

Akademiska Hus Interim Report January – March 2006



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

The Board and President of Akademiska Hus AB hereby present the Interim Report for January 1 – March 31, 2006

- **Profit before tax** for the period amounted to SEK 617 million (564).
- **Profit for the period** was SEK 444 million (406). Lower maintenance costs and improved net financial income/expense have contributed to the improvement in profit.
- **Rental income** amounted to SEK 1,140 million (1,117). The level of vacant space was 4.1 per cent (2.9). The increase in vacant space is mainly in Göteborg and Uppsala.
- **The direct yield** on a full-year basis is estimated at 6.7 per cent (7.0). The fall in the direct yield can be explained by the higher assessed fair values of the properties.
- **The prospects for 2006** are a profit after net financial income/expense of just over SEK 2 billion notwithstanding changes in the value of properties and/or net financial income/expense.

Profit and key figures

	Jan–Mar 2006	Jan–Mar 2005	2005	2004
Property management income	1,158	1,132	4,533	4,530
Net operating profit	737	657	2,727	2,625
Changes in value, investment properties	–25	56	7,214	–478
Pre-tax profit	617	564	9,269	2,119
Assessed fair value, investment properties, SEK m	45,973	37,413	45,616	38,230
Direct yield, %	6.7*	7.0*	6.5	7.1
Net operating profit per square metre	948*	807*	835	799
Return on equity after standard tax, %	7.0*	8.7*	34.2	5.8
Return on total assets, %	5.9*	6.5*	21.9	5.4
Equity ratio, %	46.1	40.6	44.8	41.1
Internal financing level, %	161	–12	323	92

* Full-year assessment

Comments on the Interim Report by Joakim Ollén, President

The beginning of 2006 was characterised by a gradual upturn in interest rates, a strong increase in energy prices and continued keen competition on the non-residential rental market. All these factors are contributing to suppressing profits in the property industry in general and this is also the case for Akademiska Hus. We have nevertheless been able to achieve a satisfactory profit for the first quarter. It is in particular through increased efficiency in management and reduced maintenance costs that we have been able to counteract the weak improvement in income resulting from pressure on the non-residential market. The rise in interest rates has not yet had any impact and the increase in energy costs has to date only had a limited effect on profit. However, it cannot be ignored that these three negative factors for the property industry could be reflected in future results.

For Akademiska Hus, continued work aimed at improving effi-

ciency is necessary if the Company is to maintain a good profit level in the future. The continued development of the property holdings and a flexible view of the future use of existing properties, including the demolition of buildings in need of modernisation, are regarded as important elements in a continued offensive strategy.

At the beginning of this year two major deals were completed: the sale of part of the Svea Artilleri block in Stockholm to Veidekke/Bouwfunds, mainly for the construction of residential buildings, and the sale of a property on the Seminarieriet block in Uppsala to NCC, for conversion to residential property. To date, however, none of these transactions have had an impact on profit.

Investments

Investments for the first quarter of 2006 totalled SEK 368 million (–626, sale of properties in Göteborg).

Results

Rental income

Rental income amounted to SEK 1,140 million (1,117). The increase is mainly attributable to completed projects.

Rental and vacancy levels

The total holdings amounted to 3,279,000 square metres (3,259,000) of rentable space. The vacancy level was 4.1 per cent (2.9) of the total floor space, which is equivalent to 133,435 square metres (93,674). This figure includes vacant space to a value of SEK 31 million (23) or 2.9 per cent (1.8) of the rent fully leased plus supplements. This reflects the fact that a large proportion of the vacant space has a lower rental value than the holdings on average. During the first quarter of 2006 vacant space increased mainly in Göteborg, where the Mathematics Centre on the Chalmers campus became vacant. In the near future it is estimated that a proportion of the floor space within Akademiska Hus will remain vacant. This applies mainly to Kista and Härnösand.

Leases

The average term for newly signed lease agreements is 10 years and at the turn of the year the average remaining lease term was 6.5 years (6.2). For the larger, complex specialist buildings for laboratory and research activities a lease is normally required that repays the investment within the term of the lease. In these cases leases are normally signed with terms of 10 years or longer.

Operating costs

For the first quarter of 2006 operating costs amounted to SEK 252 million (243), of which energy and water amounted to SEK 184 million (176). The increase in operating costs can be attributed mainly to the rise in energy costs in the form of price rises and higher energy taxes. The increase in the technical complexity of the buildings is also of significance. Compared with other property companies the operating costs in SEK per square metre are relatively high within Akademiska Hus due to the high proportion of laboratories. The laboratory premises total 1.1 million square metres of floor space (34 per cent) and from an energy point of view they are considerably more resource-intensive than other premises.

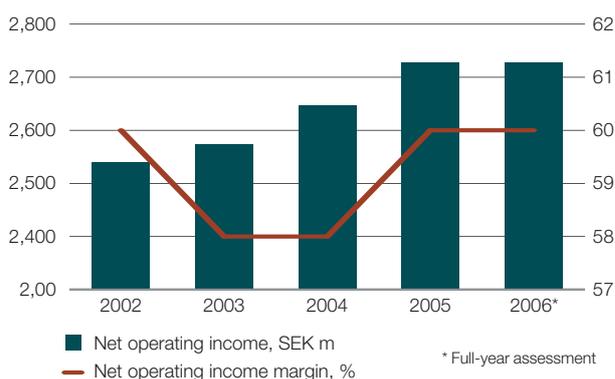
Maintenance costs

Maintenance costs for the period amounted to SEK 90 million (146). The investment by Akademiska Hus in maintenance over several years has meant that the standard of the property holdings is now generally high and the level of maintenance in relative terms is expected to fall in the future. During 2006, Akademiska Hus introduced an amended definition of maintenance costs, which means that only current and planned maintenance is classified as maintenance costs.

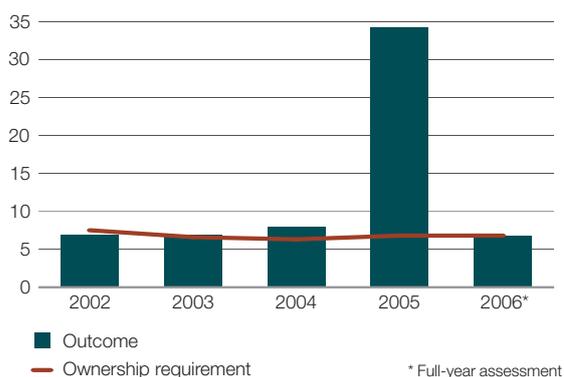
Net financial income/expense

Net financial income/expense for the period totalled SEK –90 million (–147). The reason for the improvement is the low average financing cost for the year, 2.12 per cent (3.55).

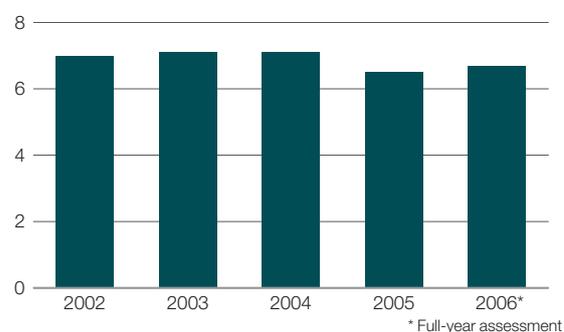
Net operating income, 2002–2006



Return on equity 2002–2006, %



Direct yield 2002–2006, %



Profitability

Net operating profit, i.e. the profit from the Group's operations before changes in value, central administration costs and net financial income/expense, amounted to SEK 737 million (657). The net operating profit has increased from 59 per cent to 63 per cent.

The direct yield as at March 31, 2006, estimated on a full-year basis, was 6.7 per cent (6.5) of the assessed fair value.

The return on equity on a full-year basis is estimated at 6.8 per cent (34.2). One of the owner's requirements for profitability is that the return on equity should be equivalent to the average five-year government bond interest rate plus four percentage points viewed over a business cycle. The average during 2005 for the five-year government bond interest rate was 2.84 per cent and the owner requirement was thus 6.84 per cent.

The owner's financial objectives

With effect from 2005, the owner's financial objectives were set at:

- The yield requirement, calculated as the return (profit after tax) on average equity, shall be equivalent to the average five-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 a minimum of 35 per cent.

Financing

Interest-bearing liabilities

At the period end interest-bearing liabilities amounted to SEK 18,191 million compared with SEK 19,139 million as at 31-12-2005. The maturity was 3.8 years compared with 4.0 years at the turn of the year.

The fixed interest period for the part of the liability portfolio covered by the fixed interest mandate fell slightly to 2.2 years compared with 2.4 years at the turn of the year.

Interest-bearing liabilities

Amounts in SEK m	31-3-2006	31-12-2005
Bank financing	505	–
Commercial paper	1,098	–
ECP	608	435
Bonds & MTN	3,886	4,886
EMTN	7,422	10,593
Other loans	3,357	1,582
Total loans	16,876	17,496
Financial derivatives	992	943
Security received for derivative transactions	119	498
Pension provision	204	202
Total, other interest-bearing liabilities	1,315	1,643
Total interest-bearing liabilities	18,191	19,139

Property valuation

The assessed fair value of Akademiska Hus investment properties as at March 31, 2006 was set through an internal property valuation. The fair value amounts to SEK 46.0 billion, an increase of SEK 0.3 billion since the turn of the year. The increase is due in the first instance to investments.

In the year-end accounts for 2005, Akademiska Hus introduced a cash flow-based valuation as a general method for determining the assessed fair value of 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 income and costs were difficult to assess.

Assessed fair value, investment properties

Amounts in SEK m	31-3-2006	31-12-2005
Opening assessed fair value	45,616	38,230
Investments in investment properties and reclassifications	389	1,101
Sales and disposals	–7	–859
Unrealised changes in fair value	–25	7,144
Closing assessed fair value	45,973	45,616

Financing cost

The interest cost for the period according to IFRS, including changes in market value, totalled 2.12 per cent, measured as the interest cost in relation to the average interest-bearing liability. A positive result in the interest swaps as a result of the upturn in interest rates after the turn of the year contributed to improved net financial income/expense during the period. According to previous accounting principles the interest expense was 3.95 per cent.

Financing cost, composition

	31-3-2006	31-12-2005
Financing cost for loans, %	2.54	2.62
Net interest income/expense, interest swaps, %	1.02	1.05
Allocations to specific periods and charges, %	0.02	0.03
Changes in value, financial instruments, %	–1.46	0.15
Total financing cost	2.12	3.85

Accounting principles

Akademiska Hus complies with the EU-approved International Financial Reporting Standards (IFRS) and the interpretations made by the International Financial Reporting Interpretations Committee (IFRIC). This interim report has been prepared according to IAS 34 Interim Financial Reporting. Accounting principles and computation methods remain unchanged compared with the annual report the previous year.

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

Parent Company

Operations

Akademiska Hus AB is the Parent Company in the Akademiska Hus Group. Operations comprise Group management and other Group functions. The Parent Company handles all financing in the Group (see Financing section).

Income and profit/loss

The Company's income totalled SEK 27 million (24). Of this figure, income from regional companies amounted to SEK 27 million (23). The operating loss was SEK –0.3 million (–13) and net financial income/expense was SEK 115 million (92). The profit before appropriations and tax was SEK 115 million (79).

Investments

Investment in machinery and equipment amounted to SEK 1 million (0).

Equity

Equity totalled SEK 5,478 million compared with SEK 5,361 million at the turn of the year.

Consolidated Income Statement, summary

Amounts in SEK m	2006 Jan-Mar	2005 Jan-Mar (12 months)	2005
Rental income	1,140	1,117	4,481
Other property management income	18	15	52
Total property management income	1,158	1,132	4,533
Operating costs	-252	-243	-762
Maintenance costs	-90	-146	-717
Property administration	-65	-69	-255
Other property management expenses	-14	-17	-72
Total property management expenses	-421	-475	-1,806
Net operating profit	737	657	2,727
Changes in property values, positive	7	-	8,669
Changes in property values, negative	-32	56	-1,455
Total changes in property values	-25	56	7,214
Central administration expenses	-8	-4	-35
Other operating income	21	20	72
Other operating expenses	-18	-18	-61
Total, other operating items	3	2	11
Profit before financial income/expense	707	711	9,917
Financial income/expense	-90	-147	-647
Profit before tax	617	564	9,270
Tax	-173	-158	-2,616
Net profit for the period	444	406	6,654

Consolidated Balance Sheet, summary

Amounts in SEK m	31-3-2006	31-3-2005	31-12-2005
ASSETS			
Intangible assets	-	24	-
Tangible assets			
Investment properties	45,973	37,413	45,616
Construction in progress	1,104	1,070	1,121
Equipment and fittings	36	37	27
Total tangible assets	47,113	38,520	46,764
Financial assets	893	930	1,074
Current assets			
Receivables	565	914	1,088
Liquid funds	930	394	1,225
Total current assets	1,495	1,308	2,313
Total assets	49,501	40,782	50,151
EQUITY AND LIABILITIES			
Equity	22,933	16,552	22,455
Liabilities			
Non-current liabilities			
Interest-bearing	14,010	10,280	14,599
Non-interest-bearing	6,371	4,284	6,259
Total non-current liabilities	20,381	14,564	20,858
Current liabilities			
Interest-bearing	4,181	7,603	4,540
Non-interest-bearing	2,006	2,063	2,298
Total current liabilities	6,187	9,666	6,838
Total liabilities	26,568	24,230	27,696
Total equity and liabilities	49,501	40,782	50,151
Memorandum items			
Pledged assets	10	32	52
Contingent liabilities	2	2	2

Consolidated Cash Flow Statement, summary

Amounts in SEK m	2006 (3 months)	2005 (3 months)	2005 (12 months)
Cash flow from current operations before changes in working capital	591	-184	1,516
Change in working capital (excl. liquid funds)	12	-57	159
Cash flow from current operations	603	-241	1,675
Net investments*	-358	73	-328
Cash flow from investments	-358	73	-328
Dividend paid	-	-	-394
Financing	-540	233	-56
Cash flow from financing	-540	233	-450
CASH FLOW FOR THE PERIOD	-295	65	897

* Net investments refers to investment in and sale of tangible assets.

Changes in Group Equity

Amounts SEK m	Attributable to the Parent Company's shareholder				Total equity
	Share capital	Other contributed capital	Hedge reserve	Profit brought forward	
Equity 1-1-2005	2,135	2,135	-16	11,892	16,146
Profit for the period, Jan-Mar 2005	-	-	-	406	406
Equity 31-3-2005	2,135	2,135	-16	12,298	16,552
Equity not reported in the Income Statement	-	-	50	-	50
Dividend	-	-	-	-394	-394
Profit for the period, Apr-Dec 2005	-	-	-	6,247	6,247
Equity 31-12-2005	2,135	2,135	34	18,151	22,455
Equity not reported in the Income Statement	-	-	34	-	34
Profit for the period, Jan-Mar 2006	-	-	-	444	444
Equity 31-3-2006	2,135	2,135	68	18,595	22,933

The Group's geographical areas, summary

Amounts in SEK m	2006 (3 months)	2005 (3 months)	2005 (12 months)
Income, including other operating income			
South	169	168	654
West	182	188	748
East	115	113	451
Uppsala	184	181	717
Stockholm	410	389	1,563
North	119	113	472
Other operations	27	-87	107
Elimination of intra-Group income	-27	87	-107
Total income	1,179	1,152	4,605
Profit/loss before net financial income/expense, excluding central overheads			
South	99	81	1,054
West	109	169	1,466
East	80	65	712
Uppsala	111	96	728
Stockholm	231	252	4,920
North	72	62	1,109
Other operations	6	1	-18
Elimination of intra-Group items	7	-11	-19
Profit/loss before net financial income/expense, excluding central overheads	715	715	9,952
<i>Reconciliation of the Income Statement</i>			
Profit/loss before net financial income/expense, excluding central overheads	715	715	9,952
Central overheads	-8	-4	-35
Profit/loss on net financial income/expense	-90	-147	-647
Tax for the period	-173	-158	-2,616
Profit for the period according to the Income Statement	444	406	6,654



Report schedule

Interim Report January-June 2006, July 14, 2006

Interim Report January-September 2006, October 31, 2006

Year-End Report 2006, January 2007

Annual Report 2006, March 2007