Akademiska Hus Year-end Report 2005

AKADEMISKA HUS

AKADEMISKA HUS AB (Publ) Reg. No. 556459-9156

The Board and Managing Director of Akademiska Hus AB hereby present the Year-end Report 2005.

- **Profit before tax** for the period amounted to SEK 9,270 million. The corresponding figure for 2004 was SEK 821 million, which, recalculated according to the accounting principles now being applied, is equivalent to SEK 1,324 million. The profit-affecting increase in value of the investment properties was SEK 7,214 million. The considerable increase in profit is due largely to the increase in the value of the Group's investment properties. The lower maintenance costs and improved net financial items contributed to the improvement in profit.
- **The profit** for the year was SEK 6,654 (950, comparision with 2004 recalculated consistently according to IFRS).
- **The investment properties**' fair value was SEK 45,616 million (38,230). The significant increase is attributable to the following factors:
  - A strong general upturn on the Swedish property market during 2005.
  - The new guidelines introduced by reason of IFRS, together with a new valuation method, have resulted in greater accuracy in the valuation process and thus fairer values.
  - Investments made previously affect future maintenance requirements, resulting in higher valuation levels.
  - Increased demand for the types of property that dominate the Akademiska Hus property portfolio, with tenants mainly from the public sector and with relatively long leases.
- **Rental income** totalled SEK 4,481 million (4,482). The level of vacant space was 3.2 per cent (2.8). Renegotiations at the majority of locations have led to unchanged or reduced rent levels as a result of greater competition and a general increase in the level of vacant space on the non-residential property market.
- **The average term** for newly signed leases is ten years and at the year-end the average remaining lease term was 6.5 years (6.2).
- **The direct yield** amounted to 6.5 per cent (7.1). The lower direct yield can be explained by an increase in the fair values of the properties.
- **In January 2005,** four large buildings totalling 63,000 square metres in Göteborg were sold to Chalmersfastigheter AB. At the same time, the Group was assigned the task of managing all buildings for Chalmersfastigheter AB.
- **Renegotiation** took place during the period of a number of large leases with Akademiska Hus's main tenant group, universities and university colleges. These include Lund University and Gävle University College. New tenants include the European Institute for Infectious Disease Control and BioVitrum.
- **Rentable space** totalled 3,281,000 square metres (3,315,000).
- **The Board will decide** on a proposed dividend at its meeting on March 8, 2005. It is the owner's aim that the dividend should amount to 2.5 per cent of equity.

Profit and key figures

	2005	2004 [1]
Management income, SEK m	4,533	4,530
Net operating income, SEK m	2,727	2,625
Changes in value, investment properties, SEK m	7,214	–478
Profit before tax, SEK m	9,270	1,324
Fair value, investment properties, SEK m	45,616	38,230
Direct yield, %	6.5	7.1
Net operating income per square metre	835	799
Return on equity after standard tax, %	34.2	7.9
Return on total capital, %	21.9	6.3
Equity ratio, %	44.8	41.1
Internal financing level, %	323	92

[1] 2004 is recalculated according to IFRS.

Year-end Report 2005

Statement by the President

The improvement in profit reported by Akademiska Hus for 2005 is dramatic. The main reason, however, is the effect of the increased – but unrealised – values of our properties. Whilst one can take heart from these values it is not realistic to expect the same increase in value to be repeated within the foreseeable future.

A considerable proportion of the profit must therefore be regarded as a non-recurring effect. Nor can one ignore the risk that a future possible fall in value could have a very significant negative impact on profit. However, such a fall in value is not expected in the next few years.

Even without taking into account the increase in value, the profit more than doubled between 2004 and 2005. The main reason is that depreciation according to plan, in line with the new accounting principles introduced as a result of IFRS, are not charged to the consolidated profit. A gradual improvement in net operating profit, however, is also contributing to the good profit trend.

On the market we are encountering greater competition from other property companies. This is exerting pressure on prices, with often unchanged or reduced rents as a result. We nevertheless take a positive view of the competition as it benefits both our tenants and us.

The tenants benefit from the competitive pressure and we are reminded of the need to make constant improvements. At the same time, an efficient market produces a fairer price structure.

Particularly in times of considerable financial pressure on universities and university colleges it is important that we are in a position to help with the rationalisation of premises and at the same time have the expertise and capacity to bring in other tenants that fit in to our property cluster. This reinforces both operations and the long-term value of our property holdings.

Our vision and strategy document, AkaVision 2010, forms the basis for the serious task of co-ordinating our activities throughout the country and generating more co-ordination benefits. For us it is self-evident that we should capitalise on our size in the interests of both the tenants and ourselves. In this perspective, we have worked on investing in effective, eco-friendly energy solutions.

Market

The Swedish economy has developed strongly over the past year and the prospects for 2006 indicate continued positive development. This has, however, taken place without an increase in employment, which usually ensues from an upturn in the economy. Changes in employment are an important indicator for how demand for premises will grow. After several years of negative development everything now points to increased employment. For the property market, which on the whole follows the general trend in the economy throughout the country, albeit with a certain displacement in time, this is a much longed-for sign. The gradual increase in the repo rate, which was predicted during 2006, could possibly have a slight dampening effect on the interest in properties.

The value of the property transactions for the year broke all records. For the first time the value of completed transactions exceeded SEK 100 billion. The falling direct yield requirement and low interest rates are generating considerable interest in property deals, which is pushing up property values. Interest in properties used for health care and education purposes has also increased and these are now being valued considerably higher than previously.

On the rental market for non-residential premises the level of vacant space has for a number of years been on a high yet relatively stable level. During 2005, a number of major lease agreements were reached in Stockholm although they have only led to the vacant space being moved around in the holdings. No major changes are expected during 2006 and it will take a long time before the vacant space that exists today has been absorbed.

Rental levels have been relatively stable despite a high level of vacant space. On a few sub-markets, mainly for efficient premises in prime locations in the city regions, the rents are increasing. On other markets the increase in rents is expected to be small or non-existent during the coming year.

Key events 2005

Tenants

Universities and university colleges are by far the dominant tenant group for Akademiska Hus although new tenants have been added during the year.

Renegotiations have taken place with, among others, Lund University involving 195,000 square metres, Karlstad University involving 24,000 square metres, Gävle University College involving 37,000 square metres, Göteborg University involving 37,000 square metres and Luleå University of Technology involving just over 16,000 square metres.

Reconstruction is taking place of parts of the Tre Vapen II property at Gärdet in Stockholm where Sida and the National Swedish Environmental Protection Agency will be tenants.

The Swedish National Defence College, the Swedish Institute of International Affairs and IVL, the Swedish Environmental Institute, have moved into the Valhallavägen Campus in Stockholm. An agreement was reached during the year with Chalmers University of Technology, which means that in January 2005 Akademiska Hus sold four large buildings totalling 63,000 square metres. At the same time, Akademiska Hus was assigned the task of managing all the properties on the Chalmers Campus. The management assignment involves 155,000 square metres. Following the transaction, Akademiska Hus and Chalmersfastigheter have roughly equal ownership of the premises used by Chalmers.

A lease agreement for the extension of the IKSU Sports Centre in Umeå has been signed with Stiftelsen Universitetshallen. The agreement is for ten years and covers the whole extension, which comprises just over 5,000 square metres.

Investments

Net investments in 2005 totalled SEK 469 million (1,866). The reason for the comparatively low net investment is the sale of the properties to Chalmers. The purchase sum was SEK 990 million.

A number of major projects were completed in 2005, including buildings for the Swedish National Defence College, the Swedish Institute for Infectious Disease Control in Stockholm and Gävle Library.

Major completed reconstruction and extension projects included Mathematical Sciences on the Chalmers Campus in Göteborg, the A-building, Part A, for Linköping University and the former Medical Products Agency premises in Uppsala, which have been rebuilt for Rosendal High School.

Results

Rental income

Rental income totalled SEK 4,481 million, which is in line with the same period in 2004. The level of income was affected negatively to the amount of SEK 90 million by the sale of properties to Chalmers. In addition, a number of renegotiations have taken place in an increasingly keener competitive climate. This was balanced by the addition of new construction, reconstruction and extensions, which together with a number of earlier property acquisitions have had full impact during 2005.

Rental level and vacant space level

The total holdings amounted to 3,281,000 square metres of rentable space (3,315,000). During 2005, four properties at Chalmers University of Technology, totalling 63,000 square metres, were sold. Vacant space was 3.2 per cent (2.8), which is equivalent to 103,635 square metres (93,784). The vacant space within Akademiska Hus compared with other property companies is low. The figure includes vacancies of SEK 88 million (78) or just 2.1 per cent (1.8) of the rental income, fully rented plus supplements, which reflects the fact that a large proportion of the vacant space has a clearly lower rental value than the holdings on average. During 2006, vacant space is expected to increase slightly, mainly in Göteborg where the Växthuset block (Pedagogen, Mölndal), comprising 35,000 square metres, will be vacated. Within the near future it is expected that the volume of vacant space, mainly in Kista and Härnösand, will continue.

Lease agreements

The average term for newly signed lease agreements is ten years and at the turn of the year the average remaining lease term was 6.5 years (6.2). For the larger, more complex specialist buildings for laboratory and research operations a lease agreement is normally required where the investment is repaid within the agreement period. In these cases the leases are normally ten years or longer.

Operating costs

In 2005, operating costs amounted to SEK 762 million (783), of which energy and water totalled SEK 510 million (533). Average operating costs for the Group for the year amounted to SEK 233/m^2 (238). Of the operating costs, energy, fuel and water accounted for SEK 155/m^2 (162). Compared with other property companies, the operating costs calculated in SEK/m^2 are relatively high within Akademiska Hus due to the high proportion of laboratories. Laboratory premises total 1.1 million square metres (34 per cent) and from an energy point of view they are considerably more demanding in terms of resources than other premises.

Maintenance costs

Maintenance costs for the year totalled SEK 717 million (806). Investments by Akademiska Hus in maintenance costs extending over several years have meant that the standard of the property holdings is now generally high and in relative terms the maintenance levels are expected to fall in the future.

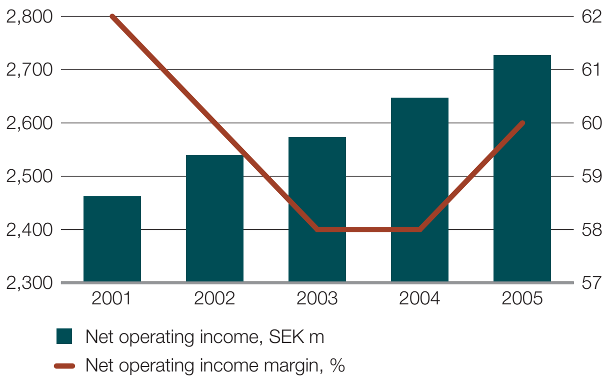
Of the maintenance costs, SEK 154 million (128) refers to tenant adaptations.

On average for the Group, maintenance costs for the year totalled SEK 220/m^2 (245).

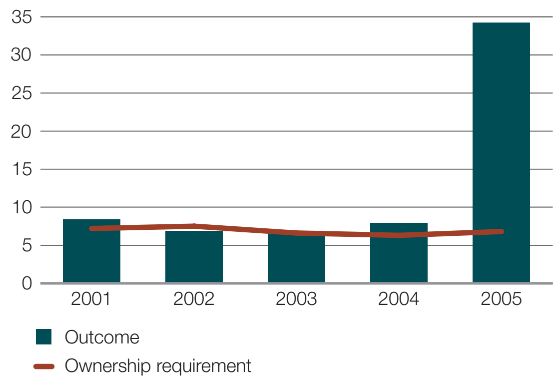
Net financial items

Net financial items for the year totalled SEK –647 million (–795). The reason for the improvement is the average lower financing cost during the year, 3.85 per cent (4.50). (The financing cost for 2004 is not reported according to IFRS).

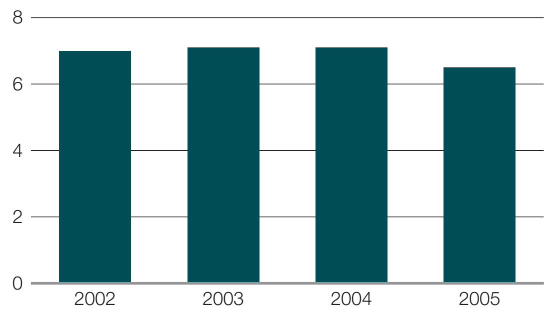
Net operating income, 2001-2005



Return on equity, %



Direct yield, %



Profitability

The net operating income, i.e. the profit on the Group's operations before changes in value, central administration costs and net financial items, totalled SEK 2,727 million (2,625). The net operating income ratio increased from 58 per cent to 60 per cent.

As a result of the rise in the value of the investment properties, the direct yield fell during 2005 and totalled 6.5 per cent (7.1).

Return on equity totalled 34.2 per cent (7.9). One of the owner's requirements for profitability is that the return on equity shall be equivalent to the 5-year government bond interest rate plus four percentage points viewed over a business cycle. On average during 2005, the 5-year government bond interest rate was 2.8 per cent and the owner's requirement was thus 6.8 per cent.

Owner's financial objectives

From 2005, the owner's financial objectives have been set at:

– Yield requirement, estimated as the yield (profit after tax) on average equity, shall be equivalent to the 5-year government bond interest rate plus four percentage points viewed over a business cycle.
– The Group's dividend target is 2.5 per cent of equity.
– The Group's equity ratio should be at least 35 per cent.

Property valuation

The fair value of Akademiska Hus investment properties as at 31-12-2005 was determined by means of an internal property valuation. The fair value was SEK 45.6 billion, an increase of SEK 7.4 billion since the previous year-end.

The increase is due in the first instance to the general increase in property values in the city regions. The new guidelines introduced by reason of IFRS, together with a new valuation method, have resulted in greater accuracy in the valuation process and thus fairer values. The increase in value has also been affected by investments made previously, which have an impact on future maintenance requirements and an increase in the demand for the type of premises that dominate the Akademiska Hus property holdings with tenants mainly from the public sector with relatively long leases.

Prior to the Year-end Report 2005, Akademiska Hus introduced a cash flow-based valuation as a general method to determine the fair value of the investment properties according to IAS 40. Previously, the valuation was made using the direct yield method. External valuations were carried out partly as a benchmark for the internal cash flow valuations and partly for certain development properties where the income and costs were difficult to assess.

Property valuation 31-12-2005 (SEK m)

Region	Fair value, investment properties	Of which expansion reserves	New construction in progress
South	5,561	51	370
West	6,717	90	118
East	4,392	167	37
Stockholm	18,972	313	395
Uppsala	6,007	271	133
North	3,967	68	68
Total	**45,616**	**960**	**1,121**

Compared with 2004, the value of the investment properties has increased by SEK 7,386 million.

The change is due to different factors, which can only be calculated accurately in part as a result of the change of valuation method. The table below shows the changes that can be calculated accurately and a greater positive change in value, which in the first instance is a result of the general rise in property values in the city areas. The latter item is equivalent to an increase in value of 16 per cent. The increase in value has been included in the new valuation model through cost of capital and direct yield requirements, which began to fall back in 2004 and where new levels were established with greater accuracy during 2005.

The direct yield in 2005 was 6.1 per cent, calculated on the fair value and excluding expansion reserves, as at 31-12-2005.

In the valuation of investment properties as at 31-12-2005, SEK 3,606 million is a market-related increase in value in Stockholm (excluding expansion reserves). For Stockholm this is equivalent to a market-related increase in value of 26 per cent and comprises 61 per cent of the market-related increase in value of the Group's investment properties, excluding expansion reserves.

Fair value, investment properties, 31-12-2005	**SEK m**
Opening fair value	38,230
Investments and reclassifications from new construction in progress	1,101
Sales and disposals	–859
Lower standard maintenance costs	1,125
Change in expansion reserves	82
Market effects/corrected values/reduced yield requirements	5,937
Closing fair value	45,616

Proportion, cash flow-valued objects

The internal cash flow valuation according to the above reported prerequisites accounts for SEK 43,398 million of the reported value of the investment properties. The expansion reserves of SEK 960 million have been calculated using the location price method. The remaining value of SEK 1,258 million up to SEK 45,616 million refers to objects with a special valuation basis. This mainly includes development properties with uncertain future income and costs. Akademiska Hus's few residential objects are also included.

External valuation as a benchmark

Of the 100 Akademiska Hus valuation objects that have the highest values, 13, divided between three regions (Stockholm, Uppsala and North), were subject to an external valuation as a benchmark for the internal valuation. In the internal valuation for the year-end accounts, these 13 objects were included at a total fair value of SEK 6,039 million. The total value of these objects according to the external valuation was SEK 6,171 million.

Profit on sales and disposals totalled SEK 69 million.

Financing

Interest-bearing liabilities

Interest-bearing liabilities at the year-end amounted to SEK 19,140 million compared with SEK 17,648 million as at 31-12-2004 (18,549 as at 1-1-2005). The maturity has been extended to 4.0 years from 2.4 years at the turn of the year by way of issues within the long-term programmes.

The fixed interest period for the part of the liability portfolio covered by the fixed interest mandate has been extended to 2.4 years compared with 1.6 years at the beginning of the year. The change is the result of the expected rise in interest rates in line with a slightly stronger economy and expectations of higher inflation.

Interest-bearing liabilities

Amounts in SEK m	31-12-2005	31-12-2004
Commercial paper	–	2,323
ECP	435	963
Bonds and MTN	4,886	2,431
EMTN	10,593	9,645
Other loans	1,582	1,776
Total loans	**17,496**	**17,138**
Financial derivatives	944	–
Collateral received for derivatives entered into	498	315
Pension provision	202	195
Total, other interest-bearing liabilities	**1,644**	**510**
Total interest-bearing liabilities	**19,140**	**17,648**

Financing cost

The interest cost for the period according to IFRS, including changes in market value, totalled 3.85 per cent, measured as interest cost in relation to the interest-bearing liability's average capital. The lower financing cost can be explained by the positive result from interest swaps as a result of the rise in interest rates after the summer. According to earlier accounting principles, the interest cost was 4.10 per cent.

Financing cost breakdown

	IFRS	According to earlier principles	
	2005-12-31	2005-12-31	2004-12-31
Loan financing cost, %	2.62	2.62	3.05
Interest swaps, net interest, %	1.05	1.05	1.20
Period allocation and charges, %	0.03	0.43	0.25
Changes in value, financial instruments, %	0.15	–	–
Total financing cost	**3.85**	**4.10**	**4.50**

Five-year Summary

	2005	2004	2003[1]	2002[1]	2001[1]
Income Statement, SEK m					
Management income	4,533	4,530	4,413	4,240	3,976
Operating costs	762	783	730	677	638
Maintenance costs	717	806	835	775	658
Property administration	254	245	216	195	167
Net operating income	2,727	2,625	2,573	2,539	2,462
Change in value, investment properties	7,214	–478	–	–	–
Central administration costs	35	35	22	24	23
Operating profit	9,917	2,119	1,604	1,604	1,651
Net financial income	–647	–795	–895	–917	–864
Profit before taxes	9,270	1,324	710	687	787
Profit for the year	6,654	950	503	495	567
Balance sheet, SEK m					
Fair value, properties	45,616	38,230	36,118	36,475	–
New construction in progress	1,121	806	1,555	1,251	1,594
Other assets	3,414	1,365	1,471	2,708	2,940
Equity	22,455	16,618	7,506	7,248	7,024
Interest-bearing liabilities	19,140	17,454	16,794	17,390	17,267
Other liabilities and provisions	8,556	6,349	3,138	3,099	2,868
Cash flow, SEK m					
Cash flow from current operations	1,675	1,200	1,591	1,575	1,522
Investments	–328	–1,502	–1,894	–1,766	–2,780
Cash flow before financing	1,347	–302	–303	–191	–1,257
Cash flow from financing	–450	164	–840	–147	2,043
Cash flow for the year	897	–138	–1,143	–338	786
Property-related key figures					
Direct yield on fair value, %	6.5	7.1	7.1	7.0	–
Rental income per m^2	1,372	1,365	1,342	1,302	1,255
Operating costs per m^2	233	238	225	210	205
Maintenance costs per m^2 (including tenant adaptations)	219	245	257	240	210
Net operating income in relation to management income, %	60	58	58	60	62
Net operating income per m^2	835	799	791	787	784
Level of vacant space, area	3.2	2.8	1.8	1.8	1.6
Level of vacant space, rent	2.1	1.8	1.2	1.1	0.8
Fair value, properties, SEK/m^2	13,902	11,534	11,089	11,243	–
Carrying value, properties in regional companies, SEK m	25,818	26,021	24,412	23,778	22,625
Financial key figures					
Return on equity after standard tax, %	34.2	7.9	6.9	6.9	8.4
Return on total capital, %	21.9	6.3	5.9	6.0	6.7
Net debt, SEK m	17,915	17,126	16,327	15,779	15,318
Equity ratio, % carrying value	44.8	27.5	27.4	26.1	25.9
Equity ratio, % fair value	44.8	41.1	–	–	–
Internal financing level, %	323	92	85	85	53
Interest cost in relation to average interest-bearing liability, %	3.6	4.7	5.3	5.6	5.6
Tenants and personnel					
Satisfied Tenant Index (Fastighetsbarometern)	75	73	–	–	–
Satisfied Tenant Index (NKI)	67	67	67	63	62
Average number of employees	446	440	430	427	411
Satisfied Employee Index (NMI)	66	66	67	63	61

[1] Not recalculated according to IFRS.

Accounting principles

Historically, Akademiska Hus's financial reports have been prepared in accordance with the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council. Since January 1, 2004, Akademiska Hus's consolidated accounts have been prepared according to the International Financial Reporting Standards (IFRS) as IFRS demands a comparison year. The financial information for the Group for 2004 according to Swedish accounting principles has been recalculated to satisfy IFRS requirements. At the end of this Interim Report, under the heading 'Transition to International Financial Reporting Standards (IFRS)', there is a presentation of how the transition from Swedish accounting principles to IFRS has affected the financial position, results and cash flow of Akademiska Hus.

The transition to IFRS entails changes in certain Akademiska Hus accounting principles. In other respects the accounting principles and calculation methods applied are the same as in the Annual Report. The implementation of IFRS is reported on pages 12–17 in this Interim Report.

This report has not been the subject of an examination by the auditors.

Consolidated Income Statement, Summary

Amounts in SEK m	Jan–Dec 2005	Jan–Dec 2004	Oct–Dec 2005	Oct–Dec 2004
Rental income	4,481	4,482	1,147	1,146
Other property management income	52	48	13	12
Total income from property management	**4,533**	**4,530**	**1,160**	**1,158**
Property management costs				
Operating costs	–762	–783	–209	–225
Maintenance costs	–717	–806	–216	–192
Property administration	–254	–245	–84	–75
Other property management costs	–73	–71	–17	–18
Net operating income	**2,727**	**2,625**	**634**	**648**
Changes in value, properties	7,214	–478	7,158	529
Central administration costs	–35	–35	–15	–17
Other operating income	72	51	22	14
Other operating costs	–61	–44	–7	–13
Profit before financial items	**9,917**	**2,119**	**7,791**	**513**
Net financial income/expense	–647	–795	–127	–196
Profit before taxes	**9,270**	**1,324**	**7,664**	**317**
Taxes	–2,616	–374	–2,168	–80
Net profit for the period	**6,654**	**950**	**5,496**	**237**

Consolidated Balance Sheet, Summary

Amounts in SEK m	31-12-2005	31-12-2004
ASSETS		
Intangible assets	–	10
Tangible assets		
Investment properties	45,616	38,230
New construction in progress, investment properties	1,121	806
Equipment and fittings	27	41
Total tangible assets	**46,764**	**39,077**
Financial assets	1,074	0
Current assets		
Current receivables	1,088	1,005
Liquid funds	1,225	329
Total current assets	**2,313**	**1,334**
TOTAL ASSETS	**50,151**	**40,421**
EQUITY AND LIABILITIES		
Equity		
Share capital	2,135	2,135
Other contributed capital/share premium reserve	2,135	2,135
Profit brought forward	18,185	12,348
Total equity	**22,455**	**16,618**
Liabilities		
Non-current liabilities		
Loans	13,472	11,664
Other non-current liabilities	7,386	4,261
Total non-current liabilities	**20,858**	**15,925**
Current liabilities		
Loans	4,023	5,790
Other current liabilities	2,815	2,088
Total current liabilities	**6,838**	**7,878**
Total liabilities	**27,696**	**23,803**
TOTAL EQUITY AND LIABILITIES	**50,151**	**40,421**

Changes in consolidated equity

	Attributable to the Parent Company's shareholders				
Amounts in SEK m	Share capital	Share premium reserve	Hedging reserve	Profit brought forward	Total equity
OPENING BALANCE AS AT JANUARY 1, 2004	**2,135**	**2,135**	**–**	**11,648**	**15,917**
Dividend	–	–	–	–250	–250
Profit for the year	–	–	–	950	950
CLOSING BALANCE AS AT DECEMBER 31, 2004	**2,135**	**2,135**	**–**	**12,348**	**16,618**
OPENING BALANCE AS AT JANUARY 1, 2005	**2,135**	**2,135**	**–**	**12,348**	**16,618**
Adjustment in conjunction with the change of recognition principle IAS 39	–	–	–22	–633	–655
Tax effect of the change of recognition principle	–	–	6	177	183
ADJUSTED OPENING BALANCE AS AT JANUARY 1, 2005	**2,135**	**2,135**	**–16**	**11,892**	**16,146**
Cash flow hedge	–	–	68	–	68
Tax attributable to items reported against equity	–	–	–19	–	–19
Dividend	–	–	–	–394	–394
Profit for the year	–	–	–	6,654	6,654
CLOSING BALANCE AS AT DECEMBER 31, 2005	**2,135**	**2,135**	**33**	**18,152**	**22,455**

Consolidated Cash Flow Statement, Summary

Amounts in SEK m	2005	2004
Cash flow from current operations before changes in working capital	1,516	1,690
Change in working capital (excl. liquid funds)	159	–490
Cash flow from current operations	**1,675**	**1,200**
Investments	–1,340	–1,528
Sales	1,016	26
Increase in non-current receivables	–4	–
Cash flow from investments	**–328**	**–1,502**
Dividend granted	–394	–250
Raising/amortisation of interest-bearing loans, excluding refinancing	–56	414
Cash flow from financing	**–450**	**164**
CASH FLOW FOR THE PERIOD	**897**	**–138**

Group's Geographical Areas, Summary

Income, including other operating income	Full year 2005	Full year 2004
South	654	641
West	749	823
East	451	443
Uppsala	717	716
Stockholm	1,563	1,508
North	473	450
Other operations	107	95
Elimination of intra-Group income	–108	–95
Total income	**4,606**	**4,581**

Profit before financial items, excluding central overheads		
South	1,053	308
West	1,466	416
East	712	88
Uppsala		72866
Stockholm	4,920	921
North	1,109	330
Other operations	–18	4
Elimination of intra-Group income	–18	21
Profit before financial items, excluding central overheads	**9,952**	**2,154**

Income statement reconciliation		
Operating profit, excluding central overheads	9,952	2,154
Central overheads	–35	–35
Profit on financial items (net)	–647	–795
Tax for the period	–2,616	–374
Profit for the period according to the Income Statement	**6,654**	**950**

Transition to International Financial Reporting Standards (IFRS)

Akademiska Hus's date for the transition to IFRS was January 1, 2004 as IFRS demands a comparison year. The financial information for the Group in 2004 according to Swedish accounting principles has been recalculated to comply with IFRS. The following is an account of the reporting of the transition from Akademiska Hus's previous accounting principles to IFRS together with the effects the transition had on equity, the balance sheet and the reported profit in conjunction with the transition.

The IFRS recommendations that had an effect on equity, the balance sheet and the reported profit are mainly:

- IAS 39 Financial instruments: recognition and measurement have led to a change in the measurement and recognition principles for financial instruments. Up to December 31, 2004, all financial instruments were in principle recognised at the acquisition value and financial derivatives were not recognised in the balance sheet. In addition, realised profits on closed derivative contracts as well as the repurchase of bonds issued were carried forward and allocated to a period across the term of the underlying instruments/loans to secure an even loan cost over the years. The transition to IAS 39 means that the main rule for measurement is that financial assets and all derivatives are at fair value whilst all financial liabilities should be recognised at the accrued acquisition value. Hedge accounting may only be applied when specific requirements are met according to defined hedging methods. In conjunction with a fair value hedge both loan financing and financial derivatives are recognised at the fair value with changes in value recognised in profit and loss. Financial derivatives that qualify for cash flow hedging are measured at the fair value and the changes in value are recognised continuously against equity (hedge reserve) until the underlying changes in value of the transaction affects profit or loss.
- IAS 40 Investment properties has led to a change in the recognition principles for investment properties: Through to December 31, 2003, investment properties were recognised in the Balance Sheet at the acquisition value with a supplement for value-enhancing improvements, reduced by accumulated depreciation according to plan, impairments and reversed impairments. According to IFRS, the investment properties are measured at the fair value and the changes in value are recognised in profit and loss.
- Akademiska Hus has previously made the assessment that two acquisitions of shares in subsidiaries which essentially only contain one investment property in each company constituted a business combination. Akademiska Hus has thus previously recognised a goodwill item related to these two combinations. In accordance with IFRS 3, these two combinations have instead been classified as a combination of a group of assets or net assets which do not constitute a business and consequently the costs for the Group have been divided over the individually identifiable assets and liabilities based on their relative fair value at the time of acquisition.
- IAS 1 Presentation of financial statements has affected the presentation of the interest-bearing liabilities and tax receivables. The changes have not had any effect on the Group's reported profit or total assets.

Other IAS/IFRS recommendations have not entailed any material changes or effects compared with the accounting principles previously applied in the Group.

Application of the transition rules (IFRS 1)

The transition to IFRS is reported in accordance with IFRS 1 'First-time Adoption of IFRS'. The main rule in IFRS 1 requires that a company applies all IFRS standards retrospectively when adopting the opening balance according to IFRS. Certain exceptions to the retrospective application are permitted however. Akademiska Hus has chosen to apply the following:

- IFRS 3 Business combinations. The rules in IFRS 3 are applied prospectively to business combinations that take place from and including the transition date, January 1, 2004.
- IAS 19 Employee benefits. On January 1, 2004, Akademiska Hus implemented RR 29 Employee benefits. RR 29 concurs essentially with IAS 19 and consequently the pension liability calculated and reported as at January 1, 2004 concurs with IFRS. Akademiska Hus has opted, in accordance with the rules in IFRS 1, not to apply IAS 19 retrospectively. Retrospective application would mean that the accumulated effect from the beginning of each pension plan would be allocated to the part which affected the calculations and to a non-reported part, the 'corridor'. Akademiska Hus instead reports all these effects directly in opening equity as at January 1, 2004. Consequently, the introduction of IAS 19 will have no effect in conjunction with the transition to IFRS.
- IAS 39 Financial instruments: recognition and measurement. Akademiska Hus has applied IAS 39 since January 1, 2005 and uses the exception granted in IFRS 1 for companies that are applying IFRS for the first time to not re-calculate comparison figures/information for 2004. Consequently, recognition and measurement of financial instruments, the handling of cash flow and fair value hedging and the application of hedge accounting have taken place in accordance with generally accepted Swedish accounting principles.

In the opinion of the management, the following tables present and quantify the most material effects of the transition to IFRS. The application of IAS 39 (reference B), IAS 40 (A), IFRS 3 (D) and IAS 1 (C) have resulted in the following effects on the Income Statement and the Balance Sheet.

Consolidated Income Statement 2004

Amounts in KSEK	Reference	According to Swedish accounting principles	Effect of transition to IFRS	IFRS 2004
Net operating profit		**2,646,853**	**–**	**2,646,853**
Depreciation and impairment losses and reversed impairment losses in property management	A, D	–1,013,444	991,411	–22,033
Changes in value, properties	A	–	–478,255	–478,255
Total changes in value, properties		**–1,013,444**	**513,156**	**–500,288**
Gross profit		**1,633,409**	**513,156**	**2,146,565**
Central administration costs		–34,541	–	–34,541
Other operating income	A	68,869	–17,750	51,119
Other operating costs	A	–51,999	7,510	–44,489
Total, other operating items		**–17,671**	**–10,240**	**6,630**
Profit before financial items		**1,615,738**	**502,916**	**2,118,654**
Profit on financial items		–794,447	–	–794,447
Profit after financial items		**821,291**	**502,916**	**1,324,207**
Appropriations	–	–	–	
Profit before taxes		**821,291**	**502,916**	**1,324,207**
Taxes	A, E	–233,351	–140,644	–373,995
NET PROFIT FOR THE YEAR		**587,940**	**362,272**	**950,212**

Consolidated Balance Sheet 1-1-2004, 31-12-2004 and opening balance 1-1-2005

Amounts in KSEK	Reference	According to Swedish accounting principles 1-1-2004	Effect of transition to IFRS 1-1-2004	IFRS 1-1-2004	According to Swedish accounting principles 31-12-2004	Effect of transition to IFRS 31-12-2004	IFRS 31-12-2004	Effect of transition to IFRS 1-1-2005	IFRS 1-1-2005
ASSETS									
Intangible assets	D	6,117	–	6,117	32,704	–22,929	9,775	–	9,775
Investment properties	A	24,411,923	11,706,077	36,118,000	26,021,331	12,208,917	38,230,248	–	38,230,248
New construction in progress in investment properties		1,555,497	–	1,555,497	805,790	–	805,790	–	805,790
Other tangible assets		52,109	–	52,109	41,216	–	41,216	–	41,216
Financial assets	E	185,217	–185,167	50	194,132	–194,082	50	542,494	542,544
Current assets	B, C	1,227,949	–	1,227,949	1,345,245	–65,242	1,280,003	32,755	1,312,758
Current prepaid tax	C	–	–	0	–	54,087	54,087	–	54,087
TOTAL ASSETS		**27,438,812**	**11,520,910**	**38,959,722**	**28,440,418**	**11,980,751**	**40,421,169**	**575,249**	**40,996,418**
EQUITY AND LIABILITIES									
Equity									
Restricted equity		5,951,662	–	5,951,662	6,188,381	–	6,188,381	–	6,188,381
Non-restricted reserves/profit brought forward	A, B	1,051,896	8,428,375	9,480,271	1,050,841	8,428,375	9,479,216	–471,994	9,007,222
Profit for the year	A, D, E	502,534	,	502,534	587,940	362,272	950,212	–	950,212
Total equity		**7,506,092**	**8,428,375**	**15,934,467**	**7,827,162**	**8,790,647**	**16,617,809**	**–471,994**	**16,145,815**
Liabilities									
Non-current interest-bearing liabilities	B, C	16,794,471		16,794,471	17,454,179	–5,789,687	11,664,492	930,449	12,594,941
Provision for employee benefits and similar undertakings		163,272		163,272	194,541	–	194,541	–	194,541
Provision, deferred tax	E	745,111	3,092,535	3,837,646	864,843	3,201,259	4,066,102	–183,553	3,882,549
Current interest-bearing liabilities	B, C	–		0	–	5,789,687	5,789,687	–29,390	5,760,297
Non-interest-bearing liabilities	B, C	2,229,866		2,229,866	2,099,693	–11,155	2,088,538	329,737	2,418,275
Total liabilities		**19,932,720**	**3,092,535**	**23,025,255**	**20,613,256**	**3,190,104**	**23,803,360**	**1,047,243**	**24,850,603**
TOTAL EQUITY AND LIABILITIES		**27,438,812**	**11,520,910**	**38,959,722**	**28,440,418**	**11,980,751**	**40,421,169**	**575,249**	**40,996,418**

Changes in Group equity as at 1-1-2004, 31-12-2004 and 1-1-2005

Amounts in KSEK	Reference	Share capital	Earlier restricted and non-restricted equity	Total equity
Equity 1-1-2004 according to Swedish accounting principles		**2,135,000**	**5,371,092**	**7,506,092**
Effects in conjunction with the transition to IFRS				
Fair value, investment properties, opening balance adjustment	A	–	11,706,077	11,706,077
Deferred tax	E	–	–3,277,702	–3,277,702
Equity as at 1-1-2004 according to IFRS		**2,135,000**	**13,799,467**	**15,934,467**
Equity as at 31-12-2004 according to Swedish accounting principles		**2,135,000**	**5,692,162**	**7,827,162**
Effects in conjunction with the transition to IFRS				
Adjustment of opening effects as at 1-1-2004 (see above, investment properties after tax)	A	–	8,428,375	8,428,375
Fair value, investment properties	A	–	502,299	502,299
Reversal, goodwill amortisation	D	–	617	617
Deferred tax	E	–	–140,644	–140,644
Equity as at 31-12-2004 according to IFRS		**2,135,000**	**14,482,809**	**16,617,809**
Non-recurring effects in conjunction with the transition to IFRS (IAS 39)	B			
Profits and losses brought forward, closed derivative contracts		–	–221,323	–221,323
Financial assets measured at fair value through profit or loss, fair value, financial derivatives		–	135,351	135,351
Financial liabilities measured at fair value through profit or loss, fair value, financial derivatives		–	–559,902	–559,902
Other financial liabilities, accrued acquisition value, financial loan liabilities		–	–3,122	–3,122
Hedging of fair value (currency and interest)		–	15,430	15,430
Effects of the transition to IFRS to be carried forward/ allocated to a specific period (IAS 39)	B			
Cash flow hedging (currency and interest)		–	–993	–993
Cash flow hedging (electricity price)		–	–20,988	–20,988
Deferred tax on IFRS changes (IAS 39)	E	–	183,553	183,553
Equity 1-1-2005 according to IFRS		**2,135,000**	**14,010,815**	**16,145,815**

Key figures 2004 and as at 1-1-2005

	According to Swedish accounting principles 2004	IFRS 2004	IFRS 1-1-2005
Direct yield, %	10.5	7.1	7.1[1)]
Direct yield on fair value, %	7.1	7.1	7.1[1)]
Net operating income per square metre	806	806	806
Carrying value, investment properties, SEK m	26,021	38,230	38,230
Fair value, investment properties, SEK m	38,230	38,230	38,230
Return on equity after tax, %	7.7	5.8	5.9[1)]
Return on total equity, %	5.8	5.3	5.3[1)]
Equity ratio, %	27.5	40.9	39.0[1)]
Internal financing level	90	81	81[1)]
Interest coverage level	202	265	265[1)]

1) Calculated on a full-year basis.

Comments (references to the above tables)

A) Investment properties (IAS 40)

According to the accounting principles applied previously by Akademiska Hus, investment properties were reported at the acquisition cost less a deduction for accumulated depreciation, impairment losses and reversed impairment losses.

In the Income Statement, historical depreciation according to plan, impairment losses and reversed impairment losses have thus affected the profit.

According to IAS 40, a company can choose between applying the cost method (which essentially concurs with Akademiska Hus's earlier accounting principles) and a fair value measurement. The Board of Akademiska Hus decided that the Group's investment properties would be measured on an ongoing basis and recognised at the fair value. The effect on equity brought forward as at January 1, 2004 and investment properties as a result of the change in measurement principles totalled KSEK 11,706,077 before tax.

The changes in the accounting principles mean that the estimated changes in the Group's property holdings are recognised through profit and loss and affect the operating profit.

The change in fair value in 2004 had a negative effect on profit to the amount of KSEK 478,255. This also means that depreciation and impairment losses and reversed impairment losses are reversed in the 2004 Income Statement according to IFRS, which has had a positive impact on profit of KSEK 990,794. Furthermore, the change in principles means that the capital gain in the light of previous carrying values is reversed and is instead replaced by what the properties sold commanded in relation to the most recent valuation made of each property. This affected the 2004 net capital gain positively to the amount of KSEK 10,240 and the corresponding effect on operating profit, which is thus reversed in the 2004 Income Statement according to IFRS.

The previous definition and classification of investment properties in relation to owner-occupied properties and properties held for sale has thus not been changed or affected after Akademiska Hus introduced fair value as a measurement standard for investment properties.

B) Financial instruments (IAS 39)

According to Akademiska Hus's earlier accounting principles, all financial instruments, with the exception of derivatives, were reported initially (or at the time of acquisition) at cost and valued according to the lowest cost principle. In conjunction with the transition to IFRS, all financial instruments, including derivatives, will be recognised in the Balance Sheet at fair value at the time of acquisition.

According to IAS 39, the general principles for the measurement of financial instruments according to IAS 39 are that financial assets and all derivatives shall be measured at fair value whilst financial liabilities are measured at cost. Current recognition of the changes in value of the financial instruments is decided by the initial classification of each financial instrument. All Akademiska Hus's financial assets are classified as 'Financial assets at fair value in profit and loss' and measured at fair value, i.e. the changes in value will be recognised directly in profit and loss. The financial liabilities will be measured at the amortised cost with the ongoing changes in value recognised in the result.

The transition to IAS 39 consequently produces effects in conjunction with revaluation from acquisition value to fair value and accrued acquisition value, which as affected the opening balance.

According to earlier principles, Akademiska Hus carried forward the result from closed derivatives as well as repurchases of bonds issued and allocated these over the term of the underlying loan/instrument. Net recognition is not applicable under IAS 32 unless a legal right exists to net recognition, which means that closed derivatives should be carried forward at the gross amount up to the due date whilst realised derivatives are recognised as profit. Repurchased bonds issued are removed from the Balance Sheet and the effects are recognised as income. In conjunction with the transition to IFRS, a non-recurring effect will be recognised in the opening balance.

According to Akademiska Hus's earlier accounting principles, currency and interest derivatives entered into for hedging purposes, are recognised net with the underlying loan financing. According to IAS 39, all derivatives will be recognised in the Balance Sheet at fair value. The change in value for derivatives which qualify for hedge accounting according to the requirements for fair value hedging and derivative instruments which do not qualify for hedge accounting are recognised directly in profit and loss. The change in value for derivatives which qualify for hedge accounting are recognised directly in equity until the underlying transaction is reflected in profit and loss, whereupon any accumulated profit and loss is recognised as income.

During 2004, Akademiska Hus took over trading in electricity as well as trading in electricity derivatives for the purpose of hedging. Electricity derivatives that were entered into for the purpose of hedging future consumption are hedged according to the cash flow hedging principle, which means that the realised profit on electricity derivatives is brought forward and set off together with the underlying actual electricity supplies against the operating profit. The electricity derivatives held/purchased within the deviation mandate are valued on an ongoing basis at the fair value, with changes in value recognised against profit.

C) Division of interest-bearing liabilities into a current and non-current part (IAS 1)

Akademiska Hus has previously divided the Group's liabilities into interest-bearing and non-interest bearing. According to IAS 1, there will also be a division of liabilities into a current part and a non-current part. In conjunction with the transition to IFRS, the division of the Group's liabilities will be made into current and non-current liabilities. Provisions are also classified as a non-current or current liability. In addition, current tax liabilities, which were previously included under 'Other receivables', will be reported on a separate line in the Balance Sheet. These changes have not had any effect on the Group's reported profit or the total assets.

D) Goodwill (IFRS 3)

According to the earlier Akademiska Hus accounting principles, the Group recognised a goodwill item as of December 31,2004 of KSEK 22,929 and amortisation of goodwill of KSEK 617 for the 2004 financial year. Goodwill that arose according to the earlier accounting principles was related to the acquisition of shares in two companies, which are classified and recognised as business combinations. These two companies contained essentially only one property each. In accordance with IFRS 3, these two combinations have instead been classified as one combination of a group of assets or net assets that do not constitute a business and consequently the costs for the Group have been divided among the individually identifiable assets and liabilities based on their relative fair values at the time of acquisition. The previously recognised goodwill as of December 31, 2004 of KSEK 22,929 and amortisation of goodwill for the 2004 financial year of KSEK 617 are reversed in conjunction with the preparation of comparison figures for the 2005 IFRS consolidated accounts.

E) Deferred tax on IFRS changes

The majority of the above IFRS changes mean that differences arise between the reported value and the tax value. For those changes that entail differences, deferred tax has been recognised. In the light of the fact that Akademiska Hus is a Swedish group, an interest rate of 28 per cent has been used when calculating the deferred tax.

Material effects on cash flow 2004

There are no material differences between the cash flow statement according to Swedish accounting principles and the cash flow statement according to IFRS.

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AKADEMISKA HUS

Financial information (Calendar)

Annual Report, March 2006

Interim Report, Q 1 2006, April 27, 2006

Annual General Meeting, April 27, 2006

Interim Report, Q 2 2006, July 14, 2006

Interim Report, Q 3 2006, October 31, 2006

Year-end Report 2006, January 2007