



Q3 2016

INTERIM REPORT  
JANUARY–SEPTEMBER 2016



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- Rental income increased to SEK 963 m (901)
- Net operating income of SEK 477 m (421)
- Income from property management increased to SEK 284 m (138)
- Changes in the value of investment properties of SEK 1,137 m (440), an increase of 7.7 percent
- Changes in the value of financial instruments of SEK -153 m (-50)
- Profit before tax increased to SEK 1,200 m (469)
- Profit after tax increased to SEK 999 m (405)
- Earnings per share increased to SEK 12.92 (5.72) before dilution and increased to SEK 12.76 (4.52) after dilution

### SIGNIFICANT EVENTS DURING THE THIRD QUARTER

- D. Carnegie & Co has completed the acquisition of the property portfolio in Eskilstuna, amounting to SEK 116m
- Blackstone Real Estate Partners Europe IV and Blackstone Real Estate Partners VIII (jointly "Blackstone"), through its entity Vega Holdco Sarl, entered into agreements with Kvalitena AB, Svensk Bolig Holding AB and Frasdale Int. BV regarding an acquisition of shares at a price of SEK 100 per share and a transfer of Kvalitena AB's and Frasdale Int. BV's remaining voting rights. Following the completion of the agreement, Blackstone will own 40 percent of the voting rights and 32 percent of the shares and control 53 percent of the voting rights in D. Carnegie & Co

## THIRD QUARTER 2016

- Rental income increased to SEK 333 m (309)
- Net operating income of SEK 190 m (164)
- Income from property management increased to SEK 176 m (91)
- Changes in the value of investment properties of SEK 291 m (180), an increase of 1.9 percent
- Changes in the value of financial instruments of SEK -32 m (-51)
- Profit before tax increased to SEK 434 m (202)
- Profit after tax increased to SEK 364 m (192)
- Earnings per share increased to SEK 4.71 (2.71) before dilution and increased to SEK 4.64 (2.14) after dilution

### SIGNIFICANT EVENTS AFTER THE THIRD QUARTER

- Vega Holdco Sarl has completed the share acquisitions and owns 40 percent of the voting rights and 32 percent of the shares and controls 53 percent of the voting rights in D. Carnegie & Co
- An extraordinary general meeting on October 14 2016 has resolved to replace the board members Ranny Davidoff and Terje Nesbakken with James Seppala and Svein Erik Lilleland and to replace Knut Pousette with James Seppala as chairman of the board
- Vega Holdco Sarl has on 17 October announced a mandatory tender offer in cash amounting to SEK 100 per share to the shareholders and warrant holders in D. Carnegie & Co

## KEY FIGURES

	Period 2016	Third quarter 2016	Period 2015	Third quarter 2015	Full year 2015
Rental income, SEK m	962,9	332,8	900,7	308,8	1,217,4
Net operating income, SEK m	476,8	189,9	420,8	164,2	554,1
Gross margin	49,5%	57,1%	46,6%	53,0%	45,4%
Income from property management, SEK m	284,3	175,7	138,0	91,0	186,2
Profit after tax, SEK m	998,7	364,4	404,9	191,9	1,139,1
Earnings per share SEK, basic	12,92	4,71	5,72	2,71	16,10
Earnings per share SEK, diluted	12,76	4,64	4,52	2,14	13,50
Equity per share, SEK	73,81	73,81	51,68	51,68	62,06
Equity EPRA NAV per share, SEK	91,26	91,26	60,53	60,53	73,50
Fair value properties, SEK m	15 887,3	15 887,3	12,591,5	12,591,5	13,826,4
Equity ratio, %	32,4	32,4	25,3	25,3	28,2
Equity ratio, Adjusted, %	40,0	40,0	29,7	29,7	33,4

Definitions – see page 26



## Statement from the CEO

We have been able to sustain the pace in our upgrading of properties despite of the holiday season and during the third quarter 289 apartments have been refurbished, which means 1,173 for the last 12 months. Several buildings have also been fitted with new facades, windows and roofs. The upgrading of properties provides improved net operating income, contributing significantly to the period's value increase. The profit before tax more than doubled compared to the corresponding period the previous year.

The significant uplift in value have been achieved through investments amounting to SEK 686 million during the first nine month of the year. In addition, improved quality in the properties together with a strong market has further enhanced values through lower yield requirements. We have also launched a massive energy savings programme which will further improve the net operating income and values.

The increases in value are reflected in a 7 percent increase in the equity (EPRA NAV) to SEK 91.26 per share during the last quarter. In addition the earnings capacity for the comparable portfolio has increased – up SEK 52 million or 17 percent to SEK 351 million on a 12-month basis compared to September 30 2015. For the complete property portfolio the earnings capacity has now reached SEK 384 million.

The rental income for the third quarter has increased by 8 percent compared to the same period the previous year, primarily as a result of refurbishments and in spite of high refurbishment vacancy. We are also under way to reduce vacancy losses by making the refurbishment process more efficient, which will add up to 2 percent to revenue. Maintenance and repair costs have decreased during the quarter by 40 percent compared to last year.

Overall, the improvements have resulted in a strong increase in reported net profit. The profit before tax for

the quarter amounts to SEK 434 million, compared to SEK 202 million the same quarter the previous year, an increase by 115 percent. Broken down to earnings per share, after taxes, the figure is SEK 4.71, compared to SEK 2.71 for the same period in 2015.

We have also continued our work on the soft values in our areas and have increased the number of D. Carnegie & Co employed tenant hosts and organized more local events for young people. We have also expanded the number of summer associates in our areas.

In July, the global fund manager Blackstone announced that they have agreed with three large shareholders to acquire a substantial part of the shares in the company, and have since closed the deal and is now our major owner. Through Blackstone the company is backed by a financially very strong main owner and will be able to sustain its investments in existing and new properties.

Stockholm October 28, 2016

Ulf Nilsson  
CEO of D. Carnegie & Co



**THIS IS D. CARNEGIE & CO**

# Good return – low risk

## OWN AND DEVELOP RENTAL PROPERTIES FOCUSING ON STOCKHOLM

D. Carnegie & Co is a property company focusing on owning and developing rental properties in the “Million Program” housing program in the Stockholm region.

There are good possibilities for creating value through renovations since few extensive improvement programs have been implemented since the buildings were constructed from 1965 – 75, but the buildings are often in very good locations with well-built basic structures. The need for renovations also means that the properties often can be acquired at an advantageous price.

The rent levels are generally low in the Million Program buildings. This means that the potential for increased rents after renovation is great. Maintenance costs are also significantly reduced through renovation. Renovations not only have a positive effect on cash flow, they also generate significant increases in the value of the properties.

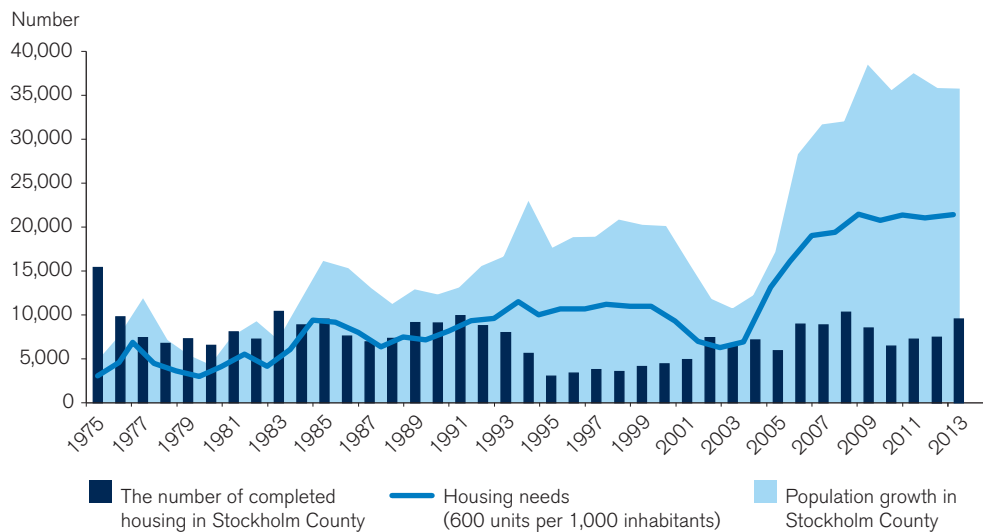
D. Carnegie & Co.’s model entails that individual apartments are renovated in conjunction with natural tenant turnover rather than an entire wing of the building being dealt with on a single occasion. In this way, lengthy and expensive evacuations can be avoided and the vacancy

cost held to a minimum. This method of renovating apartments is also appreciated by the tenants since it takes place when natural vacancies occur or when an agreement has been reached with the tenants.

The geographic concentration of properties means that D. Carnegie & Co can manage the properties cost-effectively. The property management is conducted through local area offices which also contributes to creating a close relationship with the tenants. In order to reduce costs and increase the level of service, many of the workmen, such as painters, are even employed by D. Carnegie & Co.

The high pressure on the residential market in the Stockholm region is expected to continue in the foreseeable future. This means that the risk of vacancy is almost nonexistent in D. Carnegie & Co.’s portfolio. D. Carnegie & Co currently has an average of a six-year waiting list in the portfolio.

### THE DEVELOPMENT OF THE NUMBER OF HOUSING VERSUS POPULATION GROWTH IN STOCKHOLM



*Despite the fact that the number of newly constructed residences has significantly risen over the past few years and that the trend is expected to continue, the shortage of residences in the Stockholm region is increasing since the population growth is significantly outpacing new construction.*

# Our market

## LARGE DEMAND FOR RESIDENCES IN THE “MILLION PROGRAM” BUILDINGS

There is a great shortage of residential housing in the Stockholm region – a shortage which is expected to continue for the foreseeable future since relocations to the Stockholm area far exceed new production of housing. It is on this market that D. Carnegie & Co owns properties.

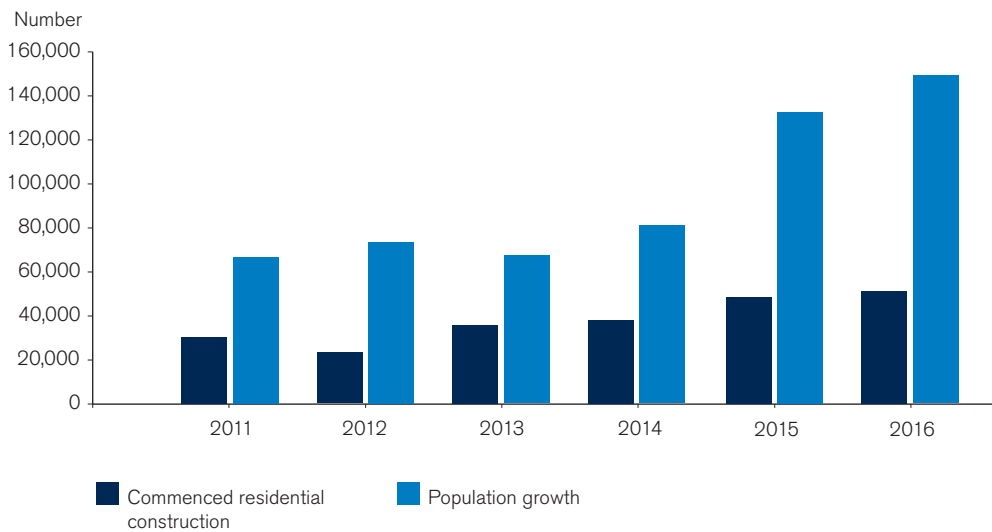
With respect to rental apartments, the waiting time in the Stockholm region for a residence is estimated to be nine years on average. Over 500,000 people are currently in line for an apartment. Last year, only 12,000 people acquired a new residential lease through the Stockholm Housing Agency.

The lack of residences is so great that 700,000 new residences are needed in Sweden by 2025, according to a forecast by the Swedish National Board of Housing. The shortage is largely a consequence of the continued significant increase in population. A large part of this need is found in the Stockholm region. Even if the new construction of residences is at a high level and expected to be 50,000 next year, the shortage of rental properties is expected to increase.



Kista/Husby

## PROJECTIONS FOR THIS YEAR AND NEXT WILL INCREASE THE DEMAND FOR HOUSING



*The large growth in population means that the housing shortage is expected to continue for the foreseeable future. In 2025, the shortage of residences in the country is expected to be 700,000, and a very large percentage of the need is expected to be in the Stockholm region.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, SUMMARY

Amounts in SEK thousand	2016 Jan – Sep	2015 Jan – Sep	2016 July – Sep	2015 July – Sep	2015 Jan – Dec
Rental income	962,917	900,653	332,829	308,796	1,217,356
Other income	191	2,903	-	919	3,459
Operating expenses	-390,393	-356,426	-112,662	-103,220	-496,163
Maintenance expenses	-65,255	-97,377	-19,146	-32,117	-131,149
Property tax	-19,037	-17,436	-7,184	-5,988	-23,935
Site leasehold rent	-11,630	-11,538	-3,909	-4,222	-15,445
<b>Net operating income</b>	<b>476,793</b>	<b>420,779</b>	<b>189,928</b>	<b>164,168</b>	<b>554,123</b>
Central administration	-59,991	-74,270	-19,526	-13,735	-96,779
Costs related to acquisition of business	-	-	-	-	-
Dividend	67,052	-	67,052	-	-
Net finance items	-199,525	-208,546	-61,802	-59,431	-271,102
<b>Income from property management</b>	<b>284,329</b>	<b>137,963</b>	<b>175,652</b>	<b>91,002</b>	<b>186,242</b>
Changes in value of investment property	1,136,751	439,588	291,385	180,130	1,306,792
Realized value changes of investment property	-12,896	-43,674	-1,311	-5,874	-45,507
Changes in value of financial instruments	-153,109	-50,138	-31,924	-51,060	-10,999
Impairment of goodwill	-54,979	-15,004	-	-12,619	-15,004
<b>Profit before tax</b>	<b>1,200,096</b>	<b>468,735</b>	<b>433,802</b>	<b>201,579</b>	<b>1,421,524</b>
Tax	-201,401	-63,790	-69,374	-9,721	-282,389
<b>Net profit for the period</b>	<b>998,695</b>	<b>404,945</b>	<b>364,428</b>	<b>191,858</b>	<b>1,139,135</b>
<i>Other comprehensive income</i>	-	-	-	-	-
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total comprehensive income for the period</b>	<b>998,695</b>	<b>404,945</b>	<b>364,428</b>	<b>191,858</b>	<b>1,139,135</b>
Profit attribute to:					
Owners of the parent company	998 695	404,369	364,428	191,858	1,138,559
Non-controlling interests	-	576	-	-	576
<b>Total comprehensive income for the period</b>	<b>998 695</b>	<b>404,945</b>	<b>364,428</b>	<b>191,858</b>	<b>1,139,135</b>
Profit after tax per share SEK, before dilution	12,92	5.72	4,71	2.71	16.10
Profit after tax per share SEK, after dilution	12,76	4.52	4,64	2.14	13.50

# The period January – September 2016

The earnings items reported below relate to the period January – September 2016. The comparison items stated within parentheses refer to amounts for the corresponding period during the preceding year.

## Rental income and net operating income

Income for the period increased to SEK 963 million (901). The strong increase in income is largely a consequence of the increased pace of apartment renovations, which has increased rents, the acquisitions carried out, and the general rental increases in 2016 which were in the range 0.5 – 1.6 percent, with a weighted average of 0.9 percent. The period was characterized by a scaling up of the pace of renovations. This intentional strategy, to refurbish all future vacancies, has meant a loss of rental income during the period of approximately SEK 27 million.

The operating costs for the period amounted to SEK -486 million (-483). The increase in costs was primarily a consequence of the acquisitions carried out. The costs for management include operating costs, day-to-day maintenance and repairs, property taxes and other management costs directly related to the management of the properties. Seasonal variations affect the costs differently for the different quarters, with the first and fourth quarters normally having the highest costs, primarily with respect to costs for heating, gritting and deicing-measures.

The net operating income, i.e. total income minus bad debt losses, operating and maintenance costs, property administration, rents on leasehold interest in government owned land, and property taxes, for the period amounted to SEK 477 million (421), yielding a gross margin of 49.5 percent (46.7). The increased net operating income, 13.3 percent, is largely linked to the faster pace of investments in apartments and properties which increases rents and lowers the cost for repair and maintenance. The improved net operating income shows that the refurbishment method which D. Carnegie & Co has developed has a direct effect on the financial result.

## Administration costs

Administration costs during the period amounted to SEK -60 million (-74). These costs consist primarily of personnel costs and other costs for corporate functions, marketing and sales costs. A number of activities were carried out during the period for the purpose of unifying the entire corporate group under the D. Carnegie & Co trademark, costs for sponsoring, social activities and legal assistance in due diligence processes. These activities resulted in non-recurring expenses of SEK 12 million

during the period. The previous year non-recurring expenses amounted to SEK 27 million, primarily relating to the stock market listing process and increasing the size of the organisation.

## Net financial items

Net financial items during the period amounted to SEK -200 million (-209). Dividends were received during the period from Boligutleie Holding II AS amounting to SEK 67 million, as a result from the prepaid convertible subordinated loans as of June 30, 2016. The reason for holding this asset is due to a strong cash situation and the opportunity to acquire shares at a 20 percent discount which arose in 2015. Financial costs consist primarily of interest costs for loans from credit institutions regarding the Group's property portfolio, and interest on the two senior unsecured bonds each amounting to SEK 1,000 million issued in April 2015, and in April 2016. During the first two quarters interests amounting to SEK 26 million have been paid for the subordinated loan. This loan was repaid on June 30, 2016. The interest coverage ratio for the period was 2.4 (1.7).

## Income from property management

Income from property management (i.e. profit before changes in value and taxes) for the period amounted to SEK 284 million (138). Income from property management has, adjusted for the received dividend of SEK 67 million, improved significantly during the period compared to the same period last year. This is a direct sign of improved financial results from the intensive investment activities performed by D. Carnegie & Co.

## Changes in value in investment properties, realised changes in value

The Group carries out valuations of the properties on a quarterly basis and the properties are reported at fair value in accordance with IFRS 13, level 3. At the end of the accounting period, 25 percent of the properties had been valued externally and 75 percent of the properties valued internally, where valuation models and assumptions were used which correspond to those used in the external evaluations carried out by Savills. The average return requirement in the valuation is 4.46 percent, to be compared with 4.84 percent at the year end. During the period, changes in value on investment properties affect-



Katrineholm

ted the profit in the amount of SEK 1,137 million (440). The valuations were primarily affected positively by the rent increases during the period, primarily due to the increase in pace of renovations, resulting in strengthened net operating income and lower valuation return requirements.

During the period, value-adding investments amounted to SEK 687 million (217).

During the period, divestments of properties have affected the result of SEK -13 million (-44). Following a test of impairment of goodwill, which the Group carries out on a quarterly basis, a write-down charge was taken which affected earnings by SEK -55 million (-15) during the period. The write-down was largely a consequence of sales of properties which were included in the business acquisition of Hyresbostäder i Sverige II AB. Earnings for the period increased to a corresponding degree from the sale of properties by a reversal of deferred taxes.

#### Changes in values of financial instruments

The group uses swap derivatives to limit the interest rate risk. Interest rate derivatives are reported each quarter at the market value and the value is dependent on changes in interest rates. The change in the value is reported in the income statement. The market value for the period affected the profit by SEK -144 million (-50) due to the

fact that interest rates continued to fall during the reporting period. These changes in value do not affect cash flow. The changes in value in the group's shareholdings amounted to SEK -8 million (-8) during the period.

#### Tax

The profit before tax amounted to SEK 1,200 million (469). The tax cost for the period amounted to SEK -201 million (-64), of which SEK -342 million (-152) consists of deferred tax related to temporary differences on investment properties; SEK 32 million (8) consists of changes in value for derivatives; and SEK 107 million (76) consists of loss carryforwards and SEK 2 million (2) consists of deferred tax temporary differences on shares. The effective tax rate for the period is 16.8 (13.6) percent. The low effective tax rate can be explained by reversal of deferred taxes in conjunction with sales of companies and tax-free sales of companies.

#### Profit

The profit for the period after tax amounted to SEK 999 million (405), which corresponds to SEK 12.92 (5.72) per ordinary share before dilution, and SEK 12.76 (4.52) per share after full dilution



# Third quarter, July – September 2016

The earnings items reported below relate to the period July – September 2016. The comparison items stated within parentheses refer to amounts for the corresponding period during the preceding year.

## Rental income and net operating income

Profit and net operating income have during the third quarter increased compared to the corresponding period the preceding year. The increase is primarily due to the rent increases in the renovated apartments and the general increases in rent during 2016.

Income for the third quarter increased to SEK 333 million (310), an increase of 7.5 percent compared to the corresponding period 2015. Some of the increase in the income is related to the acquisitions carried out. The income for the third quarter have also increased due to the rent increases in the renovated apartments and the general increases in rent during 2016.

The operating costs for the period decreased to SEK -143 million (-146). The decrease in costs was primarily related to the active management of the properties which has lowered the costs of repair and maintenance. The investments carried out in the properties have also lowered the costs for maintenance going forward.

The net operating income, i.e. total income less bad debt losses, operating and maintenance costs, property administration, rents on site-leaseholds, and property taxes, for the period increased to SEK 190 million (164), an increase of 15.7 percent compared to the corresponding period during the preceding year, yielding a gross margin of 57.1 percent (53.0). The direct return amounted to 4.9 percent (5.4) and the average interest rate on the group interest bearing debts amounted to 2.6 percent (2.6).

## Profit

Administration costs during the third quarter amounted to SEK -20 million (-14). The figures for the third quarter were impacted by non-recurring costs, due to increased costs for sponsoring, social activities and legal assistance in due diligence processes.

Dividends was received during the third quarter from Boligutleie Holding II AS amounted to SEK 67 million (-), as a result from the prepaid convertible subordinated loans as of June 30, 2016. The reason for holding this asset is due to a strong cash situation and the opportunity which arose 2015 to acquire shares at a 20 percent discount. Net financial items, excluding dividend, during the

third quarter amounted to SEK -62 million (-59). The group's average interest rate for the total interest bearing debts at the end of the third quarter, derivatives included, amounted to 2.6 percent (2.6). The interest coverage ratio for the period was 3.8 (2.5) times.

Income from property management (i.e. profit before changes in value and taxes) for the third quarter increased to SEK 176 million (91).

During the period, changes in value on investment properties affected the profit in the amount of SEK 291 million (180). The average return requirement in the valuation is 4.46 percent, to be compared with 4.56 percent at the end of the second quarter 2016. The valuations were affected positively by the rent increases during the period, primarily due to the increased pace of renovations, resulting in increased net operating income and lower valuation return requirement.

The total changes in value of financial instruments amounted to SEK -32 million (-51) during the third quarter. Changes in value of derivatives affected profit for the third quarter by SEK -5 million (-51) due to the fact that interest rates continued to fall during the reporting period. In total, the derivatives portfolio, which consists of interest swaps and caps, had a nominal value of SEK 3,401 million. A write-down of the holdings in shares, among them Boligutleie Holding II AS, affected the profit for the third quarter by SEK -27 million (-), due to the dividend given by the company.

Profit after tax for the third quarter amounted to SEK 364 million (192), which corresponds to a profit per ordinary share of SEK 4.71 (2.71). This is a direct sign of improved financial results from the intensive investment activities performed by D. Carnegie & Co.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION, SUMMARY

Amounts in SEK thousand	2016 Sep 30	2015 Sep 30	2015 Dec 31
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	630,311	685,874	685,728
Investment properties	15,887,269	12,591,516	13,826,439
Equipment	6,499	4,599	4,661
Shares	255	1,291	558
Non-current receivables	-	56,692	6,662
Deferred tax asset	286,979	142,141	148,135
<b>Total non-current assets</b>	<b>16,811,313</b>	<b>13,482,113</b>	<b>14,672,183</b>
<b>Current assets</b>			
Current assets	375,965	461,369	412,134
Cash and cash equivalents	429,590	487,828	478,524
<b>Total current assets</b>	<b>805,555</b>	<b>949,197</b>	<b>890,658</b>
<b>TOTAL ASSETS</b>	<b>17,616,868</b>	<b>14,431,310</b>	<b>15,562,841</b>
<b>EQUITY AND LIABILITIES</b>			
Shareholders' equity	5,705,809	3,657,398	4,391,588
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	8,347,625	7,185,832	7,587,332
Other non-current liabilities	1,613	3,653	3,143
Deferred tax liability	1,775,229	1,210,353	1,435,043
Interest rate derivatives	204,663	101,649	60,487
<b>Total non-current liabilities</b>	<b>10,329,130</b>	<b>8,501,487</b>	<b>9,086,005</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	1,263,856	1,982,591	1,650,286
Other current liabilities	318,073	289,834	434,962
<b>Total current liabilities</b>	<b>1,581,929</b>	<b>2,272,425</b>	<b>2,085,248</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17,616,868</b>	<b>14,431,310</b>	<b>15,562,841</b>
<b>Equity attributable to:</b>			
Parent Company shareholders	5,705,809	3,657,398	4,391,588
Non-controlling interests	-	-	-
<b>Total equity</b>	<b>5,705,809</b>	<b>3,657,398</b>	<b>4,391,588</b>

# Consolidated statement of financial position

The balance sheet items below refer to the position at the end of the period, September 30, 2016. The comparison items stated within parentheses refer to amounts at the end of the corresponding period during the preceding year.

## Management properties, goodwill

The Group's property portfolio at the end of the period consisted of 1,278,888 m<sup>2</sup> (1,256,588) with a current rental value of SEK 1,366 million (1,293). The management properties are reported at market value and amounted, at the end of the period on September 30, 2016, to SEK 15,887 million (12,592) which corresponds to a value of SEK 12,423/m<sup>2</sup> (10,020). See further pages 14-15.

The goodwill value at the end of the period amounted to SEK 630 million (686), a value which arose in conjunction with the acquisition of Hyresbostäder i Sverige II AB. The value consists of the difference between the negotiated deferred tax at the time of the acquisition and the nominal tax rate of 22 percent. An impairment-test of the goodwill at the end of the period resulted in a write-down charge of SEK -55 million (-15), largely a consequence of the fact that properties were sold during the period. A corresponding reversal of deferred tax has been carried out.

## Long-term receivables

There were no long-term receivables at the end of the period (57).

## Current assets

Other current assets at the close of the period amounted to SEK 376 million (461), and relate primarily to investments in shares SEK 246 million and a claim under promissory notes SEK 41 million.

## Cash and cash equivalents

The Group's cash and cash equivalents at the end of the period amounted to SEK 430 million (488). Cash on account was strengthened by sales of companies during the period amounting to SEK 352 million (247), and issue of shares amount to SEK 461 million (1). Cash has been used for both acquisition, SEK -652 million (-341) and investments in existing properties SEK -686 million (-217). Net borrowing has been made during the period amounting to SEK 235 million (571). The cash on account will be used for additional acquisitions and to increase the pace of apartment renovations.

## Equity

The Group's shareholders' equity as per September 30, 2016 amounted to SEK 5,706 million (3,657) and the equity ratio was 32.4 percent (25.3). The change in the Group's shareholders' equity is related to the profit for the period and the issue of 6,539,900 class B shares, which added SEK 474 million to the shareholders' equity, before costs of issuing.

## Deferred tax

Deferred tax receivable amounted to 287 million (142) and primarily relate to loss carryforwards. The deferred tax liability amounts to SEK 1,775 million (1,210) and is the difference between the fair value and the tax residual value of properties.

## Interest-bearing liabilities

The Group's total interest-bearing liabilities amount to SEK 9,611 million (9,236), SEK 9,611 million is adjusted for prepaid arrangement fees of SEK 68 million.

Long-term interest-bearing liabilities to credit institutions amount to SEK 6,416 million (5,512). In addition to liabilities to credit institutions, there are senior unsecured bonds amounting to SEK 2 billion.

The Group's total short term interest-bearing liabilities to credit institutions amount to SEK 1,264 million (1,583). These consist primarily of so-called revolving loans which will be extended on a continuous basis.

## Other current liabilities

Other current liabilities amount to SEK 318 million (290) and consist primarily of accounts payable and accrued expenses and accrued income.



# Statement of changes in equity

On September 30, 2016, consolidated shareholders' equity amounted to SEK 5,706 million (3,657) and the equity ratio amounted to 32.4 percent (25.3). Shareholders' equity per share increased to SEK 73.81 (51.68). EPRA NAV per share amounted to SEK 91.26 (60.53).

Comparative figures in parentheses refer to amounts for the corresponding period the preceding year.

## Changes in the group's equity

The changes in the group's equity are related to the profit for the period of SEK 999 million and the issue of 6,539,900 class B shares, which added SEK 474 million to the shareholders' equity, before costs of issuing.

## Share capital

As of September 30, 2016, the registered share capital covered 5,369,866 class A shares and 71,938,910 class B shares, total 77,308,776 shares. The shares have a quotient value of 12.742349. Each class A share entitles the holder to 5 votes and each class B share entitles the holder to 1 vote.

## Other contributed capital

This item relates to shareholders' equity contributed by the

shareholders. This item includes set-off issues, new share issues, settlement of issue costs in conjunction with exchange listing, and acquired shareholders' equity from acquisitions of previously owned associates.

## Retained earnings including profit for the period

This item includes profits earned by the parent company and its subsidiaries and affiliated companies.

In connection with the early redemption of the convertible debentures a cost incurred for convertible option. The cost, SEK 145.2 million, have been handled directly against equity.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK thousand	Share capital	Other additional paid-in capital	Profit brought forward including profit for the period	Equity attributable to shareholders of the parent	Non-controlling interests	Total equity capital attributable to shareholders
<b>Equity, 01-01-2015</b>	<b>901,762</b>	<b>2,084,892</b>	<b>222,060</b>	<b>3,210,308</b>	<b>41,147</b>	<b>3,251,455</b>
Total comprehensive income January - September 2015	-	41,723	404,945	446,092	-41,147	404,945
Other paid-in capital, options	-	998	-	998	-	998
<b>Equity, 30-09-2015</b>	<b>901,762</b>	<b>2,127,613</b>	<b>627,005</b>	<b>3,657,398</b>	<b>0</b>	<b>3,657,398</b>
Other paid-in capital, options	-	-	-	0	-	0
Profit for the period October - December 2015	-	1,018	734,190	734,190	-	734,190
Other comprehensive income October - December 2015	-	-	-	0	-	0
<b>Equity, 31-12-2015</b>	<b>901,762</b>	<b>2,128,631</b>	<b>1,361,195</b>	<b>4,391,588</b>	<b>0</b>	<b>4,391,588</b>
Directed share issue	88,334	376,585	-	459,919	-	459,919
Other paid-in cash, options	-	807	-	807	-	807
Equity component convertible subordinated loan, repaid	-	-	-145,200	-145,200	-	-145,200
Total comprehensive income January - September 2016	-	-	998,695	998,695	-	998,695
Other comprehensive income Januari - September 2016	-	-	-	0	-	0
<b>Closing equity, 30-09-2016</b>	<b>985,096</b>	<b>2,506,023</b>	<b>2,214,690</b>	<b>5,705,809</b>	<b>0</b>	<b>5,705,809</b>

# Consolidated statement of cash flows

Comparative figures in parentheses refer to amounts for the corresponding period (January–September) the preceding year.

## Operating activities

Cash flow from operations, before changes in working capital, amounted to SEK 253 million (154). After a change in working capital of SEK -257 million (-179), cash flow from operations amounted to SEK -4 million (-24).

## Investing activities

Cash flow from investing activities amounted to SEK -740 million (-313) and largely comprises the cash flow effect from sales of management properties, SEK 352 million (247), investments in existing properties, SEK -686 million (-217), and purchases of management properties that affect cash flow, SEK -652 million (-341) and change in financial fixed assets SEK 250 million (-0.4).

## Financing activities

Cash flow from financing activities amounted to SEK 695 million (572). The reported cash flow includes issuing new shares SEK 461 million (1), new loans raised amounting to SEK 2,013 million (5,249), as well as loan repayments totaling SEK -1,778 million (-4,677).

## Cash flow for the period

Cash flow for the period amounted to SEK -49 million (235) and, at the end of the period, cash and cash equivalents decreased to SEK 430 million (488) at the end of the third quarter.

## CONSOLIDATED STATEMENT OF CASH FLOWS, SUMMARY

Amount in SEK thousand	2016 Jan – Sep	2015 Jan – Sep	2016 July – Sep	2015 July – Sep	2015 Jan – Dec
Income from property management	284,329	137,963	175,652	91,002	186,242
Adjustment for items not included in cashflow	-20,534	16,569	-11,818	12,044	18,074
Taxes paid	-11,050	-403	-	-11	-1,891
<b>Cash flow before change in working capital</b>	<b>252,745</b>	<b>154,129</b>	<b>163,834</b>	<b>103,035</b>	<b>202,425</b>
Increase (-) decrease (+) of working capital	-257,142	-178,525	117,988	-37,535	76,032
<b>Cash flow from operating activities</b>	<b>-4,397</b>	<b>-24,396</b>	<b>281,822</b>	<b>65,500</b>	<b>278,457</b>
<b>Investing activities</b>					
Investments in existing properties	-686,483	-216,983	-275,177	-101,210	-490,702
Acquisition of Group companies/properties, business combination	-	-	-	-	-
Acquisition of Group companies/properties	-652,325	-341,497	-76,188	-338,528	-372 785
Acquisition of inventories	-2,714	-1,741	-1,340	-251	-2 103
Acquisition of intangible assets	-	-	-	-	-
Sale of properties	351,552	247,234	-1,310	28,940	243,154
Investment in financial fixed assets	250,123	-400	-	121,310	-107
Share and participations, net	-	-	-	-	-
<b>Cash flow from investing activities</b>	<b>-739,847</b>	<b>-313,387</b>	<b>-354,015</b>	<b>-289,739</b>	<b>-622,543</b>
<b>Financing activities</b>					
New issue	460,725	998	-	-	998
Raised loans	2,012,719	5,248,585	317,024	435,053	5,316,247
Amortization of loans	-1,778,134	-4,677,140	-253,919	-623,994	-4,747,803
Dividend	-	-	-	-	-
<b>Cash flow from financing activities</b>	<b>695,310</b>	<b>572,443</b>	<b>63,105</b>	<b>-188,941</b>	<b>569,442</b>
<b>Cash flow for the period</b>	<b>-48,934</b>	<b>234,659</b>	<b>-9,088</b>	<b>-413,181</b>	<b>225,356</b>
Cash and cash equivalents at beginning of the period	478,524	253,168	438,678	901,008	253,168
<b>Cash and cash equivalents at end of the period</b>	<b>429,590</b>	<b>487,827</b>	<b>429,590</b>	<b>487,827</b>	<b>478,524</b>

# Property portfolio

D. Carnegie & Co.'s property portfolio consists primarily of residential properties in Greater Stockholm and growth areas in Mälardalen. The property portfolio mainly comprises residential properties built between 1965-1974 as part of the "Million Homes Program". The focal point of the total property portfolio, 64 percent, (65) is located in Greater Stockholm, during the first six months was the divestment of the Gothenburg portfolio completed. Comparative figures in parentheses relate to amounts for the corresponding period of last year.



## Investments and divestments

Investments during the period totalled SEK 1,467 million (1,078), out of which SEK 686 million (217) relates to investments in existing properties and SEK 780 million (861) to acquisitions of new properties. Investments relate to the refurbishment of apartments as well as renovations of facades and roofs. During the period, three property divestments were completed which, as of the valuation in December 31, 2015, corresponded to a market value of SEK 543 million (447).

## Apartment renovations

In total, 1,576 (394) apartments out of the existing portfolio of 16,380 apartments were renovated using the Bosystem method since 2014, out of which 878 were renovated during the period (232). Rents for these apartments completed during the period have increased from an opening average of SEK 1,040 /sq. m. to SEK 1,457 /sq. m.

During the period, the property portfolio has changed as shown below.

## CHANGE IN CARRYING AMOUNT OF PROPERTIES

Amounts in SEK thousand	2016	2015
Property holdings at beginning of period	January 1	January 1
Existing properties	13,826,439	11,520,820
Acquisitions	780,147	861,000
Investments in existing properties	686,483	216,983
Divestments	-542,551	-446,875
Change in value investment properties, unrealized	1,136,751	439,588
<b>Property portfolio at the end of the period, September 30</b>	<b>15,887,269</b>	<b>12,591,516</b>

## Property value

As of September 30, 2016, D. Carnegie & Co.'s property portfolio has been valued with an assessed market value of SEK 15,887 million. The valuation is based on the methodology described below, where 25 percent of the portfolio was valued independently and 75 percent was valued internally. The independently valued part of the

portfolio is changed every quarter, meaning that over a period of 12 months the entire portfolio has been valued independently. The independent property valuations were carried out by Savills. Comparative figures in parentheses relate to amounts for the corresponding period of last year.



The valuation is based on a cash flow analysis whereby the property's value is based on the present value of forecast cash flows and the residual value during the calculation period of five years.

The return requirement on units included in the valuation varies from 3.97 percent to 8.00 percent, with an average of 4.46 percent, to be compared with 4.84 percent at the end of the year. The assumption regarding the future cash flows is based on an analysis of:

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

Based on the analysis, the resulting net operating income during the calculation period (2016-2020) and a residual value at the end of the calculation period have subsequently been discounted applying an estimated cost of capital in the range 6.05 - 10.16 percent. The average cost of capital

for the period was 6.56 percent (7.26). The parameters that influence value and are used in the valuation correspond to the external appraiser's interpretation of how a prospective buyer in the market would reason, and the sum of the present value of net operating income and the residual value constitutes the market value.

Potential building rights have been valued based on market comparison studies and the status in the planning process. The building rights have been valued at SEK 250 – 8,000 per square meter GFA at the time of a final detailed zoning plan. Deductions from these values are made to reflect the estimated status in the detailed zoning plan process. The total area for potential building rights with value is estimated at 232,300 m<sup>2</sup> GFA (gross area). The potential building rights were valued on September 30, 2016 at a market value of SEK 311 million. Only potential building rights that have progressed far enough in the planning process have been assessed a fair value.

The total change in value in the property portfolio during the period January to September was 7.71 percent (3.89).

#### D. CARNEGIE & CO PROPERTY PORTFOLIO SEPTEMBER 30, 2016

City/Neighborhood	Lettable area	Number of apartments	Average rent	Percentage renovated	Fair value September 30, 2016
<b>Greater Stockholm</b>					
Kista/Husby	110,324	1,528	1,073	15.8%	1,550,000
Bromsten/Rinkeby	114,491	1,303	1,077	19.1%	1,499,970
Sollentuna	33,835	454	1,122	8.1%	489,400
Flemingsberg	40,406	573	987	6.3%	512,000
Värby/Värberg	66,791	863	1,054	4.9%	742,000
Jordbro	157,837	1,954	1,120	10.8%	1,764,000
Södertälje	159,964	2,110	1,179	7.5%	2,246,760
Bro	43,749	540	1,024	7.2%	488,165
Märsta	57,105	693	1,024	6.9%	721,000
<b>Total Greater Stockholm</b>	<b>784,502</b>	<b>10,018</b>	<b>1,094</b>	<b>10.6%</b>	<b>10,013,295</b>
Uppsala	75,507	968	1,045	8.0%	971,500
Eskilstuna	146,846	1,964	1,010	9.0%	1,707,100
Strängnäs	35,540	411	1,129	9.0%	495,975
Norrköping	172,733	2,301	1,053	12.3%	1,986,300
Katrineholm	61,128	718	968	0.0%	671,999
<b>Total other locations</b>	<b>491,754</b>	<b>6,362</b>	<b>1,034</b>	<b>9.0%</b>	<b>5,832,874</b>
Other (land, building rights, etc)	2,632	-	-	-	41,100
<b>Total</b>	<b>1,278,888</b>	<b>16,380</b>	<b>1,069</b>	<b>10.0%</b>	<b>15,887,269</b>

# Financing

D. Carnegie & Co endeavours to achieve a balance between debt financing and equity, with the long-term objective that the equity ratio should not fall below 30 percent and that the loan-to-value ratio shall not exceed 65 percent. On September 30, 2016, D. Carnegie & Co's assets were valued at SEK 17,617 million (14,431), financed through equity of SEK 5,706 million (3,657), deferred tax liability of SEK 1,775 million (1,210), interest-bearing liabilities of SEK 9,611 million (9,168), as well as non-interest-bearing liabilities and interest rate derivatives of SEK 525 million (396). Comparative figures in parentheses refer to amounts for the corresponding period of last year.

## Interest-bearing liabilities

At the end of the period, D. Carnegie & Co had interest-bearing liabilities totalling SEK 9,611 million, corresponding to a loan-to-value of approximately 56 percent (67), out of which liabilities to credit institutions accounted to SEK 7,679 million (7,094), corresponding to an LTV of approximately 48 percent (56). Of the liabilities to credit institutions, SEK -68 million (-68) consists of prepaid opening fees. In addition to liabilities to credit institutions, there are also two senior unsecured bonds totalling SEK 2,000 million (1,000).

## Maturity

The average term to maturity on loans owed to credit institutions is 3.88 years. Out of interest-bearing liabilities from credit institutions, SEK 846 million matures in 2016. Refinancing negotiations regarding these liabilities are in progress and will be completed during Q4 2016, which will further extend the fixed-rate term. The interest-bearing convertible subordinated loans, totalling SEK 1,020 million, have been repaid June 30, 2016. Loans owed to security institutions are secured through mortgages on properties and/or pledged shares, as well as undertakings to maintain certain covenants, which in certain cases limit the ability of subsidiaries to issue dividends.

The interest rate maturity structure for the liabilities owed to credit institutions is shown in the tables on page 17.

## Fixed interest and average interest rate

The average interest rate on total interest-bearing liabilities at the end of the period was 2.59 percent (2.62). The average rate on liabilities owed to credit institutions at the end of the period was 2.25 percent (2.11). The yearly interest rate on the bond issued in April 2015 was in the period 3.75 percent. The yearly interest rate on the bond issued in April 2016 was in the period 4.00 percent. The interest rate maturity structure for the interest-bearing liabilities is shown in the tables on page 17.

## Interest rate derivatives, Interest rate caps

D. Carnegie & Co uses interest rate derivatives to hedge the maturity structure. Interest rate derivatives represent a flexible and cost-efficient method of achieving the desired fixed rate. In accordance with accounting standard IAS 39, interest rate derivatives are marked to market. If the agreed interest rate deviates from the market rate, irrespective of the credit margin, a theoretical surplus or deficit arises on the interest rate derivative where the non-cash change in value is recognized in the income statement. As of September 30, 2016, the market value of the interest rate derivatives portfolio was SEK -205 million (-102). During the second quarter D. Carnegie & Co had entered interest rate cap agreements amounting to SEK 1,500 million, with approximately 6 years duration with an agreed rate cap of Stibor 3 percent.

## Financial targets

D. Carnegie & Co has the following long-term financial targets.

- Annual 10 percent growth in value of existing portfolio
- Loan-to-value ratio on properties not exceeding 65 percent
- Equity ratio of at least 30 percent

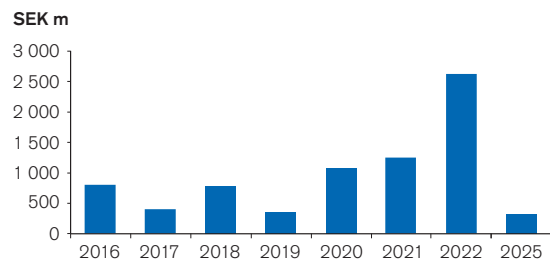
As of September 30, 2016, the equity ratio was 32.4 percent (25.3) which is in line with the long-term financial target. The investments made will create growth in value, which will also strengthen the equity ratio.

D. Carnegie & Co has a target gross margin of 50 % and the gross margin for the period was 49.5 percent (46.6). The high operating expenses are reported in the first and fourth quarters. With the increased pace of renovations and the active management, the long-term goal will be achieved within less than a year.

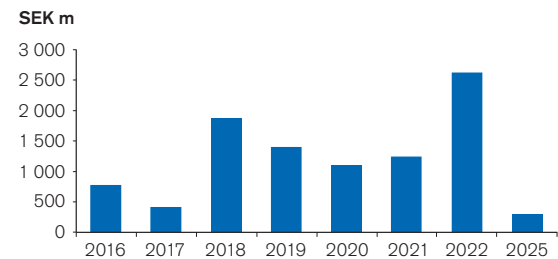
**INTEREST RATE TERM AND LOAN MATURITY SEPTEMBER 30, 2016, INTEREST BEARING DEBTS**

Maturity	Fixed interest term			Maturity	
	SEK million	Interest	Percentage	SEK million	Percentage
2016	2 681	1,8%	35%	846	11%
2017	410	1,9%	5%	420	5%
2018	-	-	0%	841	11%
2019	382	1,6%	5%	382	5%
2020	1 062	1,8%	14%	1 068	14%
2021	538	2,0%	7%	1 246	16%
2022	2 606	3,2%	34%	2 606	34%
2025	-	-	0%	270	4%
<b>Total/Average</b>	<b>7,679</b>	<b>2.25%</b>	<b>100%</b>	<b>7,679</b>	<b>100%</b>
Prepaid arrangement fee	-68			-68	
<b>Total</b>	<b>7,611</b>			<b>7,611</b>	

**MATURITY SCHEDULE SEPTEMBER 30, 2016 INTEREST BEARING DEBTS FINANCIAL INSTITUTIONS**



**MATURITY SCHEDULE SEPTEMBER 30, 2016 TOTAL INTEREST BEARING DEBTS**



**INTEREST RATE TERM AND LOAN MATURITY SEPTEMBER 30, 2016, TOTAL INTEREST BEARING DEBTS**

Maturity	Fixed interest term			Maturity	
	SEK million	Interest	Percentage	SEK million	Percentage
2016	2 681	1,8%	28%	846	9%
2017	410	1,9%	4%	420	4%
2018	1 000	3,8%	10%	1 841	19%
2019	1 382	3,3%	14%	1 382	14%
2020	1 062	1,8%	11%	1 068	11%
2021	538	2,0%	6%	1 246	13%
2022	2 606	3,2%	27%	2 606	27%
2025	-	-	0%	270	3%
<b>Total/Average</b>	<b>9,679</b>	<b>2.59%</b>	<b>100%</b>	<b>9,679</b>	<b>100%</b>
Prepaid arrangement fee	-68			-68	
Included equity	0			0	
<b>Total</b>	<b>9,611</b>			<b>9,611</b>	

**DERIVATIVES SEPTEMBER 30, 2016**

Amounts in SEK million	Nominal amounts	Percentage	Fair value Sept 30, 2016	Fair value Dec 31, 2015	Change for the period
Nominal interest rate swaps	3,401	100%	-205	-60	-145
<b>Total</b>	<b>3,401</b>	<b>100%</b>	<b>-205</b>	<b>-60</b>	<b>-145</b>



# Events

During the period D. Carnegie & Co has, among other things, continued to acquire properties and the fund manager Blackstone has through Vega HoldCo Sarl become the major owner.

## SIGNIFICANT EVENTS DURING THE THIRD QUARTER

### **D. Carnegie & Co has completed the acquisition of the property portfolio in Eskilstuna**

D. Carnegie & Co has completed the acquisition of the property portfolio in Eskilstuna, amounting to SEK 116 m.

### **D. Carnegie & Co has a new principal shareholder**

o Blackstone Real Estate Partners Europe IV and Blackstone Real Estate Partners VIII (jointly "Blackstone"), through its entity Vega Holdco Sarl, entered into agreements with Kvalitena AB, Svensk Bolig Holding AB and Frasdale Int. BV regarding an acquisition of shares at a price of SEK 100 per share and a transfer of Kvalitena AB's and Frasdale Int. BV's remaining voting rights. Following the completion of the agreement, Blackstone will own 40 percent of the voting rights and 32 percent of the shares and control 53 percent of the voting rights in D. Carnegie & Co.

## SIGNIFICANT EVENTS AFTER THE THIRD QUARTER

### **Vega Holdco Sarl completes share acquisition**

Vega Holdco Sarl has completed the share acquisitions and owns 40 percent of the voting rights and 32 percent of the shares and controls 53 percent of the voting rights in D. Carnegie & Co.

### **Extraordinary general meeting**

An extraordinary general meeting on October 14 2016 has resolved to replace the board members Ranny Davidoff and Terje Nesbakken with James Seppala and Svein Erik Lilleland and to replace Knut Pousette with James Seppala as chairman of the board.

### **Vega Holdco Sarl launches a mandatory tender offer**

Vega Holdco Sarl has on 17 October announced a mandatory tender offer in cash amounting to SEK 100 per share to the shareholders and warrant holders in D. Carnegie & Co.

# Parent company

The operations conducted by D. Carnegie & Co consist of overarching group functions. The parent company does not own any properties directly. During the period, the parent company's revenues amounted to SEK 16 million (4) and the profit/loss after tax was SEK -42 million (-82). Revenues relate mainly to services on behalf of group companies. Cash and cash equivalents at the end of the period amounted to SEK 217 million (227).

## INCOME STATEMENT IN BRIEF

Amounts in SEK thousand	2016 Jan – Sep	2015 Jan – Sep
Net sales	16,215	4,454
Operating expenses	-47,325	-43,939
<b>Profit/loss before financial items</b>	<b>-31,110</b>	<b>-39,485</b>
<b>Financial items</b>		
Net interest	-79,683	-66,186
Dividend	67,052	-
Changes in value of financial instruments	-8,270	-
<b>Profit/loss before tax</b>	<b>-52,011</b>	<b>-105,671</b>
Taxes	9,564	23,238
<b>Profit for the period</b>	<b>-42,447</b>	<b>-82,433</b>

## BALANCE SHEET IN BRIEF

Amounts in SEK thousand	2016 Sep 30	2015 Sep 30
<b>ASSETS</b>		
<b>Non-current assets</b>		
Equipment	2,121	1,838
Shares and participations in subsidiaries	4,827,870	4,827,870
Shares, other companies	250	-
Receivables from group companies	58,436	57,198
Non-current receivables	-	45,449
Deferred tax assets	64,516	-
<b>Total non-current assets</b>	<b>4,953,193</b>	<b>4,932,355</b>
<b>Current assets</b>		
Receivables from group companies	1,455,337	855,637
Receivables from associate companies	-	-
Current placement	16,946	91,895
Current receivables	158,684	124,307
Cash and cash equivalents	217,288	227,154
<b>Total current assets</b>	<b>1,848,255</b>	<b>1,298,993</b>
<b>TOTAL ASSETS</b>	<b>6,801,448</b>	<b>6,231,348</b>
<b>Equity and liabilities</b>		
Shareholders equity	3,071,629	2,832,556
<b>Non-current liabilities</b>		
Interest-bearing liabilities	1,978,262	1,727,672
<b>Total non-current liabilities</b>	<b>1,978,262</b>	<b>1,727,672</b>
<b>Current liabilities</b>		
Interest-bearing liabilities	-	399,500
Other non-interest bearing liabilities	25,029	24,685
Liabilities to Group Company	1,726,528	1,246,935
Liabilities to subsidiaries	-	-
<b>Total current liabilities</b>	<b>1,751,557</b>	<b>1,671,120</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,801,448</b>	<b>6,231,348</b>

# The shares and shareholders

## The share

At the end of the period, D. Carnegie & Co had 9,558 (7,881) shareholders. The market capitalization was SEK 7,913 million (3,680) (refer to listed class B shares). D. Carnegie & Co has two share classes: class A (five votes) and class B (one vote) ordinary shares. The class B shares are listed on Nasdaq Stockholm, Midcap. In total, there are 5,369,866 class A shares, 71,938,910 class B shares outstanding, totalling 77,308,776 ordinary shares. After full exercise of warrants program 1 (1,473,000 shares), warrants program 2 (998,200 shares) and warrants program 3 (807,000 shares), there would be in total 80,586,976 ordinary shares. During the period, D. Carnegie & Co AB have repaid the convertible subordinated loans (see description below) and, carried out a private placement of new class B shares of totalling 6,539,900 shares at a subscription price of 72.50 per share, subscribed by approximately 60 Swedish and international institutional investors.

## Warrants program

The Company has three warrants programs carrying an entitlement to subscribe for class B shares.

### *Warrants program one*

Warrants program one, which was issued in 2014, covers 1,473,000 warrants, corresponding to 1.9 percent of the number of outstanding ordinary shares. Each warrant entitles the holder to subscribe for one new class B ordinary share in D. Carnegie & Co. The warrants may be exercised to subscribe for shares commencing January 1, 2017 up to and including June 30, 2017. The subscription price for class B ordinary shares pursuant to the warrants is SEK 48.50 kronor. The warrants program is directed at the CEO and CFO of D. Carnegie & Co AB, the CEO of Bcosystem Nordic AB, and all staff who were employed at Slottsfabriken Egendomsförvaltning AB at the time D. Carnegie & Co was listed on NASDAQ OMX First North (April 9, 2014). Market-based pricing was applied in conjunction with the warrants offering.

### *Warrants program two*

Warrants program two, which was issued in 2015 and covers 998,200 warrants, corresponding to 1.3 percent of the number of outstanding shares. The warrants carry an entitlement to subscribe for new class B ordinary shares in D. Carnegie & Co. The warrants may be exercised to subscribe for shares commencing May 21, 2018 up to and including August 31, 2018. The subscription price for class B ordinary shares pursuant to the warrants is SEK 72.84 kronor. The warrants program is directed at all staff who were permanently employed by the D. Carnegie & Co

Group on May 12, 2015. Market-based pricing was applied in conjunction with the warrants offering.

### *Warrants program three*

Warrants program three was issued in 2016 and covers 807,000 warrants, corresponding to 1.0 percent of the number of outstanding shares. The warrants carry an entitlement to subscribe for new class B ordinary shares in D. Carnegie & Co. The warrants may be exercised to subscribe for shares commencing May 21, 2019 up to and including August 30, 2019. The subscription price for class B ordinary shares pursuant to the warrants is SEK 113.50 kronor. The warrants program is directed at all staff who were permanently employed by the D. Carnegie & Co Group on May 12, 2016. Market-based pricing was applied in conjunction with the warrants offering.

If all of the warrants are exercised in all three of the warrants programs (2014, 2015 and 2016), the number of ordinary class B shares would increase by 3,287,200, which corresponds to 4.2 percent of the number of outstanding ordinary shares.

## Repayment of Convertible subordinated loans

The three convertible subordinated loans, each amounting to SEK 340 million with a yearly interest rate of 5.0 percent held by Svensk Bolig Holding AB, issued in connection with the acquisition of I Hyresbostäder I Sverige II AB, were repaid June 30, 2016 at the total cost of SEK 1,157 million, whereas SEK 137 million represent payment for option value for the convert option. In the event of full conversion, 16,266,230 shares in D. Carnegie & Co would have been issued. The repayment have partly been paid by the private placement of new class B shares of totalling 6,539,900 shares, and partly by the new bond of SEK 1,000 million issued during the period. Due to the repayment of the convertible subordinated loans the conversion is avoided, and the earnings increase by SEK 11 million, due to decreased interest costs.

## Share performance

The share has performed positively in 2016, with the price rising during the period from the year-end price of SEK 67.25 for class B shares to SEK 110.00 on September 30, 2016, an increase of 64 percent. Over the past 12 months, the share price has risen from SEK 53.00, an increase of 108 percent. Since the introduction at a price of SEK 39 per class B share on April 9, 2014, the share price has increased by 182 percent.

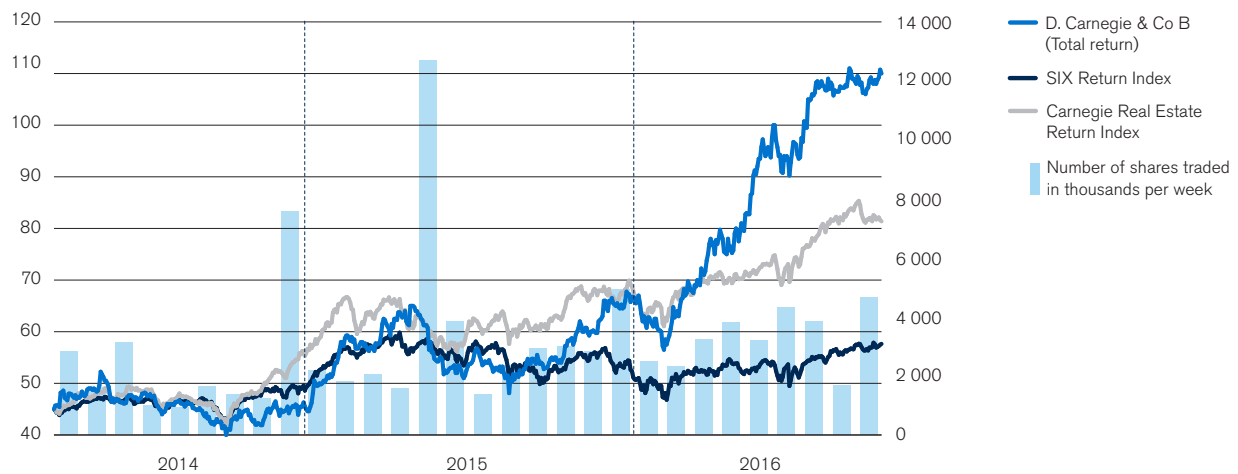
## Shareholders

A list of the largest shareholders in D. Carnegie & Co AB (publ) is presented on the next page.



**THE SHARE, CAPITAL DEVELOPMENT**

	Event	Change in number of class A shares	Change in number of class B shares	Total number A + B shares	Change in share capital	Total
Apr-16	New issue	-	6,539,900	77,308,776	83,333,688	985,095,432
Jul-14	New issue, in acquisition	-	26,000,000	70,768,876	331,301,084	901,761,744
Maj-14	New issue	-	2,307,692	44,768,876	29,405,418	570,460,660
Apr-14	New issue	-	15,384,615	42,461,184	196,036,139	541,055,242
Mar-14	Set-off issue	5,369,866	21,479,459	27,076,569	342,123,480	345,019,103
Mar-14	Buyback of preference shares	-	-	227,244	-98,893	2,895,623
Dec-13	Reverse share split 2000 / 1	-	227,244	227,244	-	2,994,516
Sept-13	New issue	-	376,010,360	454,488,000	2,395,613	2,994,516
Sept-09	New issue, preference shares	-	-	78,477,640	98,903	598,903
June-09	Reduction	-	-	78,477,640	-156,457,912	500,000
June-07	New issue	-	146,754	78,477,640	1,870,000	156,957,912

**THE SHARE**


Source: SIX Financial Information

**LARGEST SHAREHOLDERS SEPTEMBER 30, 2016**

	Holding, A-shares	Holding, B-shares	Capital, %	Votes, %
Blackstone-Affiliated Real Estate Funds, through Vega Holdco Sarl	1,654,286	20,463,264	28.61	29.09
Kvalitena AB	3,616,237	2,344,801	7.71	20.68
Länsförsäkringar Fastighetsfond	-	5,683,443	7.35	5.75
Frasdale Int. BV	-	3,265,032	4.22	3.31
Didner & Gerge Småbolag	-	3,184,575	4.12	3.22
J P Morgan Clearing Group	-	2,792,221	3.61	2.83
Fjärde AP-fonden	-	2,481,509	3.21	2.51
Svenskt Näringsliv	-	1,500,000	1.94	1.52
Deutsche Bank AG Ldn-Prime	-	1,158,497	1.50	1.17
Livförsäkringsaktiebolaget Skandia	-	896,386	1.16	0.91
JP Morgan Europé Limited	-	771,611	1.00	0.78
Per Josefsson, trough companies	-	750,000	0.97	0.76
Länsförsäkringar Småbolag Sverige	-	636,596	0.82	0.64
Försäkringsaktiebolaget, Avanza Pension	-	561,720	0.73	0.57
CBNY-Norges Bank	-	518,041	0.67	0.52
State Street BK-West Client	-	516,013	0.67	0.52
KBC Select Immo (UCITS)	-	457,836	0.59	0.46
JP Morgan Chase	-	453,758	0.59	0.46
Humle Småbolagsfond	-	440,000	0.57	0.45
Cancerfonden	-	438,500	0.57	0.44
Goldman Sachs International	-	433,331	0.56	0.44
Skagen M2 Verdipapirfond	-	404,084	0.52	0.41
Others	99,343	21,787,692	28.31	22.56
<b>Total number of shares</b>	<b>5,369,866</b>	<b>71,938,910</b>	<b>100.00</b>	<b>100.00</b>

# Other disclosures

## Employees

At the end of the period, the parent company had 19 employees. The Group had 187 employees at the end of the period. The breakdown was 66 women and 121 men.

## Related-party transactions

**Kvalitena AB;** In connection with the acquisition of Hyresbostäder i Sverige II AB, a related-party transaction took place between Kvalitena AB and Markarydsbostäder Holding AB, a subsidiary of Hyresbostäder i Sverige II AB. The transaction consists of a claim under a promissory note whereby Markarydsbostäder Holding AB has a claim against Kvalitena AB in the amount of SEK 150 million. SEK 100 million under this promissory note became due and payable on October 31, 2015 which has pursuant to a resolution adopted by the board of directors extended to August 31, 2016. The remaining SEK 50 million will fall due on October 31, 2016, but have pursuant to a resolution adopted by the board of directors been brought forward August 31, 2016. The average rate of interest during the period was 6.75 percent, and SEK 6 million was paid in interest during the period. Sörmlandsporten AB, a company which is 50 percent owned by Kvalitena AB, has through a transfer assumed a SEK 15 million loan to D. Carnegie & Co. An additional loan was issued to Kvalitena AB, which will pursuant to a resolution adopted by the board of directors be solved at August 31, 2016. This loan has been issued on market terms. All loans to the Kvalitena-group have been repaid at the publishing of this report.

**Svensk Bolig Holding;** SEK 200 million of the purchase price in connection with the acquisition of Hyresbostäder II i Sverige AB comprised a vendor note. This note is held by the seller of Hyresbostäder i Sverige II AB, Svensk Bolig Holding AB. On July 4, 2015, SEK 67 million was repaid on the note, and on June 30, 2016 the rest SEK 133 was repaid, meaning that none of this vendor note remains at the end of the second quarter. The note carried interest at an annual rate of rate of 3 percent. In addition to the repayment of the vendor note, interest was paid affecting the financial costs during the period amounting to SEK 4 million.

**Bosystem Nordic AB;** During the period, the D. Carnegie & Co Group made purchases worth SEK 32.7 million from Bosystem Nordic AB, a company which is 50 percent owned by Kvalitena AB.

## Risks

Risks and uncertainty factors relate mainly to changes in macroeconomic factors that may lead to higher vacancy rates and interest rates, increased costs and lower rents. Operating expenses may increase and not be fully compensated for in lease agreements; unforeseen and extensive renovation needs may lead to increased maintenance costs. There is a risk that tenants will not pay the agreed rent on time. Other than these risks and uncertainty factors, which are described on page 82 of the D. Carnegie & Co AB (publ) 2015 annual report, no other material risks have been identified during the period.

## Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act.

The same accounting and valuation principles and calculation methods were applied as in the most recently published financial information; see the D. Carnegie & Co AB (publ) annual report, pages 94-98. Investment properties are valued in accordance with IFRS 13 in accordance with level 3.

The fair value of financial instruments corresponds in all material respects to the reported values. Derivatives are valued in accordance with level 2 in the fair value hierarchy, based on external valuation.

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

# Board of directors

## The Board's affirmation

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

James Seppala, Chairman of the Board

Mats Höglund

Knut Pousette

Eva Redhe

Svein Erik Lilleland

Ulf Nilsson, CEO

*Stockholm October 28, 2016*

THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

## Review report

To the Board of Directors of D. Carnegie & Co AB (publ)

Corporate identity number 556498-9449

### Introduction

We have reviewed the condensed interim report for D. Carnegie & Co AB (publ) as at September 30, 2016 and for the nine months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of review

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

### Conclusion

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

Stockholm, October 28, 2016

Ernst & Young AB

Mikael Ikonen  
Authorized Public Accountant

Ingemar Rindstig  
Authorized Public Accountant



## KEY FIGURES

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
<b>Finance</b>										
Equity, SEK m	5,705.8	5,341.4	4,637.4	4,391.6	3,657.4	3,465.5	3,298.8	3,251.5	3,086.2	1,876.0
Return on equity, %	6.4	7.3	5.3	16.7	5.25	4.78	1.44	4.38	0.29	2.95
Equity ratio, %	32.4	31.2	29.5	28.2	25.3	25.3	25.6	25.4	26.6	50.2
Equity ratio, Adjusted, %	40.0	38.4	35.9	33.4	29.7	29.1	29.8	28.8	32.1	50.7
Interest coverage ratio	3.8	2.0	1.6	1.8	2.5	1.7	1.0	0.9	1.6	2.3
Loan-to-value ratio, %	56.4	57.3	61.7	60.9	66.9	65.9	66.2	67.2	66.4	39.9
LTV Loan-to-value ratio, %	48.3	50.1	50.6	51.8	56.3	56.2	56.8	58.0	56.7	56.1
Financial cost, total interest bearing debts, average interest rate, %	2.59	2.58	2.77	2.74	2.62	2.83	2.86	3.45	3.81	2.80
Financial cost, interest bearing debts financial institutions, average interest rate, %	2.25	2.23	2.31	2.27	2.11	2.31	2.34	3.23	3.55	2.80
<b>Property related</b>										
Income, SEK m	332.8	320.3	309.5	317.3	308.8	295.4	296.4	281.9	240.0	65.7
Net operating income, SEK m	189.9	168.5	118.4	132.8	164.2	136.5	120.2	98.3	121.6	30.1
Income from property management, SEK m	175.7	71.5	37.1	47.7	91.0	44.8	2.2	-9.3	35.2	15.3
Changes in value in management properties, SEK m	291.4	488.3	362.5	867.2	180.1	126.3	133.2	200.9	0.5	47.2
Net profit for the period, SEK m	364.4	388.4	245.8	734.2	191.9	165.7	47.4	142.4	9.0	55.4
Gross margin, %	57.1	52.6	38.2	41.9	53.2	46.2	40.6	34.9	50.7	45.8
Direct return, %	4.9	4.6	3.4	4.0	5.4	4.7	4.1	3.6	3.5	3.9
Market value, SEK m	15,887.3	15,205.2	13,873.3	13,826.4	12,591.5	11,547.7	11,700.1	11,520.8	10,216.8	3,118.6
Lettable area, Tm <sup>2</sup>	1,278.9	1,267.2	1,203.3	1,265.6	1,256.6	1,139.6	1,168.3	1,175.1	1,037.9	288.9
Market value, SEK/m <sup>2</sup>	12,423	11,999	11,529	10,925	10,020	10,133	10,015	9,804	9,844	10,795
Renovated apartments during the period, number	289	338	251	295	40	126	66	101	49	12
Renovated apartments during accumulated year, number	878	589	251	527	232	192	66	162	61	12
Total number renovated apartments, number	1,567	1,278	940	689	394	354	228	162	61	12
Return requirement in the valuation, average %	4.46	4.56	4.70	4.84	5.16	5.16	5.29	5.42	5.44	5.44
Average rent unrenovated, SEK/m <sup>2</sup>	1,040	1,027	1,034	982	976	977	965	947	942	919
Average rent renovated, SEK/m <sup>2</sup>	1,457	1,433	1,379	1,372	1,355	1,346	1,302	1,317	1,343	1,319
Rent development residentials, %	1.3	1.5	1.6	1.9	1.6	1.2	1.1	1.3	1.2	0.8
Rent development residentials public housing, %	0.0	0.6	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.5
<b>The Share</b>										
Equity per share, SEK	73.81	69.09	65.53	62.06	51.68	49.60	46.60	45.70	44.00	42.10
Equity EPRA NAV per share, SEK	91.26	85.05	79.79	73.50	60.52	56.38	54.25	51.99	48.61	42.35
Profit after tax per share, SEK	4.71	5.02	3.47	10.37	2.71	2.33	0.69	2.01	0.25	1.57
Profit after tax per share after dilution, SEK	4.64	4.98	2.92	8.52	2.26	2.05	0.67	1.59	0.22	1.52

# Definitions

## FINANCE

**RETURN ON EQUITY, percent**, Profit for the year in relation to average shareholders' equity.

**LOAN-TO-VALUE RATIO (LTV), percent**, Interest-bearing liabilities including net reported vendor notes after deductions for market value on listed shareholdings and cash and cash equivalents in relation to the fair value of the properties at the close of the period.

**LOAN-TO-VALUE RATIO PROPERTIES (LTV), percent**, Interest-bearing liabilities with security in properties in relation to the fair value of the properties at the close of the period.

**INTEREST COVERAGE RATIO, times**, Income from property management plus financial costs (EBIT) in relation to financial costs.

**EQUITY RATIO, percent**, Reported shareholders' equity in relation to reported total assets at the close of the period.

**EQUITY RATIO, ADJUSTED, percent** Reported shareholders' equity adjusted for the value of derivatives, goodwill and deferred tax liabilities.

## PROPERTY

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

**NET OPERATING INCOME, SEK '000**, Total income minus bad debt losses, operating and maintenance costs, property administration, rents on leasehold interest in government owned land, and property taxes.

**INCOME FROM PROPERTY MANAGEMENT, SEK '000**, Profit before changes in value and taxes.

**CHANGES IN VALUE IN MANAGEMENT PROPERTIES, SEK '000**, Change in the fair value after deductions for investments made.

**TOTAL RETURN, percent**, Profit before tax in relation to market value of the property portfolio.

**REALISED CHANGES IN VALUE IN MANAGEMENT PROPERTIES, SEK '000**, Property sales carried out after deductions for the most recent reported fair value of the properties and costs in conjunction with sale.

**GROSS MARGIN, percent**, Net operating income as a percentage of total income.

## SHARES

**SHAREHOLDERS' EQUITY PER SHARE, SEK**, Shareholders' equity in relation to the number of outstanding ordinary shares on the balance sheet date.

**ADJUSTED SHAREHOLDERS' EQUITY PER SHARE**, Normally designated EPRA NAV, SEK, reported shareholders' equity adjusted for the value of derivatives, goodwill and deferred tax liabilities, in relation to the number of outstanding ordinary shares on the balance sheet date.

**PROFIT PER SHARE, SEK**, Profit for the period after taxes in relation to the average number of outstanding ordinary shares prior to dilution.

**PROFIT PER SHARE AFTER DILUTION, SEK**, Profit for the period after tax in relation to the average number of outstanding ordinary shares, including full coverage and conversion of outstanding option programmes and convertible subordinated loans. The convertible subordinated loans have been repaid June 30, 2016.

From market praxis regarding key figures, D. Carnegie & Co has selected the above key figures.

## APPENDIX 1

## Earning capacity

**Current earning capacity for comparable portfolio**

The table below reflects D. Carnegie & Co.'s earning capacity on a 12-month basis as of September 30, 2016. It is important to note that the current earning capacity is not to be equated with a forecast for the coming 12 months. For example, the earning capacity does not include any assessment of rent trends, vacancies, or changes in interest rates. The figures are adjusted to show a comparable portfolio, which means that divestments have been eliminated in earlier periods presented below.

Furthermore, D. Carnegie & Co.'s income statement is affected by changes in the value of investment properties as well as future property acquisitions and/or property divestments. Additional items affecting earnings include changes in the value of derivative instruments. None of the foregoing factors have been taken into account in the current earning capacity. The current earning capacity also does not take into consideration the effects of future rent changes for renovated apartments.

The rental value is based on the property portfolio's invoicing list on September 30, 2016, assessed budgeted property expenses for the coming 12 months, and central administration costs. Net financial items were calculated based on interest-bearing liabilities and assets as of September 30, 2016, and with consideration given to the interest rate terms applicable on that date.

**CURRENT EARNING CAPACITY**

Amounts in SEK thousand	<i>Current portfolio</i>	<i>Comparable portfolio</i>				
	Sept 30 2016	Sept 30 2016	June 30 2016	March 31 2016	January 1 2016	Sept 30 2015
Rental income	1,365,797	1,281,646	1,273,092	1,247,492	1,235,475	1,230,550
Other income	-	-	-	-	-	602
Operating expenses	-525,970	-501,086	-501,086	-501,086	-501,086	-490,497
Maintenance expenses	-104,011	-90,414	-90,414	-90,414	-90,414	-101,435
Property tax	-25,267	-23,595	-23,595	-23,595	-23,595	-24,597
Ground rent	-14,717	-14,717	-14,717	-14,717	-14,717	-14,383
<b>Net operating income</b>	<b>695,832</b>	<b>651,834</b>	<b>643,280</b>	<b>617,680</b>	<b>605,663</b>	<b>600,240</b>
Central administration	-61,486	-61,262	-61,262	-61,262	-61,262	-53,419
Net financial items	-173,130	-164,480	-160,040	-160,400	-160,713	-159,378
Financial cost convertible bond/other bond	-77,500	-77,500	-77,500	-88,500	-88,500	-88,500
<b>Income from property management</b>	<b>383,716</b>	<b>350,592</b>	<b>344,478</b>	<b>307,518</b>	<b>295,188</b>	<b>298,943</b>



## CALENDAR 2016 – 2017

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Year-end-report 2016	February 24, 2017
Interim Report Q1	April 28, 2017
Annual General Meeting	May 10, 2017

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## FOR MORE INFORMATION, PLEASE CONTACT:

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The information contained in this interim report is the type of information which Carnegie & Co is obligated to publish under the Swedish Securities Market Act and/or the Swedish Financial Investments Trading Act. The information was submitted for publication on October 28, 2016 at 07.00 (CEST).



**D. CARNEGIE & CO.**