Heimstaden

Enrich and simplify lives
through Friendly Homes

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The offer in brief

Rights Issue

- Shareholders who on the record date, 18 May 2021, are registered as holders of preference shares in the Company obtain one (1) subscription right for each preference share held. Two (2) subscription rights entitle the holder to subscribe for one (1) new preference share at SEK 32 per preference share corresponding to a dividend yield of 6.25%.
- If fully subscribed, the Rights Issue will provide Heimstaden with gross proceeds of SEK 375 million.

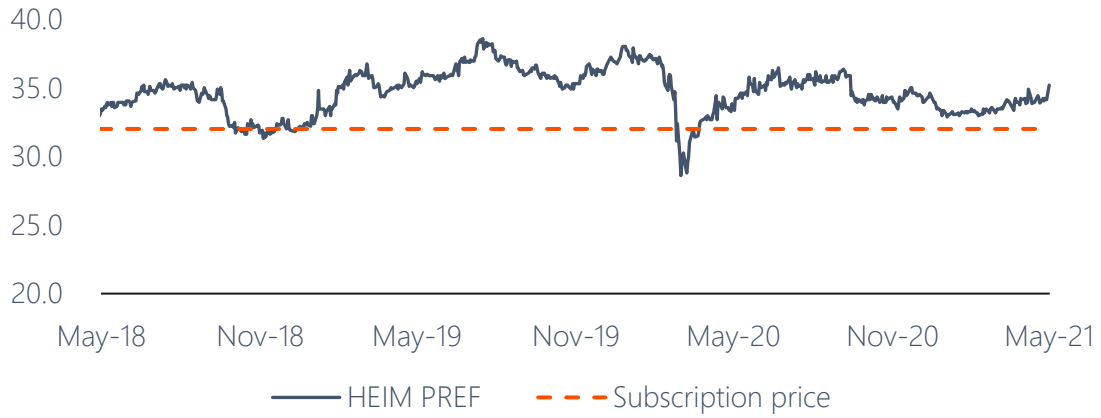
Directed Issue

- Heimstaden might resolve on a Directed Issue of up to 23,437,500 preference shares depending on the subscription interest.
- The subscription price in the Directed Issue will be the same as in the Rights Issue, and provide Heimstaden with up to SEK 750 million in gross proceeds.
- Subscription without subscription rights in the Rights Issue may, without further notification or request thereof, lead to the allotment of preference shares in the Directed Issue.

Timetable

18 May 2021	Record date for right to receive subscription rights
20 May – 31 May 2021	Trading in subscription rights
20 May – 3 June 2021	Subscription period
20 May – 8 June 2021	Trading in paid subscribed shares (BTA)
~7 June 2021	Expected date for publication of results of the Rights Issue
~7 June 2021	Expected date for notice of resolution with respect to and allocation in the possible Directed Issue

Preference share development



Background and reasons for the Offer

Summary

- Strategy for sustainable growth and geographical expansion with improved operational performance and financial metrics.
- Net proceeds will be used to support the shareholding in Heimstaden Bostad and for potential direct real estate investments.
- Heimstaden is evaluating acquisition of Icelandic residential real estate company from Fredensborg AS, managed by- and branded as Heimstaden Iceland, and valued at SEK 3.7 billion with GRI p.a. of SEK 239 million. Will not be financed with proceeds from the Rights Issue or the Directed Issue.
- Heimstaden Bostad is currently evaluating SEK 37 billion in potential acquisitions with est. GRI p.a. of SEK 1.8 billion.
- Further information in Prospectus available on www.heimstaden.com.

Preference share terms Heimstaden

Instrument	Preference shares
Status	Unsecured and subordinated (only senior to common share capital issued by the issuer
Maturity	Perpetual
Voting rights	Each preference share carries one (1) voting right (Common shares carry 10 votes per share)
Dividends	SEK 2.00 per preference share and year paid on a quarterly basis
Record dates for dividends	Annual record dates for preferred dividends are January 5, April 5, July 5 and October 5
Penalty	• 10% interest on unpaid dividends, if any • No transfer of value to ordinary shareholders as long as any unpaid amounts are outstanding
Redemption and liquidation price	• SEK 37.50 per preference share up until May 2025 • SEK 33.00 thereafter
Use of proceeds	General corporate purposes of the Group, incl. investments and financing of acquisitions
Listing	Nasdaq First North Growth Market
Joint bookrunners	Carnegie, Nordea and Swedbank

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25 years of managing and investing in residential real estate

Amounts in SEK

Heimstaden

Heimstaden BOSTAD

Majority owner

28bn	50.3%
Capital subordinated to pref shares	Voting share

Evergreen – Active – Socially Responsible

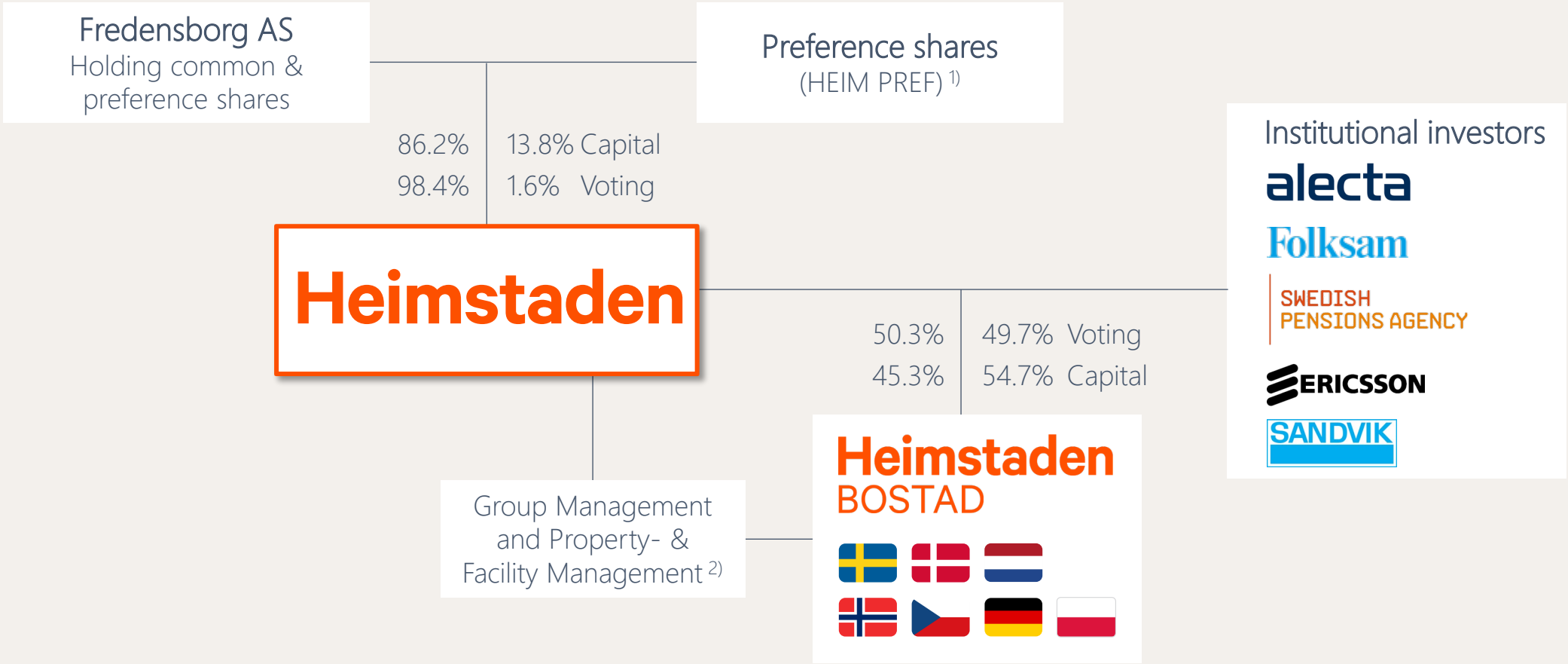
Manager & operator [1)]

179bn	BBB
Investment Properties	S&P Rating

European platform – Industrial Quality

1) Figures refer to Heimstaden Bostad.

Ownership structure



1) NASDAQ First North Preference shares have preferential rights to an annual dividend of SEK 2/share paid quarterly. 2) Property management company in the Czech Republic is owned by Heimstaden Bostad

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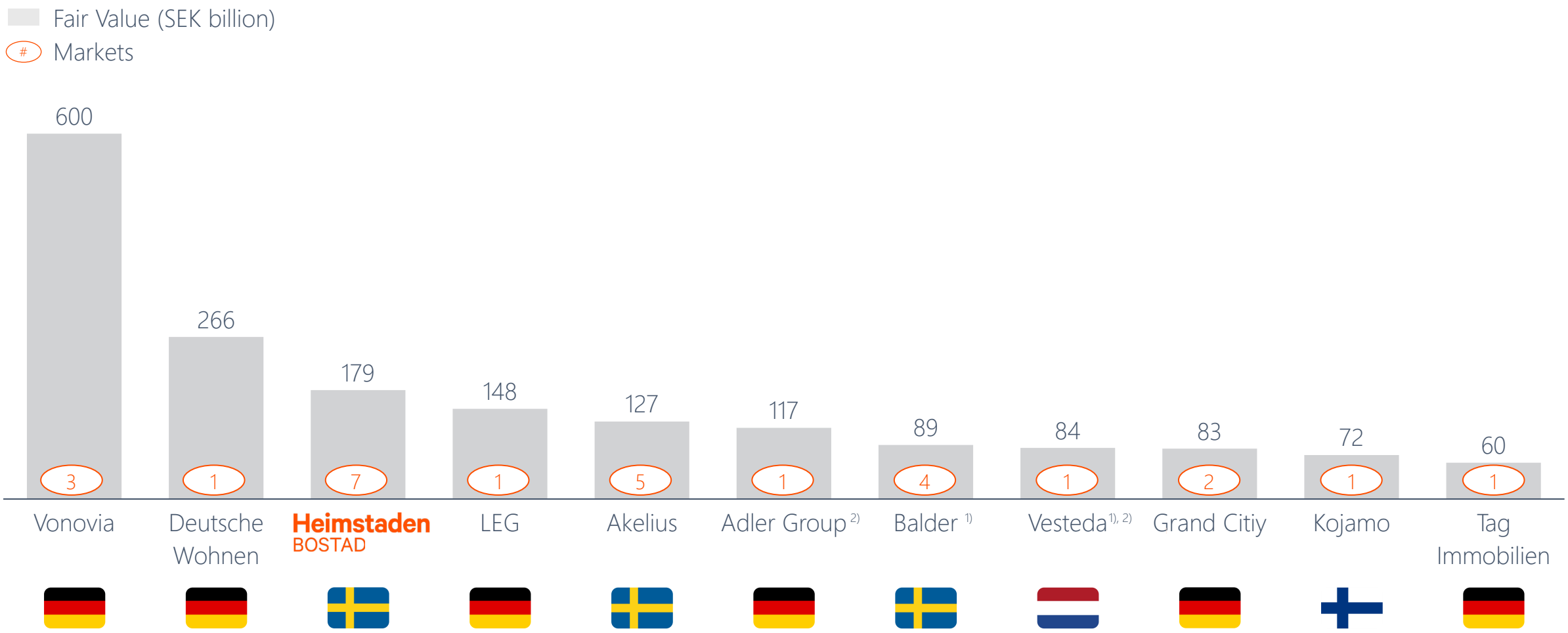
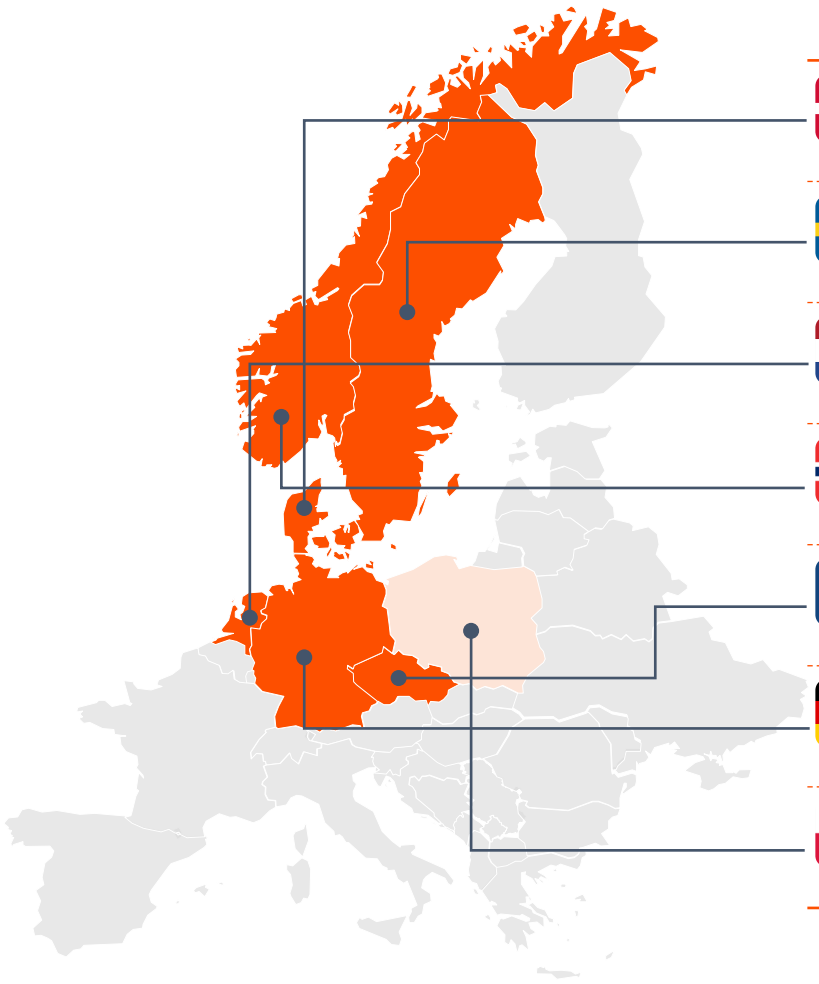
Among Europe's leading private residential real estate companies



1) Residential fair value only 2) As of 31 December 2020
Note: Largest privately owned residential real estate companies in Europe, not including state-/government owned companies. Source: Company information, Q1 2021 reports, converted with EURSEK 10.17.

Diversified European portfolio



	Fair Value, SEK m	Fair value share	Homes	Regulated rent [1]	Economic Occupancy [2]
Denmark	55,032	31%	16,048	11%	96%
Sweden	51,470	29%	31,559	100%	98%
Netherlands	23,686	13%	13,338	62%	97%
Norway	18,998	11%	4,590	0%	92%
Czech Republic	14,913	8%	42,800	35%	92%
Germany	14,348	8%	5,706	100%	97%
Poland	450	0.3%	-	-	-
Σ	178,897	100%	114,041	51%	96%

Poland – Fair Value from incurred capex on forward funding projects with completion between 2021 and 2023

1) Share of residential rental income from units with regulated rent 2) Residential net rental income divided by estimated gross residential rental income for the period

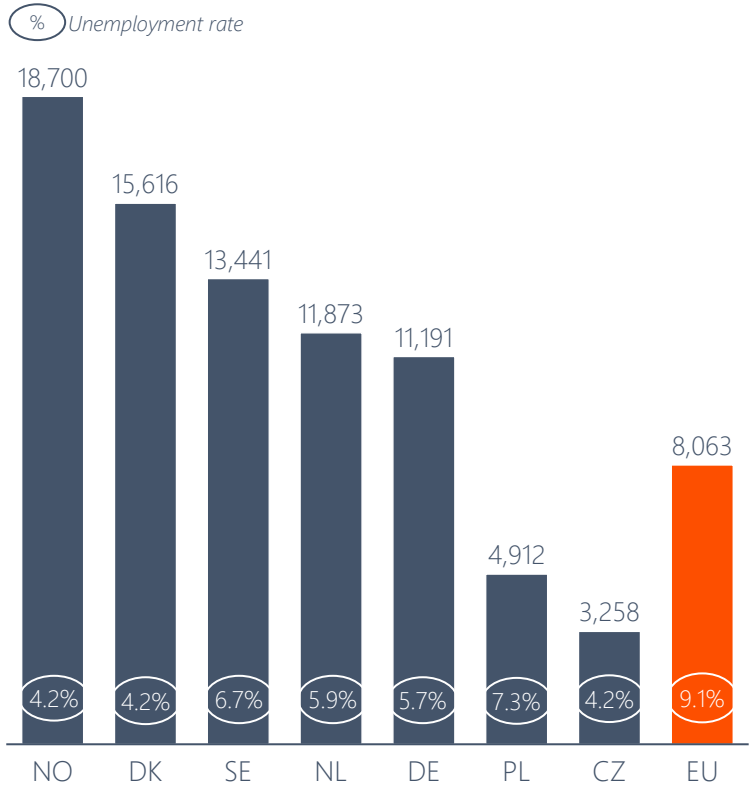
Positioned in European markets with strong economies

Strong markets

	S&P Global Ratings	Moody's	FitchRatings
	AAA	Aaa	AAA
	AAA	Aaa	AAA
	AAA	Aaa	AAA
	AAA	Aaa	AAA
	AAA	Aaa	AAA
	AA-	Aa3	AA-
	A-	A2	A-

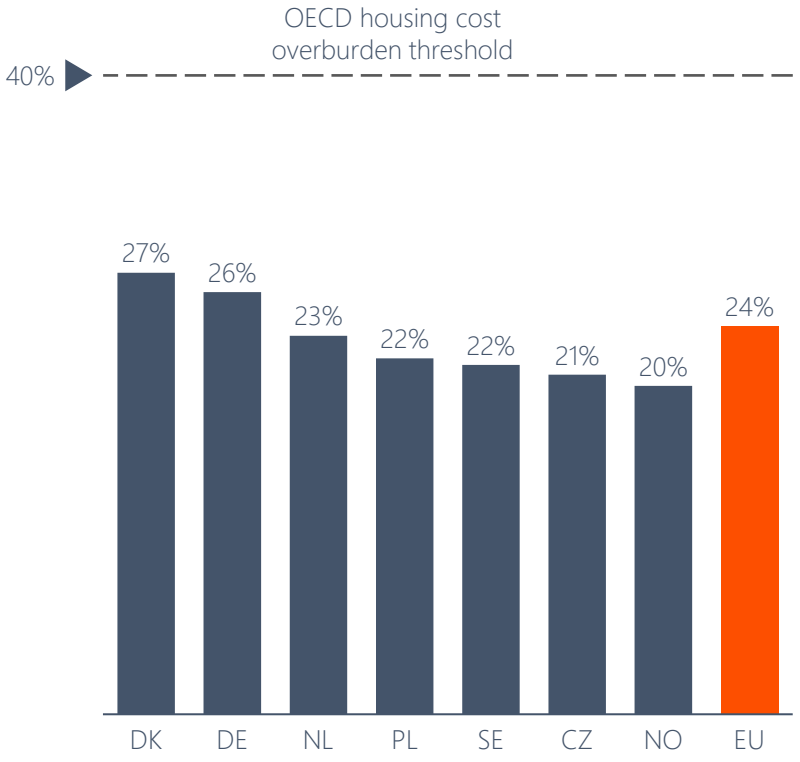
Considerable social support

Social benefits spending, EUR per capita, 2017



Housing cost burden

Share of disposable income spent on housing, 2018



Sources: Oxford Economics, Eurostat, OECD

Attractive and resilient residential sector

Essential human need	- Everyone needs a place to live
Strong demand	- Urbanisation, longer lifespan and smaller households - Limited new housing supply
Robust "hardware"	- Living cannot be digitalised - Long "facelift" intervals
Co-investing with the people	- European home ownership at 68% [1)]
Favourable regulatory environment	- Limited downside from regulated rents significantly below market - Acquisition below replacement cost

Source: Eurostat. 1) Weighted average

Our ESG effort builds on global initiatives

Committed to 12 of the UN sustainable development goals – Based on areas where we can have largest impact

SUSTAINABLE DEVELOPMENT GOALS

Goals not highlighted are not as relatable to and directly impacted by our core business

WE SUPPORT UN GLOBAL COMPACT

Joined UN Global Compact in 2019, committing to its 10 principles on human rights, labour conditions, environment & anticorruption

PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11

Setting targets aligned with the Paris agreement

EU TAXONOMY

Supporting the increased transparency of classifying activities according to environmental objectives

ISO®

ESG approach and strategy developed in line with framework in ISO 26 000

Clear targets – progress tracked and reported

Selection of ESG targets

Environment

- Fossil fuel free operations by 2030 [1)]
- Reduce amount of consumed energy by 10% per sqm by 2023 [1)]
- At least 1% reduced water consumption per sqm yearly until 2030

Social

- 0% work-related sick leave and injuries from 2023
- Minimum 3% of apartments with social lease contracts by 2023 [2)]
- 100 young adult jobs each year (student and summer jobs)
- Gender equality in Group Management (40%-60%)

Governance

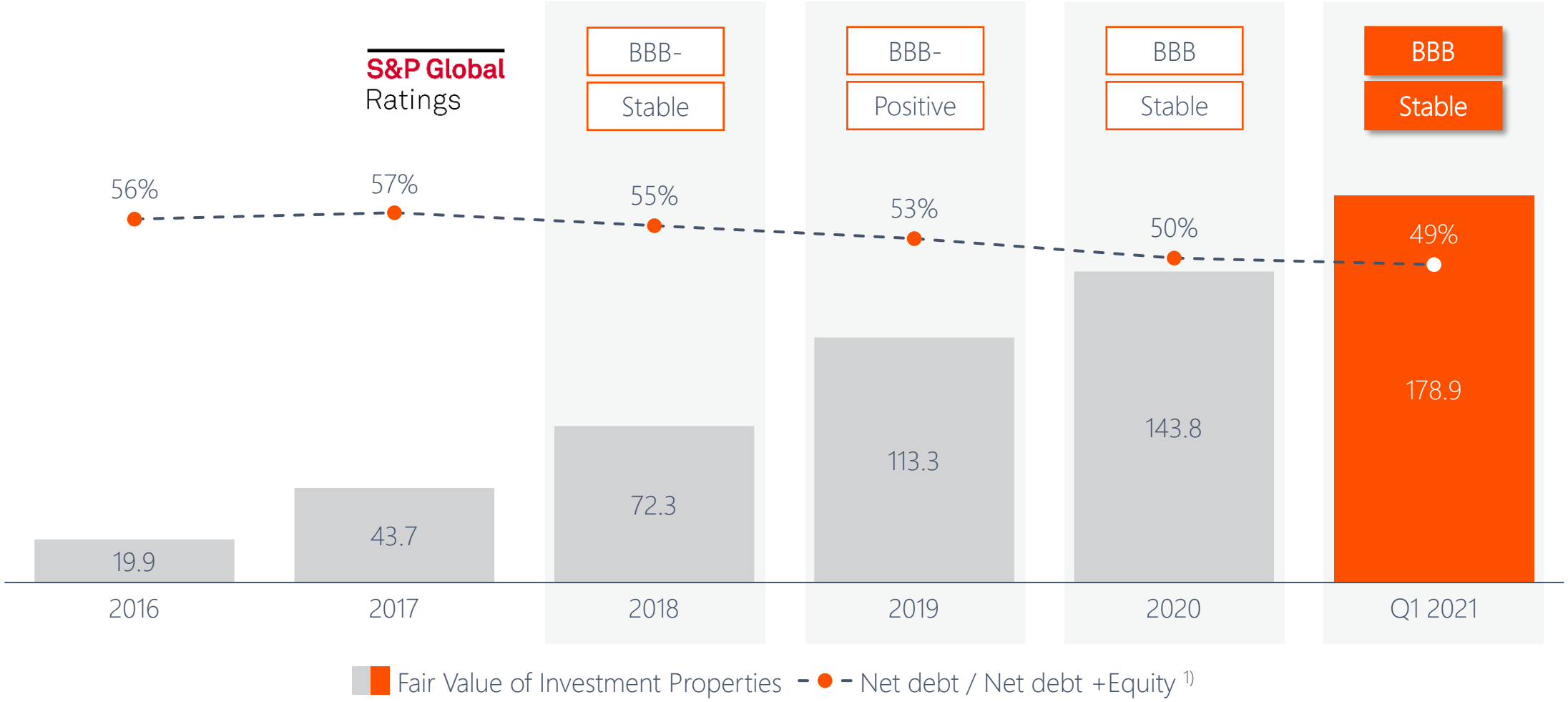
- 100% of employees sign Code of Conduct for Employees and completed training
- 100% of contractors and suppliers sign Code of Conduct for business partners

Progress will be reported and benchmarked in line with key standards

SCIENCE BASED TARGETS	Our targets will meet the goals of the Paris Agreement to mitigate global warming.
GRI	We report according to GRI. Emissions are reported in accordance with the GHG Protocol.
TCFD	The 2020 annual report included our first TCFD report.
CDP	Submitted our first CDP report in 2020 and received a score of C.
Sustainalytics	Sustainalytics ESG risk rating with score of 12.3 (Low Risk), based on FY 2019 reporting.
GRESB	Preparing for benchmarking through GRESB in 2021.

1) During 2019 and 2020, we acquired properties in the Netherlands, Germany and the Czech Republic. As each country's energy mix differs, our new target map, which is under development, will be differentiated. Applies to Scandinavian countries and is currently under review. 2) Focus on inclusion through social lease contracts throughout the entire portfolio (not in separate buildings).

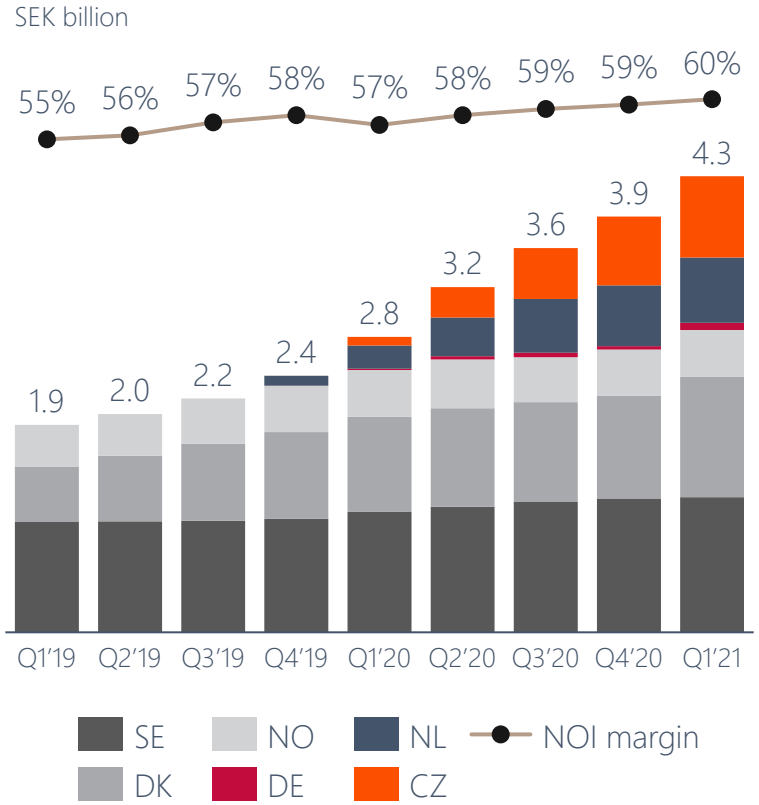
Scalable growth with improved financials over time



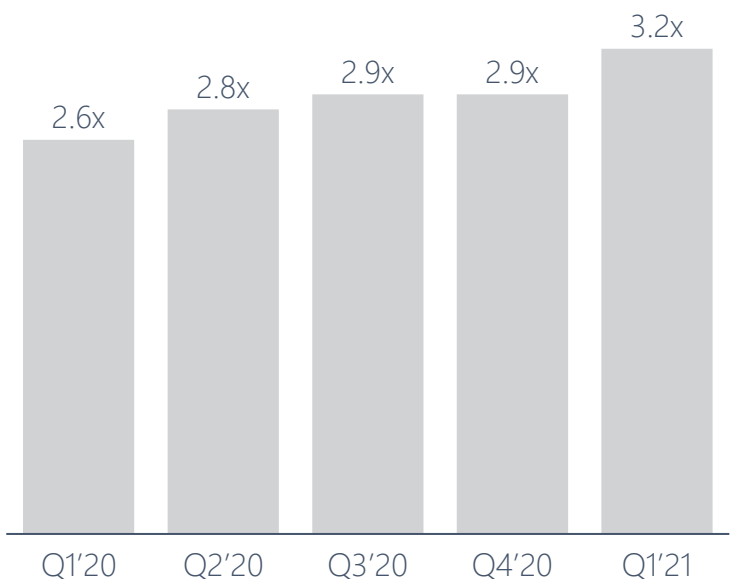
1) As defined by S&P with hybrid capital classified as 50% debt

Strengthened operational performance and strong credit metrics

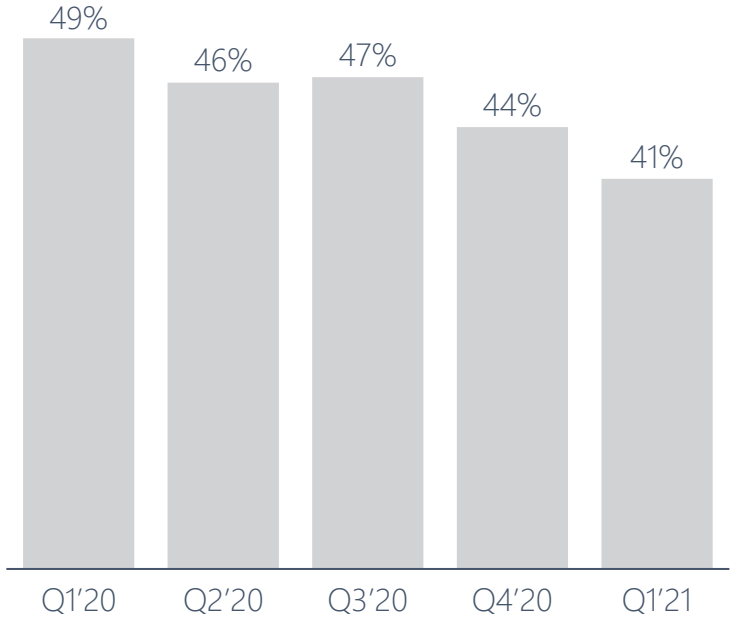
NOI and NOI-margin 12-months rolling



Interest Coverage Ratio

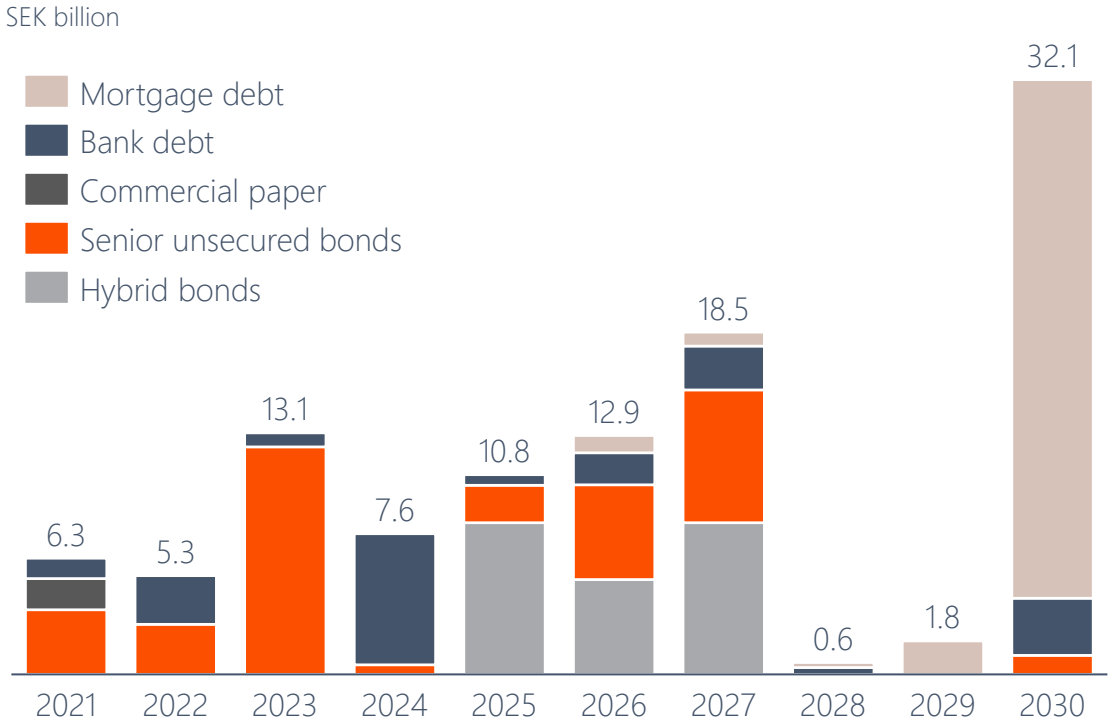


Net Loan-to-Value (LTV)



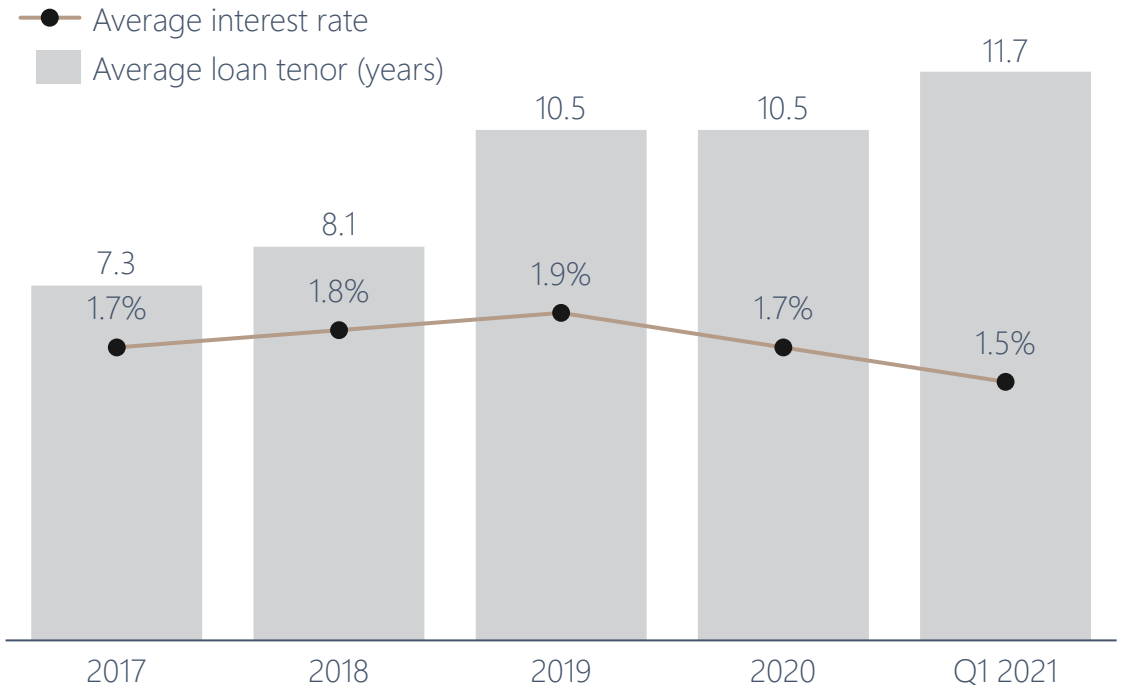
Diversified and well-distributed funding

Funding sources maturity profile



- Undrawn credit facilities of 15.7 billion
- In April, called EUR 340m bond maturing in Dec. 2021 through Make Whole

Cost of debt and loan tenor



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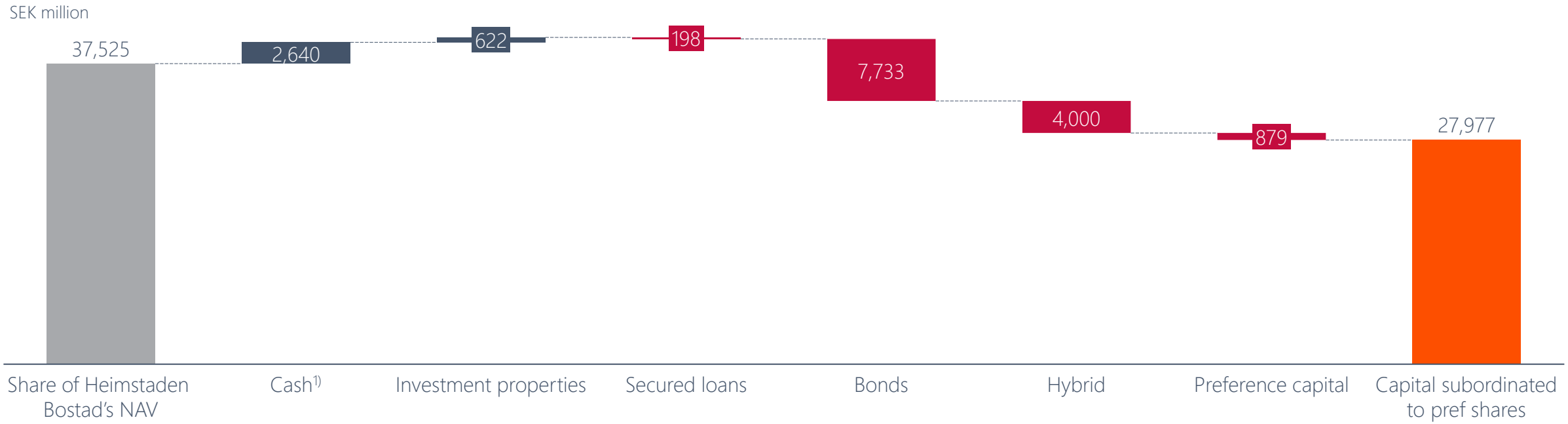
Capital structure of Heimstaden

Subordinated capital end of Q1 2021

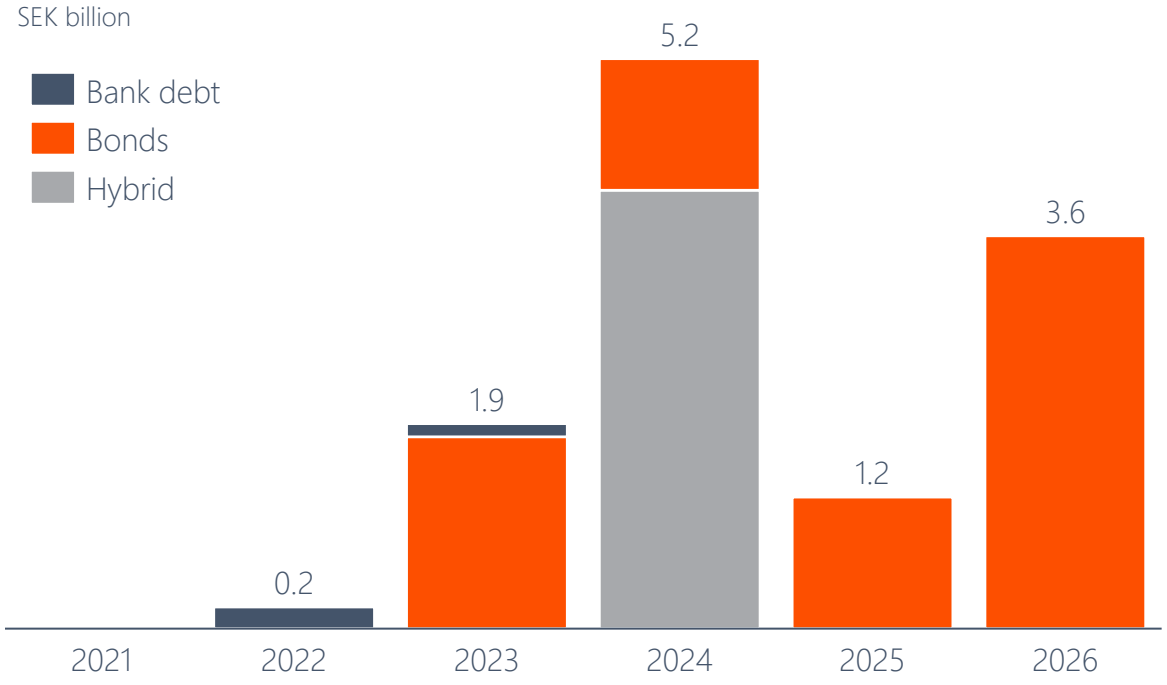


Financial policy, standalone basis	Policy	Q1 2021
Net Loan-to-Value2), %	<30	11.3
ICR3), x	>2.0	17.9
ICR including hybrid bonds4), x	>1.4	6.5

1) Adjusted for SEK 1 billion common equity dividends resolved at the AGM in April 2021 2) Net debt / (Share of Bostad's NAV + Investment properties) 3) Operating income / Financial costs 4) Operating income / Financial costs including hybrid dividends

Funding and liquidity

Funding maturity profile, Q1 2021



Q1 2021 funding transactions

- Raised equivalent to SEK 3.5 billion in Q1 2021 in first Euro-denominated bond (EUR 350 million).
- Raised SEK 1.4 billion through two bond taps and repaid the SEK 1.25 billion bond maturing in May.

Liquidity position

- Q1 2021 cash position of SEK 3.64 billion and unutilised credit commitment of SEK 1.0 billion.

Key Takeaways

- Leading residential real estate investor and manager with strong track record.
- Majority owner of Heimstaden Bostad
  - Investment grade 'BBB' rating
  - Diversified portfolio across stable European markets
  - Strong institutional partners with an evergreen perspective
- Attractive dividend yield of 6.25%
- Robust financial position and SEK 28bn in subordinated capital

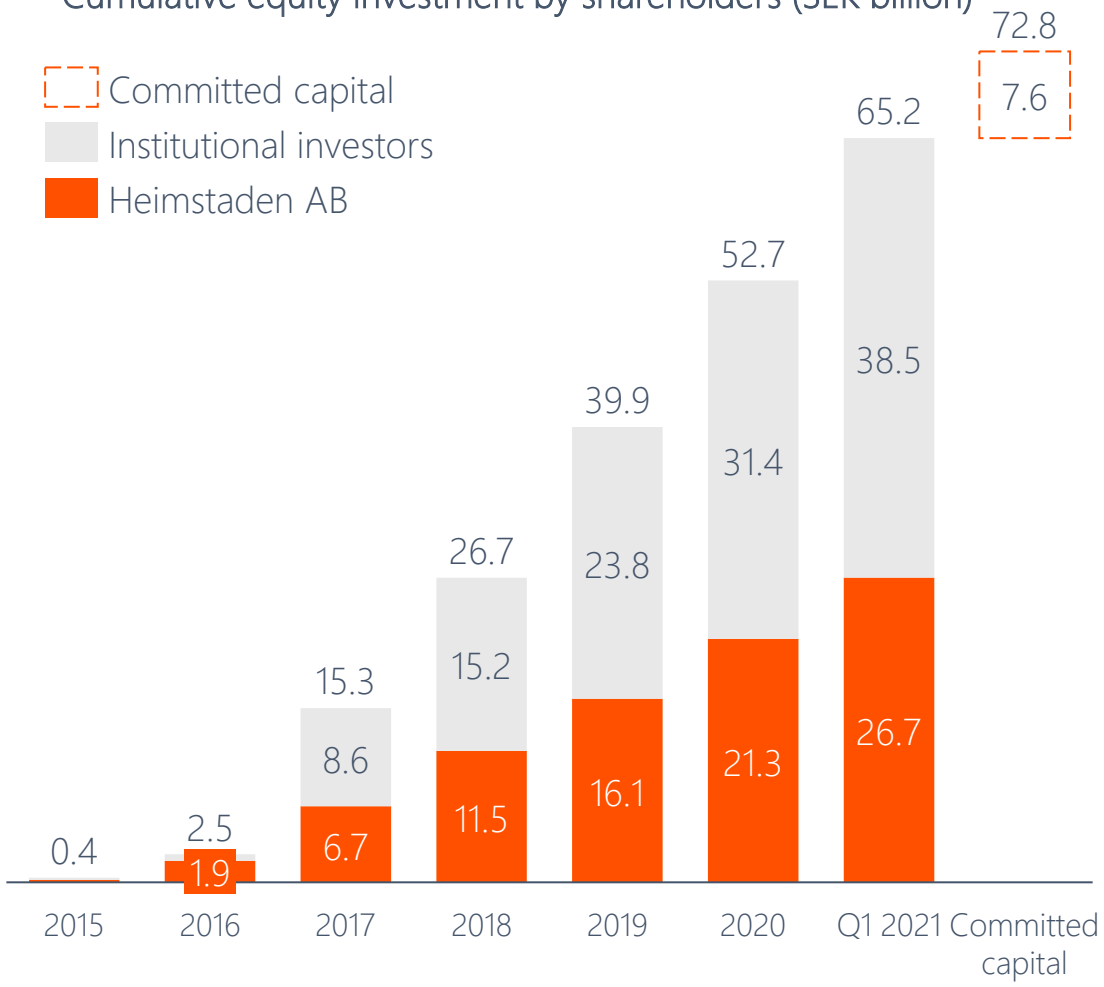
Damskibsmolen, Nyborg

Agenda

Heimstaden Bostad shareholder structure per Q1 2021

SEK million	Total Capital	Capital %	Voting %
Heimstaden	37,525	45.3%	50.3%
alecta	37,634	45.4%	41.2%
Folksam	4,980	6.0%	5.5%
ERICSSON	1,620	2.0%	1.7%
SANDVIK	566	0.7%	0.6%
SWEDISH PENSIONS AGENCY	530	0.6%	0.6%
Heimstaden Management	43	0.1%	0.1%
Total	82,898	100%	100%

Cumulative equity investment by shareholders (SEK billion)



Heimstaden Overview of debt and relevant assets

Debt and relevant assets

SEK million	31 March 2021	31 March 2020
Interest-bearing secured liabilities	198	200
Interest-bearing unsecured liabilities	7,733	3,000
Interest-bearing liabilities	7,931	3,200
Heimstaden Bostad net asset value	104,761	68,844
Equity attributable to Heimstaden Bostad's Hybrid and non-controlling interests	21,863	8,573
Heimstaden Bostad adjusted net asset value	82,898	60,271
Heimstaden share of capital, %	45.3%	45.1%
Heimstaden share of capital	37,525	27,201
Investment properties	622	388
Relevant assets	38,147	27,589

Heimstaden standalone earnings, rolling 12 months

Income statement		
SEK million	31 March 2021	31 March 2020
Operating Income	287	181
Operating cost	-240	-158
Operating profit/loss	47	24
Pref A dividends	277	184
Common dividends	1,636	400
Pref B dividends	553	349
Dividends from Heimstaden Bostad	2,465	933
Interest expense	-141	-102
Cash flow after debt and hybrid instruments	2,371	855
Interest cost - hybrid	-244	-120
Cash flow after debt and hybrid instruments	2,127	735

Key credit ratios		
Net LTV	11.3%	-1.8%
ICR	17.9x	9.4x
ICR (Hybrids as 100% debt)	6.5x	4.3x

Risk Factors (I/VIII)

This appendix contain risk that are relevant for Heimstaden and its securities. The risks that Heimstaden currently considers to be the most significant are described in the beginning of each risk category. The subsequent risks are not ranked. Where a risk factor can be categorised under more than one category, that risk factor is only included in the most relevant category for such risk factor.

Risk factors that are specific and material for Heimstaden

Risks related to Heimstaden's operating performances

Risks related to subsidiaries

A large part of the Group's assets, income and cash flow can be attributed to the Company's direct and indirect subsidiaries, of which the most important is the indirect owned subsidiary

Heimstaden Bostad which is owned together with others. In the future, the Company intends to mainly conduct its operating performances through such subsidiaries and in particular through Heimstaden Bostad. The Company's dependence on subsidiaries will therefore increase in the future. The subsidiaries are separate legal entities and have no obligation to meet Heimstaden's obligations or to make funds available for Heimstaden to be able to meet its obligations, such as dividends on the Preference Shares. The ability of the subsidiaries to make payments to Heimstaden in order for Heimstaden to meet its obligations depends on a number of factors, including the subsidiaries' financing agreements, restrictions in shareholder agreements, access to funds as well as company and tax-related restrictions. If the value of the business conducted in these subsidiaries were to decrease and/or if Heimstaden would not receive sufficient funds from its subsidiaries, it would have a material adverse effect on Heimstaden's financial position and the ability to pay dividends to the Preference Shares would be adversely affected or cease altogether. There is also a risk that the owners of Heimstaden's partly-owned subsidiaries will disagree on how the operations in these different companies should be conducted or how agreements governing the ownership in the companies should be interpreted, as the other owners in these subsidiaries have influential rights in certain matters regarding such subsidiaries. Thus, there is a risk that measures may be taken in these subsidiaries that would be contrary to Heimstaden's interests. Should this happen, it could adversely affect Heimstaden's ability to act as planned regarding these subsidiaries, which could adversely affect Heimstaden.

At the moment, Heimstaden indirectly controls 41 per cent of the capital and approximately 50.3 per cent of the votes in Heimstaden Bostad. The other shareholders are mainly various pension funds, including Alecta pensionsförsäkring, ömsesidigt. The rental income from Heimstaden Bostad equals 97 per cent of the total rental income of Heimstaden as of 31 March 2021. Heimstaden Bostad has a share structure with ordinary shares and preference shares that have different financial rights, whereby the preference shares have the preferential right to dividends in relation to ordinary shares as stated in Heimstaden Bostad's articles of association. The preference shares in Heimstaden Bostad also have preferential right in relation to the ordinary shares in connection with liquidation or bankruptcy. Heimstaden holds a higher ratio of ordinary shares than preference shares in Heimstaden Bostad compared with other shareholders in Heimstaden Bostad. For this reason, Heimstaden is more exposed to financial downturns regarding Heimstaden Bostad than the other shareholders. Should such economic downturns restrict the ability to distribute money to Heimstaden Bostad's ordinary shareholders after dividends have been paid on Heimstaden Bostad's preference shares, this could have a material adverse effect on Heimstaden's earnings and financial position. The shareholders' agreement regarding Heimstaden Bostad contains restrictions that limit Heimstaden's control over Heimstaden Bostad in comparison with the number of votes Heimstaden controls. In the future, there is also a risk that Heimstaden will not be able to defend its capital and voting share in Heimstaden

Bostad, which could further reduce Heimstaden's influence and financial earnings from Heimstaden Bostad and could lead to the termination of some of the Group's financing agreements (based on terms that give the lender right to terminate the agreement in

the event of a change of the majority ownership in Heimstaden Bostad) or that Heimstaden Bostad is no longer consolidated in the Company's accounts, which would have an adverse effect on the Group's financial position and future prospects (see also the risk factor "Ivar Tollefsen").

The Company has a group-wide asset management agreement with Heimstaden Bostad, whereby the Company contributes, for example, legal functions, accounting, HR, and senior executives in all the countries in which Heimstaden Bostad operates. The asset management agreement is in force until 10 October 2032. From 30 September 2026, Heimstaden Bostad may terminate the agreement with a notice period of 6 months. Thus, there is a risk that the asset management agreement may be terminated (both before as well as after 30 September 2026), which would have an adverse effect on the Company as the Company would not receive the compensation stated in the agreement but still to some extent have to bear costs attributable to the agreement.

Valuations of properties include subjective elements and uncertainty

The Group's investment properties are reported in the balance sheet at fair value and changes in value are reported in the profit and loss account. Unrealised changes in value do not affect cash flow. The fair values of the properties are affected by a number of factors, such as property-specific factors such as residential occupancy ratio, rent level and property costs, as well as market-specific factors such as yield requirements and discount rates derived from comparable transactions in the real estate market. Valuations in Sweden, Denmark, the Netherlands, Germany and/or the Czech Republic are mainly made using the yield/discounted cash flow method, while valuations in Norway are mainly made using the sales comparison method. To some extent, property valuation and the information and sources used in connection with valuations are based on subjective factors, and thereby exposed to the risk of inaccuracies. When using the methods, certain assumptions are made based on historical and future estimates as well as estimated standardised costs, which are not always accurate. The housing market is also sensitive to changes in supply and demand for residential properties. Property-specific deteriorations such as lower rent levels and increased vacancy rates, as well as market-specific deteriorations such as higher yield requirements, may cause the Company to adjust the fair value of its properties downward. Inaccuracies and incorrect assessments in connection with valuations may also cause this effect. There is therefore a risk that valuations of the Group's properties do not accurately reflect the market value of the assets, which could have a material adverse effect on the Group's earnings and financial position.

Risk Factors (II/VIII)

Acquisition, sale and other transaction-related risks

A central part of the Group's operations and business strategy consists of real estate transactions which are carried out directly and indirectly by both the Company and Heimstaden Bostad. All such transactions are associated with uncertainty and risks. When acquiring properties, there is, for example, uncertainty about the handling of tenants, unforeseen costs for environmental remediation or staff, rebuilding and handling of technical

problems, government decisions and the rise of disputes related to the acquisition or the condition of the property, including the risk of incorrect assessments in connection with due diligence prior to the acquisitions. Such uncertainties may lead to increased or unforeseen costs for the properties or transactions, which could have a material adverse effect on the Group's earnings. These risks may increase in cases where Heimstaden makes acquisitions in new geographic markets due to the fact that the Group may be less familiar with relevant conditions in such geographic markets. Likewise, these risks can increase in connection with acquisitions, which the Group has conducted several times in the last years, due to the relative size of these large acquisitions in relation to the size of the Group. In addition, real estate transactions are associated with subjective assessments of both existing and future conditions, which may prove to be incorrect. Incorrect assessments of such conditions can lead to increasing costs or the Group not achieving the expected return on its investments, which would have a material adverse effect on the Group's financial position and earnings.

Property and maintenance costs

Property costs mainly consist of costs that are linked to tariffs, such as electricity, cleaning, water and heating costs. Several of these goods and services can only be purchased from one actor, which could affect the price. Both tariffs and consumption change and will therefore affect Heimstaden's costs for electricity. Natural variations in climate and weather conditions, such as snowy or cold winters, also affect Heimstaden's property costs. Maintenance expenses are pertaining to measures aimed at maintaining the properties' standards in the long run, which Heimstaden continuously conducts. These costs are written of as expenses to the extent that they constitute repairs and replacements of minor parts. In addition to pure maintenance costs, costs for tenant adjustments can also arise. Maintenance measures and related costs can be both planned and unplanned. There is a risk that these expenses will increase as a result of, for example, new legislation regarding more efficient energy use.

If these costs were to increase significantly, the profit margin for the Group's properties would decrease, which would require rent increases to cover these costs. However, Heimstaden may be prevented from making such rent increases due to rent regulation (see the risk factor "Risks Related to the Industry and Market – Rental Operations"). Feasible rent increases may lead to reduced demand for the Group's properties, which would mean that the Group would not be able to fully transfer costs on the Group's tenants, which would have a material adverse effect on the Group's earnings.

Heimstaden is dependent on key persons and other employees

The Group and its operations are dependent on a number of key persons, including senior executives and persons with specialist competence. These key persons have extensive experience and expertise in real estate transactions and the real estate market and have, through their experience, built up good relationships with operators on the real estate market, partners and lenders. They are therefore important to successfully develop the Group's

operations. The Company is thus particularly dependent on them and that they remain employed by the Group. As of 31 December 2020, the Group had 1,372 employees, whose knowledge, experience and commitment are important for the Group's future development. To be able to develop the Group's operations, it is important to continuously recruit new skilled staff, and due to the Group's expansion it has recruited relatively extensive in the last years. The Group would be adversely affected if a majority of its employees were to leave the Group at the same time or if the Group's administrative security and control were to fail or if the Group's new recruitment of key persons and other employees were to fail. As the recruitment of new skilled staff is exposed to competition, there is also a risk that remuneration to staff will increase.

Should any of the risks described above be realised, it could have a material adverse effect on the Group's operating activities and thus on the Group's earnings.

Ivar Tollefsen

Ivar Tollefsen, who controls Fredensborg AS, which owns all ordinary shares in and therefore have control over the Company, is important for the Group's operations through his personal and business contacts. There is a risk that Ivar Tollefsen will not be available to the Group in the future, which risks adversely affecting the Group's operations. The effect of realising the risk is likely that the Group will lose momentum in its growth plans and become more stagnant. Furthermore, the Group does not have any "key man" insurance regarding Ivar Tollefsen.

If the current controlling shareholder Fredensborg AS were to reduce its shareholding, this could lead to the control of the Company being transferred to any other shareholder. In some of the Group's agreements (including certain financing agreements) there are provisions that will be brought to force in the event of changes of the control of the Company, for example if Fredensborg AS, as applicable, would cease to control a majority of the shares or votes in the Company or directly or indirectly be able to appoint or dismiss all or a majority of the Board of Directors of the Company. The shareholder agreement regarding Heimstaden Bostad also contains a change of control clause. In the event of such changes, certain rights for the counterparty, or obligations for the Group, may arise, which, among other things, may affect the Group's continued financing or, in the case of Heimstaden Bostad, may lead to the Company losing rights in relation to other shareholders in Heimstaden Bostad, which would have a material adverse effect on the Company's future prospects. Such change of control may also affect the business environment's view of the Group, including a change in creditworthiness, which could increase the Group's financing costs and thus have an adverse effect on the Group's earnings.

Risk Factors (III/VIII)

Project risks

The Group's operations include conversions, extensions, and new construction. The ability to conduct conversions, extensions, and new construction with financial profitability is, among other things, dependent on the Group being able to retain and recruit the necessary expertise in, among other things, construction and project management and procure contracts for project implementation on terms acceptable to the Group. The ability to conduct conversions, extensions, and new construction with financial profitability can also be affected by, among other things, whether the demand or price of real estate and housing in general changes, lack of planning, analysis, and control of costs, changes in taxes and fees, and other factors that can lead to delays or increased and unforeseen costs in relation to conversions, extensions, and new construction. At the end of 2020, the Group had 13,569 apartments under construction and such project risks occur to a significant extent in Heimstaden's operations. Should the Group fail with these factors in its real estate projects, it would lead to increased costs for the Group and a lower profit than expected, which would have an adverse effect on the Group's earnings.

In addition, agreements with contractors and other external parties typically contain limitations of liability, which means that damages above certain levels must be borne by Heimstaden alone. In the event that Heimstaden is unable to transfer costs to external parties due to such limitations of liability, it could have an adverse effect on the Group's earnings.

Technical risks

The Group's operations are dependent on various information and IT systems, particularly the ability to use such systems in its business in an efficient manner, including being able to introduce new technologies and functions in such systems. The Group is also working to digitalise its operations, and has therefore, for example, entered into an agreement regarding the delivery of a product for digital administration of real estate, which gives rise to new technical risks. If such technical problems should arise, these could have an adverse effect on the efficiency in the Group's operating activities and thus also on the Group's earnings.

Risks related to the industry and market

Macroeconomic factors and the covid-19 pandemic ("Covid-19")

The real estate industry is strongly affected by macroeconomic factors such as the development of the state of the market, regional economic development, employment development, construction pace for new housing and commercial premises, changes in infrastructure, population growth, population structure, inflation, interest rate levels and so on which affect the demand and supply of housing and premises. Heimstaden is especially affected by such factors in Sweden, Denmark, Norway, the Netherlands, Germany and the Czech Republic. Demographic factors also affect the type of housing that is in demand, and all of these factors have an effect on the residential occupancy ratio and rental levels of residential properties. Inflation and interest rates (see the risk factor "Financial risks related to Heimstaden – Interest rate risk") affect the Group's costs and changes in inflation and interest rates may together with other factors affect the yield requirements and thereby market values of the properties. Should the Group's costs increase and the market value regarding the properties deteriorate, this would have a material adverse effect on the Group's earnings and financial position.

The outbreak of Covid-19 has led to a significant slowdown in economic activity in 2020 and the beginning of 2021, partly due to the spread of Covid-19, but primarily due to decisions made by the governments of different countries to limit the spread of Covid-19 such as quarantines, closures and restrictions on freedom of movement. Covid-19 is still ongoing but has already led to adverse economic effects despite the economic stimulus packages launched by various banks and governments. These adverse effects have, among other things, affected the real estate market. Covid-19 has led to the postponement of investments and acquisitions and may lead to further postponement. So far, the Group has been mainly affected by Covid-19's direct and indirect impact on the Group's tenants. This impact is particularly likely to affect the Group's commercial tenants, who as of 31 March 2021 was related to 7.6 per cent of the Group's total incomes. There is a risk that these adverse effects could become increased the longer Covid-19 lasts. Consequently, Covid-19 may affect Heimstaden through demands on reduced rent levels and increased vacancy rates and tenants not paying rent at all, which would have a material adverse effect on the Group's earnings by reducing the Group's rental income.

Geographical risks and climate changes

Supply and demand for properties and thus the return on real estate investments vary between different geographical markets and may develop different. The Group has a diversified property portfolio with properties in Sweden, Denmark, Norway, the Netherlands, Germany and Czech Republic. All geographic markets in which the Group operates have been adversely affected by the uncertain global and financial market conditions, although the extent of the negative impact is still uncertain. A negative economic development can affect the Group's operations in various ways, regardless of degree. The demand for residential properties and rental housing may, for example, decrease in the geographical markets in which the Group operates, even though it does not decrease in general in the countries. Irrespective of or because of the impact of a negative economic development, the demand may also decrease due to negative population growth in one or more of the geographic markets in which the Group operates. Falling demand could lead to declining residential occupancy ratios, poorer opportunities for future rent increases and declining property values, which in turn could have an adverse effect on the Group's operations, earnings and financial position.

Climate change poses a risk for damage on real estate over time caused by extreme weather events, such as heavy rains and storms, as well as rising sea levels and other changes in the physical environment that affect real estate. As a real estate business, these risks may have a material adverse effect on the Group compared with other businesses because the Group is dependent on its physical infrastructure to produce income. For example, the Group owns properties in Denmark (mainly the Greater Copenhagen region) that are close to the sea and climate change can damage buildings on these properties as a result of floods. There is also a risk that some building materials will not be able to withstand the stresses of a changed climate. As climate change is ongoing, these risks can be expected to increase in the long term. This may mean a greater need for investment in properties located in vulnerable areas, which may lead to higher operating costs and investments for the Group. The Group has portfolios concentrated in several cities throughout Europe, and if climate change adversely affects such cities, the value of such portfolios and their profit capacity may decrease significantly.

Risk Factors (IV/VIII)

Rental operations

If the residential occupancy ratio or rent levels fall, the Group's earnings are adversely affected. The Group is also dependent on tenants paying agreed rent on time and thus, there is a risk that tenants do not pay their rents (when these become due or at all) or otherwise do not fulfil their obligations.

In the Swedish residential property market, there is no unrestricted pricing for renting residential apartments. The Group is also subject to rent regulations and other restrictions such as the setting of rents in other geographies in which Heimstaden operates. Such restrictions and rent regulations may lead to Heimstaden not being able to increase rents as planned, in time, or at all or compensate for renovations and other upgrades in Heimstaden's property portfolio, which would have an adverse effect on the Group's earnings. In addition, stricter restrictions and rent regulations could lead to a reduction in the Group's property value which would have a material adverse effect on the Group's growth opportunities and financial position. The Group also has rental properties in geographical markets where the rent is market-based, for example in the geographic markets in Denmark in which the Group operates. There is also a risk that the development of the factors that affect the setting of rent will be negative, which could lead to decrease in rent levels. It could have an adverse effect on Heimstaden's earnings should the rent levels decrease.

Competition and damage to reputation

The Group operates in an industry that is exposed to a high level of competition. Heimstaden's future competitive opportunities depend, among other things, on the Group's ability to anticipate future market changes and trends as well as to quickly respond to existing and future market needs, which may lead to increases in costs and requirements on rent reductions or changes in the Group's business model. The Group may therefore be forced to make costly investments, conduct restructuring or make price or rent reductions in order to adapt to a new competitive situation. Furthermore, competition has led to a significant increase in the price of real estate. Increased competition from existing and new actors as well as reduced competition opportunities could have an adverse effect on the Group's operations, earnings and financial position.

The Group's reputation is important for the Group's operations and earnings capacity. The Group's long-term profitability is based on tenants, credit institutions and other actors in the real estate market associating Heimstaden with positive values and good quality. If, for example, Heimstaden, any of its senior executives or other persons or companies who have contact with, or can be associated with Heimstaden, take any action that conflicts with the values that Heimstaden represents, the Group's reputation may be damaged. The effects of reputational damage are uncertain, but they could affect the Group's ability to attract employees and current and future partners and also complicate the future raising of financing, which could have a material adverse effect on the Group's future prospects.

Legal and regulatory risks

Laws, permits and decisions

The Group's operations are regulated and influenced by a large number of different laws, regulations and government regulations as well as various processes and decisions related to these regulations, both at a political as well as civil servant level. Among other things, the Swedish Rent Act (Sw. hyreslagen), the Swedish Planning and Building Act (Sw. plan- och bygglagen) and safety regulations as well as their equivalent regulations in the markets outside Sweden in which the Group operates have an effect on the Group's operations and costs for administration. A trend in recent years is that these requirements have increased and become stricter, which causes higher costs and thus has an adverse effect on the Group's earnings. In addition, there is a risk that the Group's interpretation of these rules is incorrect or that the rules may change in the future, which may lead to the Group not using the Group's properties in the intended manner. If this were to happen, it would have a material adverse effect on the Group's earnings and financial position. In order for the Group's properties to be used and developed as intended, different permits and decisions may also be required, including, among others, zoning plans and property formations, which are granted and given by municipalities and governmental authorities, among others. In the future, there is a risk that the Group will not be granted the permits or decisions required to conduct and develop the business in a desirable manner. Furthermore, there is a risk that decisions will be appealed, and therefore delayed significantly, or that decision-making practices or the political will or direction in the future will change in a negative way for the Group. If this should occur, the Group's costs may increase or the Group's ability to develop its properties may be delayed or stopped, which would have a material adverse effect on the Group's earnings and financial position.

Risk Factors (V/VIII)

Environmental risk and environmental requirements

The Group must comply with applicable rules and regulations regarding environment and health in the markets in which the Group operates. The main environmental risk in the Group's operations is the risk of contaminated land. Contaminated land can cause significant delays in the Group's property development and cause significantly increased costs. As the Group owns a large number of properties, the Group could be held liable for deteriorations, damages or other health-damaging effects that are attributable to the Group's operation on properties. Such effects can be both known and currently unknown.

The starting point regarding liability under Swedish, Danish, Norwegian, German and Czech law is that the party conducts the operations which have caused environmental damage liable for remedy of it. If no operator can conduct or pay for the remediation of the property, the party who acquired the property, and who at the time of the acquisition was aware of, or should have discovered the contaminants, is responsible for the remediation. However, under Dutch law, the operator is liable for contaminants and other environmental damage together with any other person who has the ability and competence to actually prevent or limit a breach of Dutch law (for example, the owner of the property in which the contamination was conducted). In some cases, previous and current owners may be responsible for a contamination.

The cost of repairing environmental damage may be higher than expected for the Group. Also, the Group's properties may suffer environmental damage or other environmental obligations in the future. Should the Group fail to comply with applicable environmental legislation or should such legislation become stricter, it could also lead to higher costs for the Group and hold back the Group's property development plans. In addition to this, these environmental risks could also damage Heimstaden's reputation and have a material adverse effect on the Group's financial position.

Tax risks

The Group has used tax optimisation arrangements such as utilising tax losses from companies that the Group acquires to reduce the Group's tax burden. However, in the future, the Group may not be able to continue to rely on transferred tax losses as there may be changes in tax laws and regulations or their interpretation and application. This would mean that the Group may be liable to pay additional tax, which would have a material adverse effect on the Group's cash flow.

For example, under the EU Directive 2016/1164, there is a general limitation on interest deductions through an EBITDA rule according to which net expenses shall be deductible only up to a certain percentage of the taxpayer's EBITDA for tax purposes. Local legislation in Sweden, Norway, Denmark, the Netherlands, Germany and the Czech Republic has been or will be implemented, and may cause the Group's final tax allowance, attributable to interest, to decrease as a result of the reduced allowance cap, which would result in a lower profits after tax.

Tax laws and regulations, or their interpretation and application, may also change in other ways in the countries in which the Group operates. It is uncertain to what extent such future changes may affect the Group. Such changes may, among other things, have an adverse effect on the Group's cash flow and profit after tax.

Disputes

The Group is, and may become, involved in legal and regulatory proceedings or otherwise receive claims related to the Group's operations. In day-to-day operations, the Group may, for example, be involved in disputes regarding defects in built or modified housing or related to former and current employees and regarding various administrative (including tax-related) procedures, but also regarding various regulatory processes. The outcome of such disputes and procedures is uncertain and could have a material adverse effect on the Group's earnings.

Incorrect or inadequate processing of sensitive information

The Group processes and stores information and data of various kinds in both electronic and physical form, including data about tenants and, to the extent that it exists, insider information. Among other things, the Group processes personal data relating to employees, consultants and tenants. When the Group processes such data, it is of great importance that the processing takes place in accordance with, among other things, Swedish law and EU regulations, such as the General Data Protection Regulation (EU) 2016/679 ("GDPR"). For example, there are strict requirements for informing people about what personal data the Group processes and that this processing takes place in a manner that is consistent with the purpose for which the personal data was collected. If the Group processes this personal data inadequately, there is a risk that the Group will have to pay penalty fees for violations of, for example, GDPR as caused by such events. In addition, there is a risk that the Group will fail in its use of confidential or sensitive information or that such information will be disclosed or made available to others as a result of, for example, data breaches or so-called extortion viruses or extortion programs (ransomware). If the Group fails with processing personal data, is the subject for a breach of law, does not comply with provisions in completed agreements or if confidential or sensitive information is disclosed or made available to others, it may have a material adverse effect on the Group's reputation and earnings.

Risk Factors (VI/VIII)

Financial risks related to Heimstaden

Refinancing and financing risk

Uncertainty in the capital markets or a change in the regulations concerning banks could mean that the price of the financing necessary for the Group's operations, in particular its growth strategy, may increase and that the availability of such financing will decrease. As a result of the Group intending to raise capital from the capital market in the future, the Group may be adversely affected if conditions in the capital market develop negatively. The level of the Group's indebtedness may also affect the Group's ability to refinance existing liabilities, which in turn could also affect the Group's competitiveness and limit the Group's ability to react to market conditions and deteriorations in the economic situation.

The Group's goal for the equity ratio is that it should amount to at least 30 per cent, calculated based on the market value of the Group's properties. As of 31 March 2021, the equity ratio, calculated as above, amounted to 47.2 per cent.

As of 31 March 2021, the average period for which the capital is tied up in respect of the Group's interest-bearing liabilities was 11.1 years. The period with the highest amount of loan maturities will occur in over five years calculated from 31 March 2021 and will correspond to approximately 49 per cent of the total loan portfolio as of 31 March 2021. The Group consistently conducts discussions with banks and other credit institutions with the aim of securing long-term financing, and the Group works closely with a handful of lenders to secure its long-term capital requirement. However, there is a risk that raising new loans or future refinancing will not be possible on terms that are reasonable for the Group or not at all, that the Group fails to achieve the equity ratio goal and that the Group experiences difficulties in repaying existing loans or interest on such loans. Should this occur, it would have a material adverse effect on the Group's future prospects and its ability to conduct its operations.

Interest risk

In addition to equity, the Group's activities are largely financed by loans. Interest expenses are one of the Group's largest cost items. The Group is exposed to interest rate risk in the sense that changes in the interest rate and the market value of the Group's interest rate derivatives affect the Group's interest expense and thus, its earnings. As of 31 March 2021 approximately 77 per cent of the Group's loans had fixed interest rates or variable interest rates, secured with interest rate derivatives. Changes in interest rate levels can also affect the Group's rental operations and the valuation of the Group's properties. Although a significant change in market interest rates could materially affect homeowners' ability to pay interest on loans, it could also affect private consumption and reduce the value of properties. In addition to this, an increase in market interest rates could have a material adverse effect on the Group's financing costs.

As of 31 December 2020, a change in Euribor, Stibor, Cibor or Nibor of one per cent at any given time and provided that all other conditions are reasonable, would increase the Group's interest expenses (adjusted for applicable interest deduction) on an annual basis by approximately MSEK 191. Should the interest rate instead decrease by one per cent in such a scenario, the Group's interest expenses would decrease by approximately MSEK 70. The difference is attributable to the fact that several credit agreements contain interest rate floors that limit possible fluctuations regarding the downside in that, for example, the base interest rate cannot be negative, while costs for outstanding and acquired interest rate derivatives can increase if market interest rates are negative.

The Group uses interest rate derivatives to manage interest rate risk in relation to its loans with variable interest rates. Interest rate derivatives are reported on an ongoing basis at fair value in the balance sheet and with changes in value in the profit and loss account. As market interest rates change, an over- or under-value of interest rate derivatives arises which, however, does not affect the cash flow. At the end of the term, the value of the derivatives is always zero. However, some of the Group's interest rate derivatives contain so-called break clauses, which may lead to the premature termination of interest rate derivative contracts. In the event of such an early termination, there is a risk that the value of the derivatives is not zero and that the termination will have a cash flow effect. The derivatives provide protection against higher interest rates, but also mean that the market value of the Group's interest rate derivatives decreases if market interest rates fall, which can have an adverse effect on the Group's operations and financial position.

Financial undertakings

The Group is financed through equity, interest-bearing liabilities and cash flow. The majority of the interest-bearing liabilities are loans by the Group's subsidiaries, which is why the financial risks of the Group is carried mainly by the subsidiaries. Some of the loan agreements contains financial undertakings, which include provisions on the ownership of the companies that raise the loan, as well as requirements for the highest loan-to-value ratio, minimum interest coverage ratio and the ratio between equity and assets. This means that the lenders to such subsidiaries could demand repayment from such subsidiaries and thus also be prioritised for payment before the Group, if the subsidiaries do not fulfil their obligations under the loan agreements. If this were to happen, it would have a material adverse effect on the Group's financial position.

Risks attributable to Heimstaden Bostad's financing strategy

Heimstaden Bostad's strategy is to increase its presence in the international capital markets through issuing unsecured bonds and currently the Company has the credit rating BBB (stable outlook) from S&P Global Ratings Europe Limited ("S&P"). There is a risk that S&P will downgrade Heimstaden Bostad's long-term credit rating, for instance if Heimstaden Bostad were to fail to maintain a satisfactory indebtedness and/or liquidity profile. If such a risk were to be realised, it would be difficult for Heimstaden Bostad to pursue its current financial strategy, which would have an adverse effect on the Group's financial prospects and future opportunities.

Risk Factors (VII/VIII)

Credit and counterparty risk

The Group is exposed to the risk that the Group's counterparties will not be able to fulfil the obligations to the Group. The Group's existing and potential customers could end up in such a financial situation that it can no longer continuously pay agreed rents on time or otherwise refrain from fulfilling their obligations or that the Group does not get paid for the properties that the Group has entered into an agreement to sell. If this were to happen, it would have a material adverse effect on the Group's earnings and financial position. In addition to credit risks in relation to customers, the Group is exposed to risks in the financial operations.

Such credit risks arise, among other things, from the placement of excess liquidity and from obtaining long-term and short-term credit agreements, and are, among other things, affected by macroeconomic factors (see the risk factor "Risks related to the industry and market – Macroeconomic factors and the covid-19 pandemic"). An earlier example of when this has occurred is in connection with the financial crisis of 2007–2008, when many banks in Europe and the United States experienced financial difficulties. Although the risk of such a risk materialising is low, the consequences of the Group's bank or insurance counterparties failure to fulfil their obligations to the Group are uncertain, and could entail a material risk of negative development of the Group's financial position. If Covid-19 were to become even more protracted, this would be a circumstance that exacerbates this risk.

Currency rate risk

The Group is exposed to currency rate risk as the Group has invested in Denmark, Norway, the Netherlands, Germany and the Czech Republic. As of 31 March 2021 the Group owned properties in Denmark in the amount of SEK 55.0 billion, in Norway in the amount of SEK 19.0 billion, in Germany in the amount of SEK 14.3 billion, in the Netherlands in the amount of SEK 23.7 billion and in the Czech Republic in the amount of SEK 14.9 billion1), in accordance with the directors' valuations. In addition, the Group has investments of SEK 0.5 billion in Poland according to the balance sheet as of 31 March 2021. The currency rate risk arises primarily from the Group's net assets as the foreign companies' balance sheets are consolidated in the Group's. The Group reports in SEK and all items in the balance sheet that are in SEK (including foreign properties as well as the income and expenses they generate and liabilities in currencies other than SEK) are converted to SEK. Thus, it is when converting foreign items to SEK that a currency rate risk arises. Should these risks develop negatively, it could have a material adverse effect on the Group's financial position and earnings.

Risk factors that are specific and material to the Preference Shares and the Offer

Nasdaq First North Growth Market is not a regulated market

The Company's Preference Shares are traded on Nasdaq First North Growth Market. Nasdaq First North Growth Market is an alternative marketplace operated by Nasdaq Stockholm. Companies whose shares are listed on Nasdaq First North Growth Market are covered by a less extensive set of rules than companies that are traded on Nasdaq Stockholm's main list. Nasdaq First North Growth Market's regulations have been adapted to suit smaller companies or companies with comparatively high growth who want to follow rules for better transparency, disclosure and accounting standards than what is required by Nasdaq Stockholm's ordinary rules. Nasdaq First North Growth Market is not a regulated market and does not need to apply the rules or procedures that follow from EU directives and EU requirements, including those that apply to IPOs, information and the offers. Shareholders may be exposed to real or perceived disadvantages to the extent that the Company benefits from the increased flexibility permitted through a listing on Nasdaq First North Growth Market. It is possible that the market for the Company's Preference Shares will be affected by disruptions and any of these disruptions may have an adverse effect on investors, regardless of the Group's future prospects and financial results. There is therefore a higher degree of risk in an investment in the Company's Preference Shares than in an investment in the Company's Preference Shares if they had instead been listed on a regulated market such as Nasdaq Stockholm's main list.

Liquidity risk and unpredictable future share prices

When trading the Company's Preference Shares on the Nasdaq First North Growth Market, there is a risk that liquidity in the Preference Shares will be low and also it is not possible to predict the stock market's future interest in the Preference Shares. If liquidity is low, this may entail difficulties for Preference Shareholders to change their holdings and may amplify fluctuations in the price of the Preference Shares. The share price for the Preference Shares may be subject to significant fluctuations, as a result of changed perceptions of the stock market regarding the Preference Shares and various circumstances and events.

The effect of future new issues or share sales on the Preference Share price

The Company is free to issue ordinary shares and Preference Shares in the Company with the restrictions prescribed in the Articles of Association and in relation to certain obligations in the Group's financing agreements. In addition, its owners may sell or otherwise transfer shares. New issues, sales or other transfers of a significant number of shares, or expectations that such new issues, sales or other transfers may take place, could have a material adverse effect on the market value of the Preference Shares.

Future dividends on the Preference Shares

According to Swedish law, the Annual General Meeting decides on dividends by a simple majority. Owners of Preference Shares thus have a limited influence on the Annual General Meeting since each Preference Share entitles the holder to one vote while each ordinary share entitles the holder to ten votes. If all Preference Shares in the Offer are subscribed for, they will together correspond to a limited share of the votes in the Company in proportion to the votes to which the ordinary shares in the Company entitle the holder (see the risk factor "– Ownership with significant influence and changes of control"). The ordinary shareholder has also not agreed to vote for dividends. Restrictions in the Group's financing agreements may now or in the future mean that the opportunities for dividends on the Preference Shares are limited. It is therefore not certain that the Annual General Meeting will decide on dividends on the Preference Shares. The Company's ability to pay dividends in the future depends on a variety of factors, including the Company's operations, financial position, earnings, distributable funds, cash flow, future prospects, capital requirements and general financial and legal restrictions, as well as contractual restrictions (see the risk factor "Financial risks related to Heimstaden – Financial commitments"). Future dividends and the size of the payment are thus greatly dependent on, among other things, the Company's operations and earnings. There are many risk factors that may adversely affect the Company's future operations and it is not certain that the Company will be able to achieve results that enable dividends on the Preference Shares in the future. Similarly, there is also a risk that Preference Shareholders will not be fully, only partially, or not be compensated at all in accordance with what is prescribed in the Articles of Association in the event of any dissolution of the Company.

Risk Factors (VIII/VIII)

Owners with significant influence and changes of control

Currently, Fredensborg AS owns all outstanding ordinary shares in the Company and thereby has a controlling influence over the Company prior to the Offer. If full subscription takes place according to the Offer, the outstanding ordinary shares will correspond to approximately 69.3 per cent of the number of shares and approximately 95.8 per cent of the votes in the Company. The Preference Shares will thus correspond to approximately 30.7 per cent of the number of shares and approximately 4.2 per cent of the votes in the Company. Even after the implementation of the Offer, Fredensborg AS will thereby have the ability to exercise significant influence over the Company and significant control over matters that the Company's shareholders vote on, such as decisions on new issues in Heimstaden. The Preference Shareholders' ability to exercise influence in the Company through their voting rights is thus limited. There is a risk that Fredensborg AS will exercise its voting rights in a manner that is not in line with the interests of the Preference Shareholders, which would have an adverse effect on the Preference Shareholders. In order to limit and manage risks in relation to change of control clauses in the Group's agreements, Heimstaden may also in the future issue additional ordinary shares through which the ordinary shares portion of the share capital is increased, though new issues, which can take place at quota value or otherwise at limited remuneration, bonus issues with the issuance of ordinary shares, or in another similar manner. Should this occur, the Preference Shareholders could be adversely affected and could lose or risk losing influence in the matters which the shareholders are entitled to decide on.

Risks associated with subscription commitments

Heimstaden's largest shareholder Fredensborg AS, which holds approximately 86.21 per cent of the shares and 98.40 per cent of the votes, has committed to subscribing for new Preference Shares corresponding to its pro rata share of the Rights Issue. The commitment corresponds to approximately 8.5 per cent of the total number of new Preference Shares and approximately MSEK 32. The subscription commitment was entered into in May 2021. No compensation is paid for subscription commitments. The subscription commitment is not secured. Consequently, there is a risk that Fredensborg AS will not fully or partially fulfil its subscription commitment. Failure to fulfil the subscription commitment could have a material adverse effect on Heimstaden's ability to successfully complete the Rights Issue and thereby also the Directed Issue and Heimstaden may also receive lower net proceeds than Heimstaden expects.

Heimstaden