annual rental value that accounted for more

than 2% of the Group's rental revenue. These leases together represented 8% of the Group's contractual annual rent.

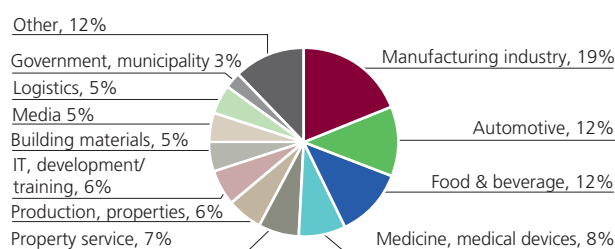
Sagax's tenants operate in a variety of industries. 19% of Sagax's contractual rental revenue comes from tenants in the manufacturing industry, 12% in the automotive industry, including sales, service and manufacturing, and 12% from companies with food-related operations. Diverse tenant industries is considered to lower the risk of vacancies and rent losses. The main industries are presented in the pie chart below.

According to Sagax's management strategy, the company strives to secure long-term leases and an even distribution of contract maturities over the years. This is deemed to reduce the risk of significant variations in the Group's occupancy rate. Leases representing 54% of the contractual annual rent expire after 2022. 10–13% of contractual annual rent expires every year between 2019 and 2022. The average lease term at 31 December 2018 was 6.0 years (6.6).

### Distribution of leases

Share of contractual annual rent	Contractual annual rent		No. of leases	Average contractual annual rent, SEK M
	SEK M	Share		
>2%	199	8%	3	66
1–2 %	224	9%	6	37
<1%	1,954	82%	1,536	1
<b>Total</b>	<b>2,378</b>	<b>100%</b>	<b>1,545</b>	<b>2</b>

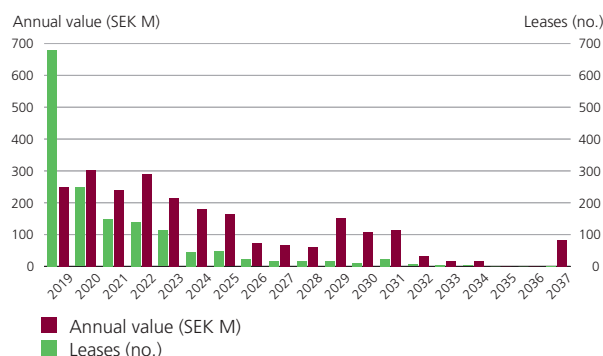
### Rental value by industry



### Lease terms

Year of expiry	No. of leases	Area, sqm	Contractual annual rent	
			SEK M	Share
2019	679	246,000	249	10%
2020	248	343,000	304	13%
2021	148	277,000	241	10%
2022	141	296,000	290	12%
2023	113	213,000	216	9%
>2023	216	1,334,000	1,079	45%
<b>Total</b>	<b>1,545</b>	<b>2,708,000</b>	<b>2,378</b>	<b>100%</b>

### Year of maturity of annual rent



## CHANGES IN THE PROPERTY PORTFOLIO

### Property acquisitions January-December 2018

Property/address	Municipality	Segment	Lettable area, sqm
Murmästare-Ämbetet 2	Stockholm	Stockholm	7,937
Konsumenten 1	Stockholm	Stockholm	7,896
Klingan 3	Huddinge	Stockholm	1,830
Råfilmen 1	Stockholm	Stockholm	1,410
Veddesta 2:42	Järfälla	Stockholm	4,380
Mänkimiehentie 4	Espoo	Helsinki	18,440
63 Grande rue	Survilliers	Paris	39,753
Rue de la Prairie	Villebon-Sur-Yvette	Paris	6,300
Chroomstraat 140	Zoetermeer	Netherlands	7,240
Huis ter Heideweg 18-56	Zeist	Netherlands	20,258
Innovatieweg 12	Terneuzen	Netherlands	2,626
Kwartelweg 1	Moerdijk	Netherlands	6,458
Innovatieweg 6	Terneuzen	Netherlands	6,425
Hallitie 2	Oulu	Finland, university cities	3,578
Lumijoentie 2	Oulu	Finland, university cities	6,778
Mittarikuja 5	Oulu	Finland, university cities	7,200
Moreenikuja 2	Oulu	Finland, university cities	6,018
Vihikari 10	Kempele	Finland, university cities	18,087
100 Rue de Reckem	Neuville-en-Ferrain	Rest of Europe	17,397
<b>First quarter</b>			<b>190,011</b>
Ahjokatu 26	Jyväskylä	Finland, university cities	2,252
Lieudit "La Fosse Montalbot" – 26 Chemin du Port Brun	Vigneux-sur-Seine	Paris	2,076
56 Boulevard de Beaubourg	Emerainville	Paris	999
4 rue Galvani	Massy	Paris	803
Het Zuiderkruis 11	Den Bosch	Netherlands	4,270
Admiraal de Ruyterstraat 2	Schiedam	Netherlands	10,683
Grasbeemd 12	Helmond	Netherlands	2,711
Innovatieweg 10	Terneuzen	Netherlands	3,745
<b>Second quarter</b>			<b>27,539</b>
Klinkkerikkari 2	Vantaa	Helsinki	6,286
Metsälehmüksentie 6	Jyväskylä	Finland, university cities	13,924
Patamäenkatu 7	Tampere	Finland, university cities	25,815
9 rue du Petit Paris	Massy	Paris	8,481
Groothandelsweg 5	Delfgauw	Netherlands	3,713
Innovatieweg 8	Terneuzen	Netherlands	4,632
4 rue des Fauvettes	Lyon	Rest of Europe	2,749
<b>Third quarter</b>			<b>65,600</b>
Tikkurilantie 5	Vantaa	Helsinki	62,297
Metsäravio 2	Jyväskylä	Finland, university cities	1,113
Hautalankatu 19	Tampere	Finland, university cities	2,818
Hautalankatu 20	Tampere	Finland, university cities	2,632
Hautalankatu 31	Tampere	Finland, university cities	2,310
ZAC Le Bois Rochefort	Cormeilles-en-Paris	Paris	–
20-24 rue de Ballon	Noisy-Le-Grand	Paris	5,831
4 route de Paray	Wissous	Paris	2,250
Ekkersrijt 7501	Son en Breugel	Netherlands	3,499
Esp 100	Eindhoven	Netherlands	3,670
Esp 125	Eindhoven	Netherlands	3,788
Esp 241	Eindhoven	Netherlands	2,919
Kopersteden 1	Enschede	Netherlands	20,713
Proostwetering 30	Utrecht	Netherlands	8,503
<b>Fourth quarter</b>			<b>119,343</b>
<b>Total</b>			<b>402,493</b>

## CHANGES IN THE PROPERTY PORTFOLIO

### Property sales January-December 2018

Property/address	Municipality	Segment	Lettable area, sqm
Hillerstorp 3:106	Gnosjö	Rest of Sweden	23,450
Pertuntie 1	Tuusula	Helsinki	210
Helsingintie 10	Karkkila	Rest of Finland	320
Helsingintie 25	Karkkila	Rest of Finland	588
Jousitie 29	Joutsa	Rest of Finland	846
Keskustie 7	Lohja	Rest of Finland	170
Naarkoskentie 1	Pukkila	Rest of Finland	235
Oklaholmankatu 1	Kemi	Rest of Finland	658
Perttulantie 5	Ypäjä	Rest of Finland	450
Savontie 21	Rautavaara	Rest of Finland	793
Turuntie 1	Aura	Rest of Finland	1,115
Hauhontie 11	Hämeenlinna	Rest of Finland	868
Kurkelankatu 2	Forssa	Rest of Finland	502
<b>First quarter</b>			<b>30,205</b>
Keskuskatu 7	Mänttä-Vilppula	Rest of Finland	1,022
Rautatienkatu 19	Iitti	Rest of Finland	780
Iisvedentie 2	Suonenjoki	Rest of Finland	680
Jämsänkoskentie 8	Jämsä	Rest of Finland	204
Savontie 2	Mäntyharju	Rest of Finland	920
Nallenpolku 2	Kotka	Rest of Finland	557
Kauppakuja 2	Kolari	Rest of Finland	1,108
Rautjärventie 92	Rautjärvi	Rest of Finland	585
Tehtaantie 21	Mänttä-Vilppula	Rest of Finland	850
Jukolantie 6	Kouvola	Rest of Finland	381
Kitkantie 17	Kuusamo	Rest of Finland	1,375
<b>Second quarter</b>			<b>8,462</b>
Valtakatu 37-39	Kouvola	Rest of Finland	1,704
Särkikuja 1	Kolari	Rest of Finland	288
Vanamotie 19	Kotka	Rest of Finland	350
Salonaukio 7	Lahti	Rest of Finland	700
<b>Third quarter</b>			<b>3,042</b>
Kanakouluntie 15	Hämeenlinna	Rest of Finland	261
Laaksotie 2	Ii	Rest of Finland	1,221
Siekkilänkatu 2	Mikkeli	Rest of Finland	246
<b>Fourth quarter</b>			<b>1,728</b>
<b>Total</b>			<b>43,437</b>

# Market value of property portfolio

Sagax prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The company has chosen to recognise its properties at fair value in accordance with the Fair Value Method.

At 31 December 2018, the total market value of Sagax's 512 (495) properties was SEK 29,024 M (23,771). The depreciation of the SEK against the EUR during the period led to property values abroad increasing SEK 551 M (348).

The total unrealised change in value during the period was SEK 1,265 M (1,113). Refer also to the table "Unrealised changes in value" on page 6.

## VALUATION METHOD AND IMPLEMENTATION

The valuations were carried out in accordance with generally accepted international valuation methods. As of 31 December 2018, all valuation objects were valued separately by authorised property appraisers from independent valuation companies. Three properties, for which a divestment agreement has been signed, have been valued at an agreed sales price.

The principle method of appraisal used was cash flow calculations in which the present value of net operating income, investments and residual values was calculated. The calculation period was adjusted to the remaining term of existing leases and varies between five and 20 years. As a rule, the calculation period is ten years. All properties, except for two small proper-

ties in Denmark, have been inspected over the past three-year period. These inspections include public areas and a selection of premises with specific emphasis on major tenants and vacant premises. The purpose of the inspections is to assess the properties' overall standard, maintenance requirements, market position and the attractiveness of the premises.

## ANALYSIS AND GENERAL CONDITIONS

The cost of capital for the present value calculation of cash flows (4.0–16.0%), the cost of capital for the present value calculation of residual values (4.0–16.0%) and the yield requirement for the residual value calculations (4.5–15.0%) are based on analyses of transactions carried out and on individual assessments of the risk level and market position of each property.

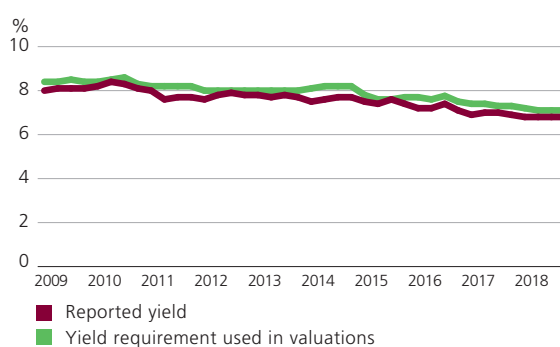
The weighted cost of capital for the present value calculation of cash flows and residual values for the property portfolio was 7.9% (8.1) and 8.4% (8.6), respectively. The weighted yield requirement was 7.1% (7.3) at 31 December 2018. By comparison, the yield reported by Sagax for the period was 6.8% (6.9). A comparison of the yield reported over time and the yield requirement used in valuations is provided below.

A sensitivity analysis for changes in assumptions in property valuations is presented on page 27.

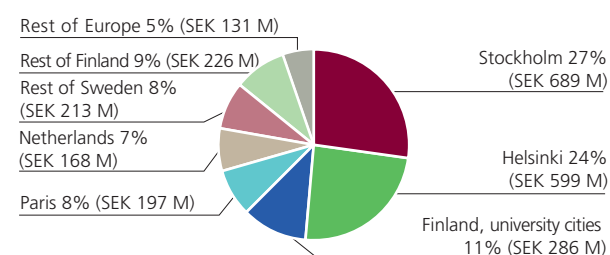
## Change in carrying amount of properties

	SEK M	Number of shares
Property portfolio, 31 December 2017	23,771	495
Acquisition of properties	3,026	48
Investments in the current portfolio	456	
Property sales	-45	-31
Translation effect, currencies	551	
Unrealised changes in value	1,265	
<b>Property portfolio, 31 December 2018</b>	<b>29,024</b>	<b>512</b>

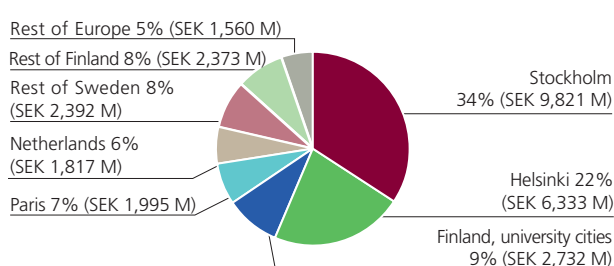
## Yield compared with yield requirement



## Group's rental value



## Market value of properties



## Joint ventures

Sagax's joint ventures contributed a total of SEK 312 M (278) to profit from property management during the period. Sagax's share of changes in the value of properties amounted to SEK 635 M (541) and the share of changes in the value of fixed-income derivatives was SEK 42 M (65) for the period. The total value of the commitment associated with ownership of joint ventures amounted to SEK 3,286 M (2,632).

Sagax owns 50% of Söderport Holding AB, with the remaining share owned by the Nyfosa Group. Via Hemsö Intressenter AB, Sagax indirectly owns 15% of Hemsö Fastighets AB, with the remaining share owned by the Third Swedish National Pension Fund.

### SÖDERPORT HOLDING AB

On behalf of Söderport, Sagax handles the financial administration and most of the property management of the Söderport Group. Nyfosa is responsible for property management at certain locations.

A corresponding 64% of Söderport's rental value of SEK 674 M was located in Stockholm on 31 December 2018. Söderport's economic vacancies amounted to SEK 26 M (35) at year end, corresponding to a vacancy rate of 4% (6). Of the economic vacancies, SEK 6 M (9) comprised fixed-term rent discounts provided for new lettings. At year end, Stockholm accounted for 91% of the economic vacancies.

One property in Gothenburg with a total lettable area of 8,300 square metres was acquired during the year. The construction of 24,600 square metres of new office premises was completed at the end of the year. The building is fully leased and occupancy has taken place.

Söderport's associated company Autologistikk, in which Söderport owns 24.5% of the shares, signed an agreement for the sale of the company's warehouse and office property in Torslanda. As a result of this, Söderport recognised an unrealised change in value of SEK 55 M. The sale was completed in January 2019.

### HEMSÖ INTRESSETER AB

Hemsö Fastighets AB conducts operations in Sweden, Germany and Finland. Operations consist of owning, managing and developing public properties. The company's property portfolio comprised 365 properties with a total property value of SEK 46 billion at 31 December 2018. Of the total property value, Sweden accounts for 72%, Germany 16% and Finland 12%. A corresponding 81% of the property value comprises properties located in metropolitan regions in Sweden, Germany and Finland.

Of Hemsö's properties, 176 are residences for the elderly, 110 school premises, 63 healthcare premises and 16 properties for the justice and legal sector. Of Hemsö's contractual rents, 60% derives from municipalities, county councils or the state. An average remaining lease term of 9.7 years (9.2) combined with financially stable tenants and a low vacancy rate ensure stable rental revenue. 94% of rental revenue derives from tax-financed operations. More information on Hemsö Fastighets AB is available on the company's website, [hemso.se](http://hemso.se).

### Sagax's joint ventures

	Söderport		Hemsö	
	2018 31 Dec	2017 31 Dec	2018 31 Dec	2017 31 Dec
Sagax's participating interest, %	50	50	15	15
Rental revenue, SEK M	585	548	2,607	2,363
Profit from property management, SEK M	285	254	1,439	1,314
Profit for the period, SEK M	854	769	3,092	2,591
Sagax's share of profit from property management, SEK M	142	127	170	151
No. of properties	70	69	365	346
Rental value, SEK M	674	591	2,808	2,541
Properties' market value, SEK M	7,683	6,603	46,236	38,883
Lettable area, sqm	686,000	650,000	1,732,000	1,636,000
Lease term, years	5.0	4.5	9.7	9.2
Economic vacancy rate, %	4	6	2	2
Interest-bearing liabilities, SEK M	3,907	3,287	29,729	25,575
Loan maturity, years	1.5	2.6	7.9	5.0
Fixed interest, years	3.2	2.8	5.9	5.0
Market value of fixed-income derivatives, SEK M	-222	-328	-281	-544



# Financing

## EQUITY

The Group's equity amounted to SEK 15,416 M (11,356) at 31 December 2018. Changes in equity during the period were attributable to comprehensive income for the period of SEK 3,454 M, new share issues totalling SEK 1,125 M after transaction costs and a share dividend of SEK 517 M.

New share issues were implemented on four different occasions. In June, Sagax completed a rights issue of Class D common shares totalling SEK 656 M and a private placement of Class D common shares totalling SEK 302 M through an accelerated book building process. In connection with the acquisition of a property in Finland in November, SEK 165 M was paid in purchase consideration in the form of a private placement of Class D common shares. In addition, a new issue of Class B common shares for a total of SEK 10 M linked to the 2015/2018 Incentive Plan was implemented. Refer also to page 21.

## RATING

It was announced at the end of September that Moody's Investors Service had raised Sagax's rating to Baa3 with a stable outlook. This is an investment grade rating.

## INTEREST-BEARING LIABILITIES

Sagax's interest-bearing liabilities at the end of the period amounted to SEK 15,763 M (13,691). An amount corresponding to SEK 10,355 M (5,848) of liabilities was recognised in EUR.

Interest-bearing net debt amounted to SEK 14,812 M (13,182). Gross interest-bearing debt to banks amounted to SEK 5,540 M (7,742). The remaining gross interest-bearing debt comprised listed bond loans of SEK 8,718 M (4,674) and commercial paper of SEK 1,505 M (1,275). The main covenants for bond loans are presented on page 16.

At 31 December 2018, secured liabilities comprised 21% (33) of the total assets. Unsecured liabilities corresponded to 26% (17) of the total assets on the same date.

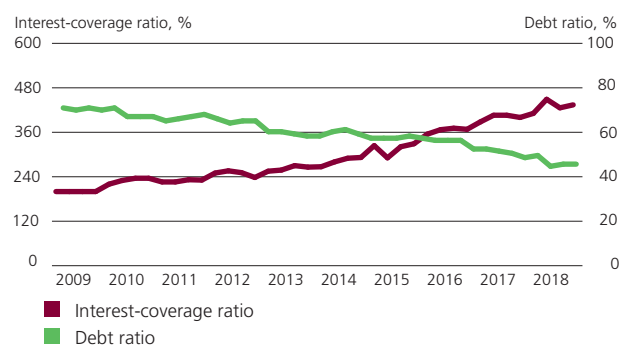
## Fixed-interest period and debt maturity, 31 December 2018

Year of expiry	Fixed interest			Debt maturity		Interest-rate swaps	
	SEK M	Interest rate	Share	SEK M	Share	SEK M	Interest rate
2019	5,460	1.8%	35%	312	2%	647	0.5%
2020	604	3.5%	4%	2,668	17%	204	3.8%
2021	1,285	2.2%	8%	3,149	20%	–	–
2022	1,263	2.5%	8%	1,250	8%	463	0.7%
2023	1,110	2.4%	7%	3,246	21%	252	0.5%
>2023	6,042	2.4%	38%	5,138	33%	904	2.3%
<b>Total/average</b>	<b>15,763</b>	<b>2.2%</b>	<b>100%</b>	<b>15,763</b>	<b>100%</b>	<b>2,471</b>	<b>1.5%</b>

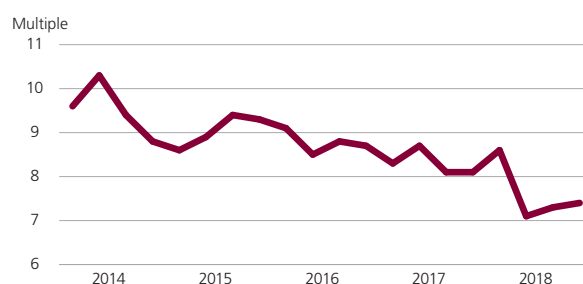
## Interest-bearing net debt

	31 Dec 2018	31 Dec 2017
Interest-bearing liabilities	15,763	13,691
Interest-bearing assets	–6	–7
Cash and cash equivalents	–73	–60
Listed shares	–872	–442
<b>Net debt</b>	<b>14,812</b>	<b>13,182</b>

## Debt ratio and interest-coverage ratio



## Net debt/EBITDA, rolling 12 month



The chart on page 15 shows how the debt ratio has decreased over time at the same time as financial expenses have declined in relation to the Group's profit before financial items. The debt ratio at the end of the year amounted to 47% (50) and the interest coverage ratio to 433% (401). Interest-bearing net debt for the past 12 months has averaged 7.4 (8.1) times EBITDA; see chart on page 15.

A total of SEK 8,538 M (3,355) in loans was raised, of which SEK 5,138 M in the form of issued bond loans under the framework of Sagax's EMTN programme. A total of SEK 6,707 M (2,395) was repaid during the period, of which SEK 1,150 M pertains to early redemption of bond loans in the fourth quarter. Interest-bearing liabilities rose SEK 241 M (166) due to exchange-rate fluctuations.

In accordance with IFRS 9, allocated borrowing costs of SEK 80 M (75) reduced interest-bearing liabilities in the balance sheet. Interest-bearing liabilities of SEK 15,683 M

(13,616) were recognised. The average remaining fixed-interest and debt maturity terms were 3.0 years (2.1) and 3.6 years (3.1), respectively, at year end. The average interest rate on the company's interest-bearing liabilities was 2.2% (3.0), including the effect of derivatives. The average interest rate decreased as a consequence of new borrowing at lower interest rates, repayment of loans with higher interest rates and early redemption of interest-rate swaps.

Sagax has SEK 5,138 M (–) in loans at fixed interest rates. To limit interest-rate risk of loans with floating interest rates and increase the predictability of the company's profit from property management, interest-rate caps and interest-rate swaps are utilised with a total nominal value of SEK 6,198 M (7,210), of which interest-rate swaps with an average interest rate of 1.5% (2.5) accounted for SEK 2,471 M (4,497); see table on page 15. In addition, the Group has an interest-rate cap of SEK 3,728 M (2,713) in an underlying nominal amount.

#### Listed bond loans, 31 December 2018

Maturity	SEK M	Current interest	Interest terms	Base interest rates floor <sup>1)</sup>	Maturity date	ISIN code
2015-2020	300	3.20%	Stibor 3M+3.20%	Yes	18 Jun 2020	SE0007186234
2016-2021	300	4.62%	Stibor 3M+4.75%	No	27 Apr 2021	SE0008294748
2017-2021	600	2.12%	Stibor 3M+2.25%	No	1 Feb 2021	SE0010636274
2017-2022	1,250	2.02%	Stibor 3M+2.15%	No	15 Feb 2022	SE0010324228
<b>Total/average</b>	<b>2,450</b>	<b>2.51%</b>				

Maturity	EUR M	Current interest	Interest terms	Base interest rates floor <sup>1)</sup>	Maturity date	ISIN code
2015-2020	80	3.50%	Euribor 6M+3.50%	Yes	9 Sep 2020	SE0007490883
2016-2021	30	4.46%	Euribor 6M+4.70%	No	15 Jun 2021	SE0008434401
2018-2024	500	2.00%	2.00%	N/A	17 Jan 2024	XS1877540465
<b>Total/average</b>	<b>610</b>	<b>2.32%</b>				

1) Stibor and Euribor are not to fall below 0% when calculating interest.

#### Derivative contracts, 31 December 2018

Amounts in SEK M	Nominal amount	Years to maturity	Market value 31 Dec 2018	Market value 31 Dec 2017	Change for the period
Nominal interest-rate swaps	2,471	3.7	–122	–421	301
Interest-rate caps	3,728	2.8	4	1	3
<b>Total</b>	<b>6,198</b>	<b>3.2</b>	<b>–117</b>	<b>–420</b>	<b>303</b>

The reserve for the market value of fixed-income derivatives declined by SEK 303 M (107) during the year, of which SEK 242 (–) was attributable to early redemption of fixed-income derivatives. The total market value of Sagax’s fixed-income derivatives was SEK –117 M (–420). The reserve will be gradually dissolved and recognised in profit and loss by the expiry date of the derivative contracts, regardless of the interest rate scenario.

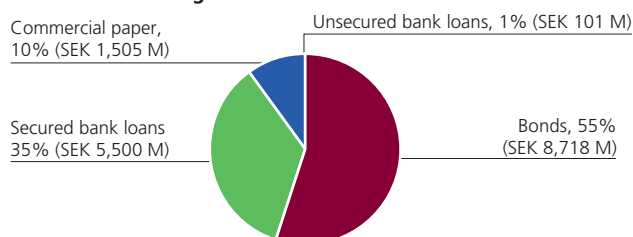
#### WORKING CAPITAL AND LIQUIDITY

Sagax’s working capital, excluding prepaid rental revenue of SEK 199 M (167), amounted to SEK –1,059 M (–1,350) at 31 December 2018. At the same date, unutilised credit facilities amounted to SEK 3,392 M (3,233). No additional collateral needs to be pledged to utilise these credit facilities.

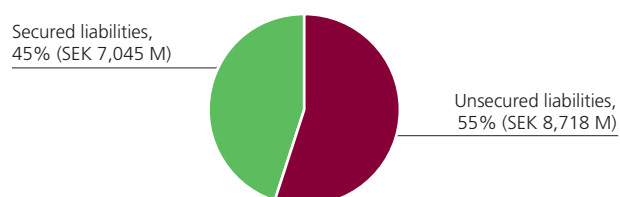
#### Financial key figures

	Financial covenant in EMTN programme	2018 31 Dec	2017 31 Dec
Net debt/Total assets	<65%	44%	48%
Interest coverage ratio	>1,8 x	4.3 x	4.0 x
Secured liabilities/Total assets	<45%	21%	33%
Rating according to Moody’s Investor Services		Baa3, Stable outlook	Ba1, Positive outlook

#### Sources of financing



#### Distribution between secured and unsecured liabilities



# Statement of comprehensive income

Amounts in SEK M	2018 Jan-Dec	2017 Jan-Dec	2018 Oct-Dec	2017 Oct-Dec
Rental revenue	2,247	1,870	591	498
Other revenue	30	4	3	1
Operating expenses	-197	-147	-56	-40
Maintenance costs	-59	-43	-13	-14
Site leaseholds	-22	-19	-6	-6
Property tax	-93	-77	-23	-20
Other property expenses	-37	-29	-11	-7
<b>Net operating income</b>	<b>1,869</b>	<b>1,558</b>	<b>487</b>	<b>412</b>
Central administration	-132	-77	-54	-24
Profit from joint ventures	830	727	273	243
– of which, profit from property management	312	278	79	70
– of which, changes in value	677	606	260	238
– of which, tax	-160	-157	-66	-65
Financial income	35	19	3	1
Financial expenses	-481	-444	-113	-119
<b>Profit including changes in value of joint ventures</b>	<b>2,121</b>	<b>1,783</b>	<b>597</b>	<b>513</b>
– of which, profit from property management	<b>1,603</b>	<b>1,334</b>	<b>403</b>	<b>340</b>
<i>Changes in value:</i>				
Properties, realised	-22	1	-3	-1
Properties, unrealised	1,265	1,113	219	542
Financial instruments, realised	36	3	5	4
Financial instruments, unrealised	211	504	10	78
<b>Profit before tax</b>	<b>3,611</b>	<b>3,405</b>	<b>828</b>	<b>1,137</b>
Deferred tax	-435	-390	-116	-160
Current tax	-10	-49	55	14
<b>Profit for the period</b>	<b>3,166</b>	<b>2,965</b>	<b>767</b>	<b>991</b>
<i>Other comprehensive income</i>				
<i>– items that may be reversed to profit and loss:</i>				
Translation differences for foreign operations	363	254	8	251
Share of other comprehensive income for joint ventures	3	5	-1	4
Translation differences pertaining to hedge accounting	-49	-84	-16	-79
Tax on items that may be reversed to profit and loss	-29	-13	6	-13
<b>Comprehensive income for the period</b>	<b>3,454</b>	<b>3,126</b>	<b>764</b>	<b>1,154</b>
Earnings per Class A and B share, SEK	18.48	17.72	4.41	6.01
Earnings per Class A and B share after dilution, SEK	18.47	17.69	4.41	6.00
Earnings per Class D share, SEK	2.00	2.00	0.50	0.50
Average no. of Class A and B shares, millions	158.4	158.3	158.4	158.3
Average no. of Class A and B shares after dilution, millions	158.5	158.5	158.5	158.4
Average no. of Class D shares, millions	83.0	43.1	100.9	63.6

## Condensed statement of financial position

Amounts in SEK M	2018 31 Dec	2017 31 Dec
Investment properties	28,769	23,755
Investment properties for sale	255	16
Joint ventures	3,286	2,632
Fixed-income derivatives	4	1
Other fixed assets	14	21
<b>Total fixed assets</b>	<b>32,328</b>	<b>26,426</b>
Cash and bank balances	73	60
Listed shares	872	442
Other current assets	417	312
<b>Total current assets</b>	<b>1,362</b>	<b>814</b>
<b>Total assets</b>	<b>33,690</b>	<b>27,240</b>
<b>Equity</b>	<b>15,416</b>	<b>11,356</b>
Non-current interest-bearing liabilities	13,866	11,937
Deferred tax liabilities	1,599	1,141
Fixed-income derivatives	122	422
Other non-current liabilities	67	53
<b>Total non-current liabilities</b>	<b>15,654</b>	<b>13,553</b>
Commercial paper	1,505	1,275
Other current interest-bearing liabilities	312	404
Other current liabilities	803	652
<b>Total current liabilities</b>	<b>2,620</b>	<b>2,331</b>
<b>Total equity and liabilities</b>	<b>33,690</b>	<b>27,240</b>

# Statement of cash flows

Amounts in SEK M	2018 Jan-Dec	2017 Jan-Dec	2018 Oct-Dec	2017 Oct-Dec
<b>Profit before tax</b>	<b>3,611</b>	<b>3,405</b>	<b>828</b>	<b>1,137</b>
Change in value of financial instruments	-247	-507	-15	-83
Change in value of properties	-1,244	-1,112	-217	-543
Result from ownership of joint ventures	-830	-727	-272	-243
Dividend from joint ventures	254	139	-	10
Dissolution of allocated borrowing costs	46	28	14	8
Tax paid	-87	-25	-21	-10
Other items not included in cash flow	-15	-7	-1	-1
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,490</b>	<b>1,194</b>	<b>316</b>	<b>275</b>
Cash flow from changes in current receivables	-88	-43	3	-75
Cash flow from changes in current liabilities	188	17	-28	56
<b>Cash flow from operating activities</b>	<b>1,590</b>	<b>1,168</b>	<b>291</b>	<b>256</b>
Acquisition of properties	-3,026	-1,382	-777	-557
Property sales	24	41	1	10
Investments in existing properties	-456	-341	-221	-103
Acquisition of listed shares	-450	-244	-253	-73
Sales of listed shares	129	73	57	-
Change in other fixed assets	8	-2	-	-1
<b>Cash flow from investing activities</b>	<b>-3,771</b>	<b>-1,855</b>	<b>-1,192</b>	<b>-724</b>
Issue of Class D and B shares	1,125	-	165	-
Redemption offer regarding preference shares	-	-66	-	-
Dividend paid to shareholders	-479	-386	-57	-40
Incentive Plan	-2	-23	-	-
Borrowings	8,487	3,322	1,831	819
Repayment of loans	-6,707	-2,395	-1,274	-625
Early redemption of financial derivatives	-242	-	-	-
Deposits from tenants	14	12	2	5
Change in other non-current liabilities	-2	-	-	2
<b>Cash flow from financing activities</b>	<b>2,195</b>	<b>464</b>	<b>667</b>	<b>161</b>
<b>Cash flow for the period</b>	<b>14</b>	<b>-223</b>	<b>-234</b>	<b>-308</b>
Exchange rate differences in cash and cash equivalents	-1	-	-	-
Change in cash and cash equivalents	13	-223	-234	-308
Cash and cash equivalents at beginning of period	60	283	307	368
Cash and cash equivalents at the end of period	73	60	73	60

# Statement of changes in equity

Amounts in SEK M	Share capital	Other contributed capital	Reserves, translation differences	Profit earned incl. net profit for the period	Total equity <sup>1)</sup>
<b>Equity, 31 December 2016</b>	<b>413</b>	<b>2,142</b>	<b>136</b>	<b>6,017</b>	<b>8,709</b>
Dividends	–	–	–	–390	–390
Redemption of preference shares	–73	–1,280	–	–	–1,353
Offset issue of Class D shares	79	1,210	–	–	1,289
Transaction costs	–	–3	–	–	–3
Redemption of Incentive Plan	–	–	–	–25	–25
Incentive Plan	–	–	–	2	2
Comprehensive income, January-December 2017	–	–	161	2,965	3,126
<b>Equity, 31 December 2017</b>	<b>419</b>	<b>2,069</b>	<b>297</b>	<b>8,570</b>	<b>11,356</b>
Issue of Class D shares	68	1,055	–	–	1,123
Transaction costs	–	–8	–	–	–8
Issue of Class B shares, Incentive Plan	–	10	–	–	10
Dividends	–	–	–	–517	–517
Redemption of Incentive Plan	–	–	–	–4	–4
Incentive Plan	–	–	–	3	3
Comprehensive income, January-December 2018	–	–	288	3,166	3,454
<b>Equity, 31 December 2018</b>	<b>487</b>	<b>3,126</b>	<b>585</b>	<b>11,218</b>	<b>15,416</b>

1) Equity is attributable in its entirety to the Parent Company's shareholders.

## Segment information

Profit items per segment	Rental revenue <sup>1)</sup>		Profit from property management		Changes in value, properties				Income before tax	
					Unrealised		Realised			
	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec
<b>Amounts in SEK M</b>										
Stockholm	636	569	330	317	630	401	–	1	960	719
Helsinki	512	464	315	291	383	217	2	–1	699	507
Finland, university cities	249	132	150	79	112	102	–	–	262	181
Paris	168	104	98	48	39	160	–	–	137	208
Netherlands	126	63	81	40	30	13	–	–	111	52
Rest of Sweden	206	206	156	133	–40	43	–1	–	115	176
Rest of Finland	226	217	161	159	86	146	–23	1	224	308
Rest of Europe	123	115	93	81	24	31	–	–	118	112
<b>Sub-total</b>	<b>2,247</b>	<b>1,870</b>	<b>1,384</b>	<b>1,148</b>	<b>1,264</b>	<b>1,113</b>	<b>–22</b>	<b>1</b>	<b>2,626</b>	<b>2,263</b>
Financial instruments	–	–	–	–	–	–	–	–	247	507
Joint ventures	–	–	312	278	369	488	1	53	830	727
Other, non-specified	–	–	–93	–92	–	–	–	–	–93	–92
<b>Total</b>	<b>2,247</b>	<b>1,870</b>	<b>1,603</b>	<b>1,334</b>	<b>1,633</b>	<b>1,601</b>	<b>–21</b>	<b>55</b>	<b>3,611</b>	<b>3,405</b>
Asset items per segment	Market value properties		Investment properties		Acquisition properties		Divestment properties			
	2018 31 Dec	2017 31 Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Jan-Dec	2017 Jan-Dec
<b>Amounts in SEK M</b>										
Stockholm	9,822	8,670	232	157	290	172	–	–	–	–
Helsinki	6,333	5,014	177	118	541	187	–	–10	–	–
Finland, university cities	2,732	1,826	19	–	694	359	–	–	–	–
Paris	1,995	1,386	8	48	501	174	–	–	–	–
Netherlands	1,817	850	4	–	895	318	–	–	–	–
Rest of Sweden	2,392	2,446	3	12	–	–	–16	–15	–	–
Rest of Finland	2,373	2,210	10	1	–	160	–29	–15	–	–
Rest of Europe	1,560	1,370	3	5	105	12	–	–	–	–
<b>Total</b>	<b>29,024</b>	<b>23,771</b>	<b>456</b>	<b>341</b>	<b>3,026</b>	<b>1,382</b>	<b>–45</b>	<b>–40</b>		

1) All rental revenue pertains to external tenants.

# Key performance indicators

	2018 Jan-Dec	2017 Jan-Dec	2016 Jan-Dec	2015 Jan-Dec	2014 Jan-Dec	2013 Jan-Dec
<b>Property-related key figures</b>						
Yield, %	6.8	6.9	7.1	7.4	7.6	7.7
Surplus ratio, %	83	83	85	86	86	87
Occupancy rate by area, %	95	95	93	97	95	93
Economic occupancy rate, %	95	94	94	96	94	92
Lease term at the end of the period, years	6.0	6.6	7.1	7.4	8.2	8.0
Lettable area at the end of the period, 000 sqm	2,850	2,489	2,312	1,860	1,634	1,336
No. of properties at the end of the period	512	495	440	225	184	141
<b>Financial key figures</b>						
Return on total capital, %	7	7	7	8	8	8
Return on equity, %	24	30	33	32	18	24
Average interest rate, %	2.2	3.0	3.1	3.3	4.1	4.4
Fixed-interest period incl. derivatives, years	3.0	2.1	2.7	3.0	3.0	3.7
Loan maturity, years	3.6	3.1	3.6	4.2	3.2	3.5
Equity/assets ratio, %	46	42	38	34	32	32
Debt ratio, %	47	50	54	59	59	60
Net debt/EBITDA, multiple	7.4	8.1	8.7	9.3	8.8	9.1
Interest coverage ratio, multiple	4.3	4.0	3.7	3.3	2.9	2.7
<b>Data per Class A and B share<sup>1)</sup></b>						
Price of Class B share at the end of the period, SEK	129.60	98.20	81.75	71.75	44.00	24.20
EPRA NAV, SEK	88.45	70.07	53.78	35.52	27.23	19.05
Equity, SEK	71.40	54.30	39.21	26.01	17.49	13.41
Equity after dilution, SEK	71.34	54.26	39.14	25.93	17.44	13.40
Earnings, SEK	18.48	17.72	14.53	9.88	4.06	4.44
Profit after dilution, SEK	18.47	17.69	14.50	9.85	4.05	4.44
Profit from property management, SEK	8.62	7.41	5.97	4.92	3.74	2.74
Profit from property management after dilution, SEK	8.61	7.40	5.96	4.90	3.73	2.73
Cash flow, SEK	7.90	6.53	5.13	4.00	3.00	2.12
Cash flow after dilution, SEK	7.89	6.52	5.12	3.99	2.99	2.12
Dividend per share, SEK (proposed for 2018)	2.00	1.80	1.45	1.15	0.80	0.55
No. at end of period, millions	158.4	158.3	158.3	158.3	158.3	158.3
No. at end of period after dilution, millions	158.5	158.4	158.6	158.8	158.7	158.4
Average no., millions	158.3	158.3	158.3	158.3	158.3	153.9
Average number after dilution, millions	158.4	158.5	158.6	158.8	158.6	154.0
<b>Data per Class D share</b>						
Share price at the end of period, SEK	31.70	29.92	28.30	–	–	–
Equity, SEK	35.00	35.00	35.00	–	–	–
Earnings, SEK	2.00	2.00	2.00	–	–	–
Dividend per share, SEK (proposed for 2018)	2.00	2.00	2.00	–	–	–
No. at end of period, millions	101.9	63.6	18.2	–	–	–
Average no., millions	83.0	43.1	2.9	–	–	–
<b>Data per preference share</b>						
Share price at the end of period, SEK	34.85	33.40	30.40	31.30	36.00	31.50
Equity, SEK	32.00	32.00	32.00	32.00	32.00	32.00
Earnings, SEK	2.00	2.00	2.00	2.00	2.00	2.00
Dividend per share, SEK (proposed for 2018)	2.00	2.00	2.00	2.00	2.00	2.00
No. at end of period, millions	16.8	16.8	58.2	58.2	55.5	50.0
Average no., millions	16.8	35.5	58.2	57.8	52.2	50.0

1) Excluding 1,000,000 Class B shares bought back by AB Sagax.



## Parent Company income statement

Amounts in SEK M	2018 Jan-Dec	2017 Jan-Dec
Net sales	62	55
Administration costs	-107	-70
<b>Loss before financial income and expenses</b>	<b>-45</b>	<b>-15</b>
Profit/loss from participations in Group companies	145	-35
Profit from participations in joint ventures	54	39
Financial income	460	357
Financial expenses	-395	-296
<b>Profit before tax and appropriations</b>	<b>219</b>	<b>50</b>
Tax allocation fund	-6	-9
Tax	-5	-7
<b>Profit for the period</b>	<b>208</b>	<b>34</b>

## Condensed Parent Company balance sheet

Amounts in SEK M	2018 31 Dec	2017 31 Dec
Tangible fixed assets	2	2
Receivables from Group companies	2,144	2,022
Other financial fixed assets	5,919	3,592
<b>Total fixed assets</b>	<b>8,065</b>	<b>5,616</b>
Cash and bank balances	2	4
Receivables from Group companies	9,630	5,208
Other current assets	69	51
<b>Total current assets</b>	<b>9,701</b>	<b>5,263</b>
<b>Total assets</b>	<b>17,766</b>	<b>10,879</b>
<b>Equity</b>	<b>3,842</b>	<b>3,031</b>
Untaxed reserves	23	17
Non-current interest-bearing liabilities	9,311	4,674
Liabilities to Group companies	257	438
Deferred tax liabilities	3	3
<b>Total non-current liabilities</b>	<b>9,571</b>	<b>5,115</b>
Current interest-bearing liabilities	1,505	1,275
Liabilities to Group companies	2,481	1,220
Other current liabilities	343	221
<b>Total current liabilities</b>	<b>4,330</b>	<b>2,716</b>
<b>Total equity, untaxed reserves and liabilities</b>	<b>17,766</b>	<b>10,879</b>

# The Sagax share and shareholders

At the end of the period, Sagax had 10,867 (9,348) shareholders. Sagax's market capitalisation amounted to SEK 24,664 M (18,080). Sagax has four classes of shares: Class A, B and D common shares, and preference shares. The shares are listed on Nasdaq Stockholm, Large Cap.

A total of 278,080,255 shares were outstanding at the end of the period, of which 1,000,000 were Class B treasury shares. Refer also to the table of voting rights and proportion of share capital for the different classes of shares on page 26.

On 1 June, Sagax completed a rights issue of 23,862,214 Class D common shares, on 14 June, the company completed a private placement of 9,574,617 Class D common shares and

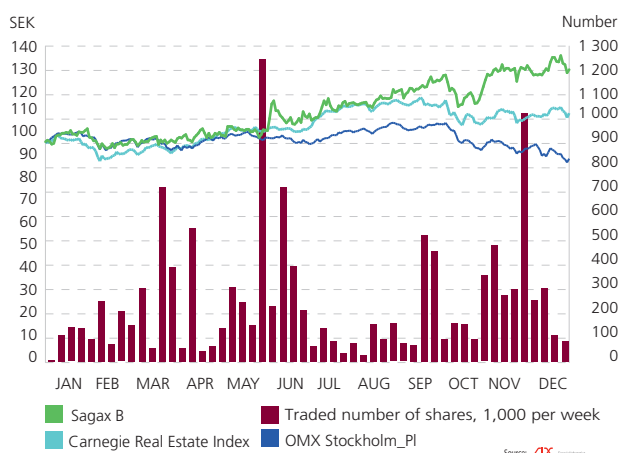
on 6 November completed a private placement of 4,900,000 Class D common shares. Moreover, due to the exercise of warrants under the 2015/2018 Incentive Plan, Sagax issued 121,275 Class B common shares in June. In total, the issues generated equity of SEK 1,125 M for the company.

According to the Articles of Association, each preference share confers a preferential right to SEK 2.00 in annual dividends. Class D shares are entitled to five times the total dividend on Class A and B shares, although not more than SEK 2.00 per share. The share price trend and information about share trading are provided below.

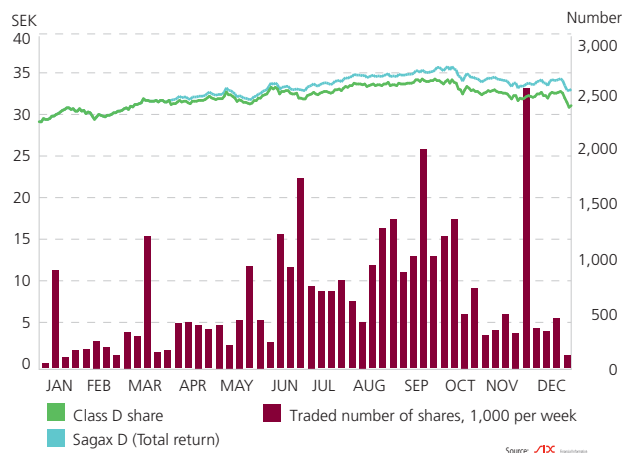
## Trade in the shares on the Nasdaq Stockholm

	Price paid, SEK		Turnover rate on an annual basis, %		Average trading volume per trading day, SEK M	
	31 Dec 2018	31 Dec 2017	Jan-Dec 2018	Jan-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Class A shares	153.50	103.80	3	3	0.2	0.1
Class B shares	129.60	98.20	9	8	5.6	4.3
Class D shares	31.70	29.92	40	40	4.5	2.0
Preference shares	34.85	33.40	33	28	0.8	1.3

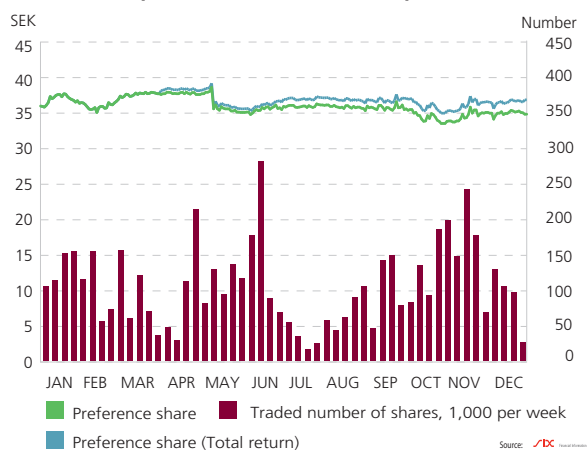
### Price trend of Class B shares for the past 12 months



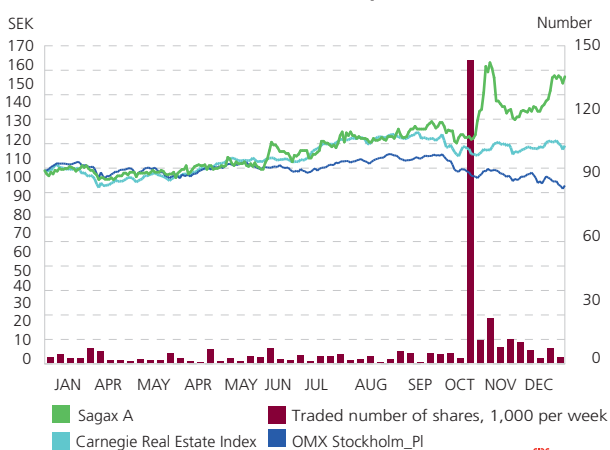
### Price trend of Class D shares for the past 12 months



### Price trend of preference shares for the past 12 months



### Price trend of Class A shares for the past 12 months



## WARRANTS

Sagax has three warrant plans for the company's employees. In total, Sagax's employees hold warrants corresponding to 0.5% of the number of Class A and B shares outstanding. The company's CEO and Board Members do not participate in the plans. These plans are valid for three years, and encompass the periods 2016-2019, 2017-2020 and 2018-2021. Warrants entitle the holder to subscribe for Class B shares in June 2019, June 2020 and June 2021, respectively. The subscription price corresponds to the price paid for the Class B share at the start of the warrant plan, converted using the average share price trend for the listed property companies in accordance with Carnegie's property index (CREX) during the corresponding period. Accordingly, the warrants will have a value on condition that the price performance of the Sagax share exceeds the average for the listed property companies during each three-year period.

## PROFIT FROM PROPERTY MANAGEMENT

### PER COMMON SHARE

Profit from property management per Class B share after dilution on a rolling 12-month basis amounted to SEK 8.61 (7.40), which, compared with the share price of the Class B share at the end of the period, corresponded to a multiple of 15.0 (13.3).

### EQUITY PER CLASS A AND B SHARE

Equity per Class A and B share after dilution amounted to SEK 71.34 (54.26). EPRA NAV per Class A and B share amounted to SEK 88.45 (70.07). For definitions of key performance indicators, see page 32. The share price for the Class B share at the end of the period was 182% (181) of equity per Class B share and 147% (140) of EPRA NAV per Class B share.

## Key performance indicators per Class B share

	2018 31 Dec	2017 31 Dec	2016 31 Dec	2015 31 Dec	2014 31 Dec	2013 31 Dec
Price of Class B share at the end of the period, SEK	129.60	98.20	81.75	71.75	44.00	24.20
Profit from property management after dilution, SEK <sup>1)</sup>	8.61	7.40	5.96	4.90	3.73	2.73
Cash flow after dilution, SEK <sup>1) 2)</sup>	7.89	6.52	5.12	3.99	2.99	2.12
Equity after dilution, SEK	71.34	54.26	39.14	25.93	17.44	13.40
EPRA NAV, SEK <sup>3)</sup>	88.45	70.07	53.78	35.52	27.23	19.05
Price of Class B share/Profit from property management, multiple <sup>1)</sup>	15.0	13.3	13.7	14.6	11.8	8.9
Price of Class B share/Cash flow, multiple <sup>1) 2)</sup>	16.4	15.1	16.0	18.0	14.7	11.4
Price of Class B share/Equity, %	182	181	209	277	252	181
Price of Class B share/EPRA NAV, %	147	140	152	202	162	127

1) Profit from property management and cash flow pertain to a rolling 12 months.

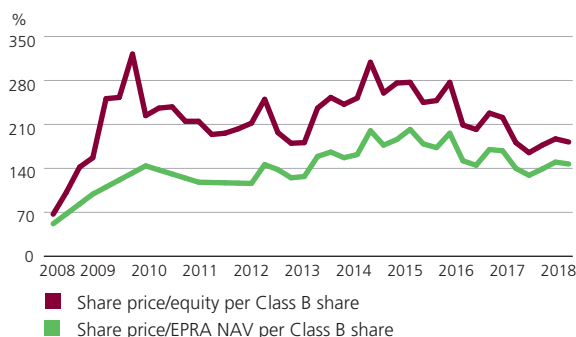
2) Cash flow pertains to cash flow from operating activities before changes in working capital.

3) See page 32 for definition.

## Share price/profit from property management per common share



## Share price in relation to equity and EPRA NAV



### Ownership structure, 31 December 2018<sup>1)</sup>

No. of shares	No. of shareholders	Shareholder category	Number of shareholders	Share of voting power	Shareholders by country	Number of shareholders	Share of voting power
1–500	5,995	Private individuals residing in Sweden	9,481	11%	Sweden	10,144	87%
501–1,000	1,057				Luxembourg	22	4%
1,001–2,000	986	Private individuals residing abroad	75	0%	USA	48	2%
2,001–5,000	1,175				Belgium	9	2%
5,001–10,000	610	Companies/institutions in Sweden	663	77%	Switzerland	12	2%
10,001–50,000	746				Other countries	632	3%
50,001–	298	Companies/institutions abroad	648	12%			
<b>Total</b>	<b>10,867</b>	<b>Total</b>	<b>10,867</b>	<b>100%</b>	<b>Total</b>	<b>10,867</b>	<b>100%</b>

1) Including shares held by AB Sagax.

### Largest shareholders, 31 December 2018<sup>1)</sup>

	No. of shares				Percentage of	
	Class A shares	Class B shares	Class D shares	Preference shares	Share capital	Votes <sup>2)</sup>
David Mindus and companies	5,172,400	37,693,025	4,358,539	775	17.0%	23.6%
Rutger Arnhult and companies	2,861,585	17,381,597	4,401,254	3,017	8.9%	12.7%
Staffan Salén and companies	2,132,464	17,485,330	2,462,922	–	7.9%	10.4%
Third Swedish National Pension Fund	–	12,233,829	–	–	4.4%	3.1%
Avanza Pension	26,254	557,765	8,539,010	1,761,742	3.9%	2.8%
Länsförsäkringar Fonder	–	8,485,826	–	–	3.1%	2.1%
Fourth Swedish National Pension Fund	2,858	5,827,117	2,157,806	–	2.9%	2.0%
SEB Fonder	–	5,291,216	328,023	–	2.0%	1.4%
Swedish Foundation for Strategic Research	–	–	5,576,376	–	2.0%	1.4%
Erik Selin and companies	574,985	2,269,000	2,148,868	–	1.8%	2.6%
Ilmarinen Mutual Pension Insurance Company	–	–	4,900,000	–	1.8%	1.2%
Swedbank Robur Fonder	250,000	3,266,389	190,216	–	1.3%	1.5%
Patrik Brummer	–	–	166,666	3,500,000	1.3%	0.9%
ICA–Handlarnas Förbund	–	–	3,624,253	–	1.3%	0.9%
Handelsbanken Fonder	–	3,600,000	–	–	1.3%	0.9%
Vanguard	–	–	2,584,574	558,124	1.1%	0.8%
Volvo Pensions Foundation	–	–	3,132,243	–	1.1%	0.8%
Lars Ingvarsson and companies	100,000	1,673,205	304,710	–	0.7%	0.7%
Norges Bank	–	22,538	2,029,461	–	0.7%	0.5%
Norron Fonder	–	–	2,047,871	–	0.7%	0.5%
<b>Total 20 largest shareholders</b>	<b>11,120,546</b>	<b>115,786,837</b>	<b>48,952,792</b>	<b>5,823,658</b>	<b>65.3%</b>	<b>70.8%</b>
Other shareholders	2,296,276	29,192,568	52,947,208	10,960,370	34.3%	29.2%
<b>Sub-total</b>	<b>13,416,822</b>	<b>144,979,405</b>	<b>101,900,000</b>	<b>16,784,028</b>	<b>99.6%</b>	<b>100.0%</b>
Treasury shares held by AB Sagax	–	1,000,000	–	–	0.4%	0.0%
<b>Total</b>	<b>13,416,822</b>	<b>145,979,405</b>	<b>101,900,000</b>	<b>16,784,028</b>	<b>100.0%</b>	<b>100.0%</b>
– of which, Board and employees	7,625,419	59,202,791	8,056,379	923	26.9%	36.1%

1) Ownership structure at 31 December 2018 is based on information from Euroclear Sweden and Modular Finance.

2) Voting rights for treasury shares held by AB Sagax have been excluded.

### Voting rights and proportion of share capital

Class of share	Number of shares	Voting rights per share	Number of votes	Proportion of votes	Proportion of share capital
Class A shares	13,416,822	1.00	13,416,822	34%	5%
Class B shares	145,979,405	0.10	14,597,940	37%	52%
Class D shares	101,900,000	0.10	10,190,000	25%	37%
Preference shares	16,784,028	0.10	1,678,403	4%	6%
<b>Total</b>	<b>278,080,255</b>		<b>39,883,165</b>	<b>100%</b>	<b>100%</b>

# Risks and uncertainties

To prepare the accounts based on generally accepted accounting policies, company management must make judgements and assumptions that affect asset and liability items, revenue and expense items recognised in the accounts and other information provided. The actual outcome may differ from these judgements.

## PROPERTY-RELATED RISKS

The valuation of investment properties can be significantly affected by the judgements and assumptions made by company management. To reduce the risk of incorrect valuations, Sagax has engaged authorised external appraisers to assess the market value of all of the properties at 31 December 2018. When valuing properties, the constant existence of uncertainties regarding the assumptions made must be taken into account. A sensitivity analysis for property values in relation to changes in the assumptions on yield requirements, cost of capital, rental revenue and property expenses is presented below.

Sagax prioritises leasing to tenants with a high credit rating and long-term leases, despite these entailing slightly lower immediate earnings. The intention is to reduce the risk of rent losses and the risk of vacancies.

The geographic distribution of Sagax's property portfolio and the industries of its tenants are highly diversified. Sagax's lease structure of many small leases help reduce the risks of vacancies and rent losses.

## FINANCIAL RISKS

Sagax's financial expenses comprise the single largest expense for the Group. To reduce Sagax's exposure to rising interest rates, the Group has a significant number of its interest expenses from fixed-rate loans. To limit interest-rate risk for loans at floating interest rates, interest-rate swaps and interest-rate

caps are used. Sagax values all of its fixed-income derivatives externally every quarter. All other things being equal, a simulated parallel upward shift of 1 percentage point in the underlying swap curve would entail a positive revaluation of Sagax's fixed-income derivatives by SEK 103 M. A corresponding downward shift of 1 percentage point would entail a revaluation of SEK -99 M.

Calculated on the existing financing terms for the Group's interest-bearing liabilities on 31 December 2018, a rise in market interest rates of 1 percentage point would have increased Sagax's annualised interest expenses by SEK 65 M (52). A reduction in market interest rates of 1 percentage point would have lowered Sagax's interest expenses by SEK 3 M (-14) on an annual basis.

Sagax's financing primarily comprises equity and interest-bearing liabilities. Sagax endeavours to secure a long, average remaining term of interest-bearing liabilities in a bid to limit its refinancing risk, defined as the risk that refinancing existing debt cannot take place on reasonable terms. The company's long-term financing comprises listed bond loans and bank loans. Both the bond loans and bank loans are subject to covenants, for example, with respect to debt ratio and maintaining an interest coverage ratio. This means that creditors may be entitled to demand repayment of granted credit lines prematurely or request changed conditions if these covenants are not met by the borrower. The complete terms and conditions for the bond loans are available at [www.sagax.se](http://www.sagax.se). A sensitivity analysis is presented below, showing the effects of a change in properties' occupancy rate on Sagax's interest coverage ratio. A sensitivity analysis is presented below, showing the effects of a change in the properties' market value on Sagax's debt ratio.

### Sensitivity analysis for property values

	-20%	-10%	0%	+10%	+20%
Value change, SEK M	-5,805	-2,902	-	2,902	5,805
Debt ratio, %	57	51	47	43	40

### Sensitivity analysis for changes in the occupancy rate

	-10%	-5%	0%	+5%	+10%
Occupancy rate, %	85	90	95	99	N/A
Interest coverage ratio, %	387	410	434	457	N/A

### Sensitivity analysis for property values

	Change	Value change, SEK M
Yield requirement	+/- 0.25% points	-751/+821
Cost of capital	+/- 0.25% points	-651/+680
Rental revenue	+/- 5%	+1,094/-1,103
Property expenses	+/- 5%	-201/+195

## CURRENCY RISKS

The amounts in the consolidated balance sheet are partly exposed to exchange-rate fluctuations, particularly for the EUR. Net exposure on 31 December 2018, assets less liabilities in EUR, amounted to SEK 5,514 M (4,910). In accordance with IAS 21, the currency effects for foreign operations and hedge accounting are recognised in Other comprehensive income. Other currency effects are recognised in profit or loss.

## OTHER RISKS

In a decision of 20 December 2016 pertaining to the 2014 income year, the Swedish Tax Agency denied the group company Sagax Bruket Fastigheter AB deductions for loss carry-

forwards of SEK 277 M and imposed additional tax of SEK 28 M. In a ruling on 27 February 2018, the Administrative Court upheld the Swedish Tax Agency's claim. In a decision of 7 December 2017 pertaining to the 2015 income year, the Tax Agency also denied the group company Firethorne AB deductions for loss carryforwards of SEK 1,166 M. Sagax is of the opinion that the Tax Agency's decisions are incorrect and the companies concerned have appealed the decisions. If the Tax Agency's decisions were to be upheld, Sagax estimates that the negative effect recognised in earnings for the Group would be SEK 85 M and SEK 156 M, respectively.

Sagax's other risks are described in the 2017 Annual Report, on pages 46-49.

## SENSITIVITY ANALYSIS

Sagax's exposure to material risks in the company's operations is presented below.

### Sensitivity analysis at 31 December 2018<sup>1)</sup>

Amounts in SEK M	Change	Effect on profit from property management, annual basis	Effect on profit after tax, annual basis <sup>3)</sup>	Effect on equity <sup>3)</sup>
Economic occupancy rate	+/-1%	+/-25	+/-20	+/-20
Rental revenue	+/-1%	+/-24	+/-19	+/-19
Property expenses	+/-1%	-/+4	-/+3	-/+3
Interest expenses for liabilities in SEK including fixed-income derivatives	+/-1% point	-38/+12	-30/+9	-30/+9
Interest expenses for liabilities in EUR including fixed-income derivatives	+/-1% point	-27/-8	-21/-7	-21/-7
Interest expenses for liabilities in SEK excluding fixed-income derivatives	+/-1% point	-49/+23	-38/+18	-38/+18
Interest expenses for liabilities in EUR excluding fixed-income derivatives	+/-1% point	-41/+5	-32/+4	-32/+4
Revaluation of fixed-income derivatives in SEK due to shift in interest rate curves	+/-1% point	N/A	+50/-53	+50/-53
Revaluation of fixed-income derivatives in EUR due to shift in interest rate curves	+/-1% point	N/A	+30/-24	+30/-24
Change in SEK/EUR exchange rate <sup>2)</sup>	+/-10%	+/-93	+/-73	+/-551
Changed rent level for contract maturity in 2019	+/-10%	+/-25	+/-19	+/-19

1) Excluding share in profit of joint ventures.

2) Sagax's net exposure to the SEK/EUR exchange rate comprises assets and liabilities recognised in EUR, in addition to revenue and expenses in EUR.

3) Including standard tax at 22%.

## Events after the end of the year

On 11 January, Sagax announced in a press release that based on five separate transactions it had agreed to acquire eight properties in the Netherlands, three properties in Paris and one property in Stockholm. The total investment amounted to SEK 200 M. The properties comprise a lettable area of 19,900 square metres, primarily comprising warehouse and light industry premises. The remaining average lease term is 8.2 years and the annual rental value amounts to SEK 13 M. The occupancy rate is 76%.

On 25 January, Sagax announced in a press release that based on four separate transactions it had agreed to acquire six properties in Paris and one property in Stockholm. The total investment amounted to SEK 255 M. The properties comprise a lettable area of 31,000 square metres, primarily comprising warehouse and light industry premises. The remaining average lease term is 1.9 years and the annual rental value amounts to SEK 18 M. The occupancy rate is 91%.

## Accounting policies

Sagax complies with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). In addition, the consolidated financial statements have been prepared in accordance with Swedish law applying Recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups of the Swedish Financial Reporting Board.

This interim report has been prepared in accordance with International Accounting Standards (IAS) 34. The accounting policies and calculation methods applied in this report are unchanged compared with those applied in the 2017 Annual Report that have entered force and which are described below, and except for the calculation of the following key performance indicators. Return on total capital has been changed to include profit from property management from joint ventures. The definition of interest coverage ratio has been changed to conform with the calculation used in the company's EMTN programme. Profit from joint ventures has replaced dividends from joint ventures. Comparative figures have been restated.

The International Accounting Standard Board (IASB) has issued a new standard, IFRS 15 Revenue from Contracts with Customers, which is effective from 2018. Sagax's revenue primarily comprises rental revenue, which is not encompassed by this standard. Accordingly, the standard has no material impact on its financial reporting; refer also to Note 1 in the 2017 Annual Report.

IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and Measurement from 2018. This

standard has no material impact on Sagax's financial reporting. Refer also to Note 1 in the 2017 Annual Report.

IFRS 16 Leases requires the recognition of leases for lessees in the statement of financial position as assets and liabilities. For lessors, the new standard does not entail any major changes to recognition. Leases and site leaseholds are initially recognised at a value calculated as the present value of the lease fees and site leasehold. Sagax will recognise a lease liability for site leaseholds of SEK 340 M and a corresponding right-of-use asset will be recognised as an investment property. According to the new standard, site leaseholds will no longer be recognised as a properties expense but instead as a financial expense. The recognised expense for 2018 amounted to SEK 21 M. Other leases pertaining to offices, vehicles, office equipment and land leases will only have a minor impact on the accounts. Sagax will start to apply the standard from 1 January 2019 without any retrospective remeasurement.

The properties were valued in accordance with level 3 of the IFRS fair value hierarchy. The fair value of financial instruments essentially corresponds with the carrying amounts. No changes to the categorisation of financial instruments were made during the period. The derivatives were measured in accordance with level 2 of the fair value hierarchy.

The company's segment division was changed as of the second quarter of 2018. The Rest of Finland segment has been split into Finland, university cities and Rest of Finland.

The Parent Company applies the Swedish Annual Accounts Act and RFR 2 Accounting for Legal Entities.

Rounding-off differences may occur in this report.

The Board of Directors and CEO give their assurance that this interim report provides a fair overview of the company's and the Group's operations, financial position and earnings and describes significant risks and uncertainties faced by the company and the companies included in the Group.

Stockholm, 7 February 2019  
AB SAGAX (publ)  
Corporate Registration Number 556520-0028

**Staffan Salén**  
Chairman of the Board

**Johan Cederlund**  
Board member

**Filip Engelbert**  
Board member

**David Mindus**  
CEO and Board member

**Johan Thorell**  
Board member

**Ulrika Werdelin**  
Board member

This year-end report has not been reviewed by the company's auditors.

*This constitutes information that AB Sagax (publ) is legally obliged to publish under the EU's Market Abuse Regulation. The information was released for publication on 7 February 2019 at 2:00 p.m. CET.*

Every care has been taken in the translation of this report. In the event of discrepancies, however, the Swedish original will supersede the English translation.



# Financial calendar

Interim Report January-March 2019	7 May 2019
Annual General Meeting 2019	7 May 2019
Interim Report January-June 2019	12 July 2019
Interim Report January-September 2019	24 October 2019

## SCHEDULE OF DIVIDEND PAYMENTS TO HOLDERS OF CLASS D SHARES AND PREFERENCE SHARES

### March 2019

■ Final day for trading including dividend rights	27 March 2019
■ First day for trading excluding dividend rights	28 March 2019
■ Record date for dividend payment	29 March 2019
■ Expected payment date by Euroclear <sup>1)</sup>	3 April 2019

### June 2019

■ Final day for trading including dividend rights	26 June 2019
■ First day for trading excluding dividend rights	27 June 2019
■ Record date for dividend payment	28 June 2019
■ Expected payment date by Euroclear <sup>1)</sup>	3 July 2019

### September 2019

■ Final day for trading including dividend rights	26 September 2019
■ First day for trading excluding dividend rights	27 September 2019
■ Record date for dividend payment	30 September 2019
■ Expected payment date by Euroclear <sup>1)</sup>	3 October 2019

### December 2019

■ Final day for trading including dividend rights	23 December 2019
■ First day for trading excluding dividend rights	27 December 2019
■ Record date for dividend payment	30 December 2019
■ Expected payment date by Euroclear <sup>1)</sup>	7 January 2020

*1) Payment is made on the third bank day following the record date for Swedish issuers. Sagax is unable to affect this date.*

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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Visit us at [www.sagax.se](http://www.sagax.se).

# Definitions

Sagax applies the European Securities and Market Authority's (ESMA) Guidelines on the Alternative Performance Measures. Alternative performance measures refer to financial measures of historical or future earnings trends, financial position, financial results or cash flows that are not defined or stated in the applicable rules for financial reporting, which in Sagax's case is IFRS. The basis of the alternative performance measures provided is that they are used by company management to assess the financial performance and thus are considered to provide valuable information to shareholders and other stakeholders.

The table below presents definitions of AB Sagax's key performance indicators. The calculation of alternative performance measures is described separately on the following pages.

Key performance indicators	Description	Reason for alternative performance measure
Return on equity	Profit for the period, recalculated to 12 months, as a percentage of average equity (opening and closing balances)/2 for the period.	This key performance indicator shows how shareholders' capital yields interest during the period.
Return on total capital	Profit for the period, recalculated at 12 months, after net financial items after reversal of financial expenses as a percentage of average total assets for the period.	This key performance indicator shows the ability to generate earnings on the Group's assets, excluding financing costs.
Occupancy rate by area	Contracted area directly after the end of the period as a percentage of total lettable area directly after the end of the period.	This key performance indicator shows the occupancy situation.
Debt ratio	Interest-bearing liabilities at the end of the period as a percentage of total assets at the end of the period.	This key performance indicator shows financial risk.
Yield	Net operating income for the period (including property administration), recalculated at 12 months, adjusted for the holding periods of the properties during the period as a percentage of the carrying amounts of the properties at the end of the period.	The key performance indicator shows the earnings generation of the operations before financial expenses and central administration costs are taken into account.
EBITDA	Net operating income less central administration costs plus dividends received from joint ventures and associated companies.	Sagax uses EBITDA so that the EBITDA/Net debt key performance indicator shows financial risk.
Equity per Class A and B share	Equity at the end of the period in relation to the number of Class A and B shares at the end of the period after taking into account equity attributable to Class D shares and preference shares.	The key performance indicator shows the owner's share of equity.
Equity per Class D share	Equity at the end of the period in relation to the number of common shares at the end of the period after taking into account equity attributable to preference shares. Equity is restricted to SEK 35.00 per Class D share.	The key performance indicator shows the owner's share of equity.
Equity per preference share	Equity per preference share corresponds to the preferential right of the preference share on liquidation of the company (SEK 30 per preference share) and the share's accumulated preferential right to dividends (SEK 2 per year).	The key performance indicator shows the owner's share of equity.
Economic occupancy rate	Contractual annual rent directly after the end of the period as a percentage of rental value directly after the end of the period.	The key performance indicator shows the economic degree of utilisation of the Group's properties.
EURIBOR	EURIBOR, or the Euro Interbank Offered Rate, is a daily reference rate based on the average of the interest rates at which euro interbank term deposits are being offered by one prime bank to another within the EMU zone.	Not an alternative performance measure.
EPRA NAV	Recognised equity according to the balance sheet with reversal of reserves for fixed-income derivatives, deferred tax on temporary differences on property values and deferred tax on reserves for fixed-income derivatives. EPRA NAV is a key performance indicator defined by the European Public Real Estate Association.	An established indicator of the Group's net asset value that facilitates analyses and comparisons.
Property	Pertains to properties held under title or site leasehold.	Not an alternative performance measure.
Fixed-income derivatives	Agreements on lending rates that may include the factors of time, inflation and/or maximum interest rates. Usually signed to hedge interest rates for interest-bearing loans.	Not an alternative performance measure.
Profit from property management	Profit excluding changes in value and tax.	An indicator of the earnings generation in the operations, excluding changes in value.
Profit from property management per Class A and B share after dilution	Profit from property management for the period reduced by dividends on Class D shares and preference shares, divided by the average number of Class A and B shares after dilution.	An indicator of the earnings generation of the assets, excluding the changes in value accruing to holders of Class A and B shares.
Lease term	Remaining term of a lease.	The key performance indicator shows the risk of future vacancies.
Rental value	The contractual annual rent applicable directly after the end of the period, with supplements for estimated market rents for vacant premises.	The key performance indicator shows the Group's income potential.
IFRS	International Financial Reporting Standards. International Financial Reporting Standards (IFRS), to be applied for consolidated financial statements by listed companies within the EU.	Not an alternative performance measure.
Joint venture	Partnership form whereby several owners have a shared controlling influence.	Not an alternative performance measure.

Key performance indicators	Description	Reason for alternative performance measure
Cash flow per Class A and B share	Profit before tax adjusted for items not included in cash flow less tax paid in relation to the average number of Class A and B shares. Dividends on Class D shares and preference shares for the period have also been deducted from profit before tax. Dividends received from joint ventures have been added to profit before tax.	The key performance indicator shows the amount of cash flow for the period that can be considered to be attributable to owners of Class A and Class B shares.
Net debt	Interest-bearing liabilities less interest-bearing assets, cash and cash equivalents, and listed shares.	The key performance indicator shows the Group's indebtedness.
Net debt/Total assets	Interest-bearing liabilities less interest-bearing assets, cash and cash equivalents, and listed shares as a percentage of total assets.	This key performance indicator shows financial risk.
Preference equity	Equity per preference share multiplied by the number of preference shares outstanding.	The key performance indicator shows equity attributable to preference shareholders.
Earnings per Class A and B share	Profit in relation to the average number of Class A and B shares after taking into account the portion of profit for the period represented by dividends on Class D shares and preference shares.	Not an alternative performance measure.
Earnings per Class D share	Class D shares are entitled to five times the total dividend on Class A and B shares, although not more than SEK 2.00 per share.	The key performance indicator shows the shareholders' share of profit.
Earnings per preference share	Each preference share entails a preferential right to SEK 2.00 in annual dividends.	The key performance indicator shows the preference shareholders' share of profit.
Interest-rate swaps	An agreement between two parties to swap interest rate conditions on loans in the same currency. The swap entails that one party exchanges its floating interest rate for a fixed rate, while the other party receives a fixed rate in exchange for a floating rate. The purpose of an interest-rate swap is to reduce interest-rate risk.	Not an alternative performance measure.
Interest coverage ratio	Profit from property management after reversal of financial expenses as a percentage of financial expenses.	The key performance indicator shows financial risk.
Equity/assets ratio	Equity in relation to total assets.	This key performance indicator shows financial risk.
STIBOR	STIBOR, or Stockholm Interbank Offered Rate, a daily reference rate based on the average of the interest rates at which banks offer to lend unsecured funds to other banks in SEK in the Swedish wholesale money market.	Not an alternative performance measure.
Secured liabilities/Total assets	Liabilities secured with pledged assets as a percentage of total assets.	This key performance indicator shows financial risk for bond holders.
Total return on shares	Total of the change in the share price during the period and the dividend paid during the period as a percentage of the share price at the end of the preceding year.	The key performance indicator shows the total return that accrues to shareholders.
Total yield on property	Total of net operating income and property revaluations during the period as a percentage of the average property value adjusted for revaluations for the period.	The key performance indicator shows earnings generation and value growth for the properties for a period.
Triple net lease	A type of lease whereby the tenant pays, in addition to the rent, all costs incurred on the property that would normally have been paid by the property owner. These include operating expenses, maintenance, property tax, site leasehold fees, insurance, property care-taking, etc.	Not an alternative performance measure.
Dilution	Dilution due to outstanding warrants has been calculated, in line with IAS 33, as the number of Class A and B shares to be issued to cover the difference between the strike price and share price for all potential Class A and B shares (warrants) outstanding, insofar as it is probable that they will be utilised.	Not an alternative performance measure.
Surplus ratio	Net operating income for the period as a percentage of rental revenue for the period.	The key performance indicator shows the profitability of the properties.

Calculation of alternative performance measures is presented in the tables below.

Amounts in SEK M unless otherwise stated	2018 Jan-Dec	2017 Jan-Dec	Amounts in SEK M unless otherwise stated	2018 Jan-Dec	2017 Jan-Dec
<b>Return on equity</b>			<b>Equity per Class A and B share</b>		
Profit after tax	3,166	2,965	Equity	15,416	11,356
Addition for translation to annual value	–	–	Equity attributable to preference and Class D shares	–4,104	–2,762
Average equity	13,386	10,033	Adjusted equity attributable to Class A and B shares	11,312	8,594
Return on equity	24%	30%	No. of shares	158,396,227	158,274,952
<b>Return on total capital</b>			Number of shares after dilution	158,541,894	158,372,099
Profit from property management	1,603	1,334	Equity per Class A and B share, SEK	71.40	54.30
Addition for translation to annual value	–	–	Equity per Class A and B share after dilution, SEK	71.34	54.26
Financial expenses	481	444	<b>Economic occupancy rate</b>		
Addition for translation to annual value	–	–	Contractual annual rent	2,374	1,974
Profit before financial expenses	2,084	1,778	Rental value	2,510	2,099
Average total capital	30,465	25,172	Economic occupancy rate	95%	94%
Return on total capital	7%	7%	<b>EPRA NAV</b>		
<b>Occupancy rate by area</b>			Equity	15,416	11,356
Contracted area, 000s of square metres	2,708	2,359	Equity attributable to preference and Class D shares	–4,104	–2,762
Total lettable area, 000s of square metres	2,850	2,489	Reversal of derivatives	117	422
Occupancy rate by area	95%	95%	Reversal of deferred tax, other temporary differences	1,967	1,472
<b>Debt ratio</b>			Reversals due to joint ventures	627	610
Interest-bearing liabilities	15,763	13,616	EPRA NAV	14,023	11,098
Total assets	33,690	27,240	EPRA NAV per Class A and B share after dilution, SEK	88.45	70.07
Debt ratio	47%	50%	<b>Profit from property management</b>		
<b>Yield</b>			Profit after tax	3,166	2,965
Net operating income	1,869	1,558	Tax	605	596
Addition for translation to annual value	–	–	Changes in value	–2,168	–2,227
Holding adjustment, acquisitions/divestments	91	62	Profit from property management	1,603	1,334
Currency translation to closing rate	2	21	<b>Profit from property management per Class A and B share after dilution</b>		
Adjusted net operating income	1,962	1,641	Profit from property management	1,603	1,334
Carrying amount of properties	29,024	23,755	Dividends attributable to preference and Class D shares	–237	–161
Yield	6.8%	6.9%	Adjusted profit from property management	1,367	1,173
<b>EBITDA rolling 12 months</b>			Profit from property management per Class A and B share after dilution, SEK	8.61	7.40
Net operating income	1,869	1,558			
Central administration	–132	–77			
Dividends from joint ventures	254	139			
EBITDA	1,991	1,620			

Calculation of alternative performance measures is presented in the tables below, cont'd.

Amounts in SEK M unless otherwise stated	2018 Jan-Dec	2017 Jan-Dec	Amounts in SEK M unless otherwise stated	2018 Jan-Dec	2017 Jan-Dec
<b>Lease term</b>			<b>Earnings per Class A and B share<sup>1)</sup></b>		
Contractual future rental revenue	14,251	13,070	Profit after tax	3,166	2,965
Contractual annual rent	2,374	1,974	Dividends attributable to preference and Class D shares	-237	-161
Lease term, years	6.0	6.6	Adjusted profit after tax	2,929	2,804
			Earnings per Class A and B share after dilution, SEK	18.47	17.69
<b>Cash flow per Class A and B share</b>			<b>Interest coverage ratio</b>		
Profit before tax	3,611	3,405	Profit from property management	1,603	1,334
Items not affecting cash flow	-2,035	-2,185	Financial expenses	481	444
Tax paid	-87	-25	Profit from property management before financial expenses	2,084	1,778
Dividends attributable to preference and Class D shares	-237	-161	Interest coverage ratio	4.3 x	4.0 x
Cash flow	1,252	1,034			
Cash flow per Class A and B share after dilution, SEK	7.89	6.52	<b>Equity/assets ratio</b>		
<b>Net debt</b>			Equity	15,416	11,356
Interest-bearing liabilities	15,763	13,691	Total assets	33,690	27,240
Interest-bearing assets	-6	-7	Equity/assets ratio	46%	42%
Cash and cash equivalents and listed shares	-945	-502	<b>Secured liabilities/Total assets</b>		
Net debt	14,812	13,182	Secured liabilities	7,045	9,017
			Total assets	33,690	27,240
<b>Net debt/EBITDA</b>			Secured liabilities/Total assets	21%	33%
Net debt	14,812	13,182			
EBITDA rolling 12 months	1,991	1,620	<b>Surplus ratio</b>		
Net debt/EBITDA	7.4 x	8.1 x	Net operating income	1,869	1,558
			Rental revenue	2,247	1,870
<b>Net debt/Total assets</b>			Surplus ratio	83%	83%
Net debt	14,812	13,182			
Total assets	33,690	27,240			
Net debt/Total assets	44%	48%			
<b>Preference equity</b>					
Equity per preference share, SEK	32.00	32.00			
Number of preference shares outstanding	16,784,028	16,784,028			
Preference equity	537	537			

1) Not an alternative performance measure.

AB Sagax is a property company whose business concept is to invest in commercial properties, primarily in the warehouse and light industry segment. Sagax's property holdings at 31 December 2018 amounted to 2,850,000 square metres, distributed between 512 properties.

AB Sagax (publ) is listed on Nasdaq Stockholm, Large Cap.

More information is available at [www.sagax.se](http://www.sagax.se).

# AB | SAGAX

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