Akademiska Hus

Interim Report January–June 2005

05

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

The Board and President of Akademiska Hus AB hereby present the Interim Report for the period January 1 – June 30, 2005.

- **Rental income** totalled SEK 2,228 million (2,221). The level of vacant space was 2.9 per cent, an increase from 2.8 per cent at the turn of the year. The direct yield was 7.1 per cent.
- **In January,** an area in Gothenburg comprising four large buildings and totalling 63,000 square metres was sold to Chalmersfastigheter AB. At the same time, the Group was commissioned to manage all buildings for Chalmersfastigheter AB.
- **New major customers** include the European Centre for Disease Prevention and Control (ECDC), the National Swedish Environmental Protection Board and BioVitrum.

  During the period a number of major leases were renegotiated with the dominant customer group, universities and colleges.
- **The value of investment properties** remained unchanged, SEK 38 million, compared with the figure at the turn of the year. Work is in progress on a new, cash flow-based valuation method with associated system support. Implementation will take place by the turn of the year.
- **Profit after financial items** for the period was SEK 985 million (689). The profit after tax for the period was SEK 709 million (496).
- **The remainder of the year** will be marked by a difficult non-residential property market. For Akademiska Hus this means there will be a continued need to improve efficiency with the aim of offering attractive environments with long-term profitability.

  A pre-tax profit in excess of SEK 1,900 million, excluding changes in value, is expected for the full year.

AKADEMISKA HUS

Property operations

Rental income and profit

Rental income amounted to SEK 2,228 million, an increase of SEK 7 million compared with the same period in 2004.

Maintenance costs amounted to SEK –322 million (–426). The maintenance made in previous years have meant that the standard of the Akademiska Hus property holdings is now generally high and the cost of maintenance in the Group is falling. Net operating income was SEK 1,365 million (1,263).

The value of the properties remained unchanged compared with the figure at the turn of the year, with due consideration given to sales. Investments have been recorded at the cost incurred.

Net financial income and expense was SEK –419 million (–411). The generally unchanged net financial income and expense figure can be explained by the fall in the market value of derivatives, despite the decrease in interest rates during the second quarter. Under the new IFRS reporting procedures, these are now included. The interest expense for the period fell to 4.25 per cent from 4.50 per cent at the turn of the year.

The profit after financial items for the period was SEK 985 million (689).

Property portfolio and leases

The value of investment properties, excluding new construction in progress, totalled SEK 37,529 million (36,785). New construction in progress as at June 30 was SEK 1,345 million (1,480). The value of the investment properties, using the valuation methods employed to date, remained unchanged compared with the figure at the turn of the year. Work is in progress on a new, cash flow-based valuation method with associated system support. Implementation will take place by the turn of the year.

The average remaining lease term was 6.3 years compared with 6.2 years at the turn of the year.

Rentable space totalled 3,258,812 square metres compared with 3,314,609 at the turn of the year. During the period, four large properties, totalling 63,000 square metres and located within Chalmers University of Technology, were sold. Vacant space was 2.9 per cent, an increase from 2.8 per cent at the turn of the year. The level of vacant space in financial terms was 2.1 per cent.

Investments

Investments in properties totalled SEK 764 million. Sales during the period totalled SEK 993 million. Net investments totalled SEK –230 million. As at June 30, 2005, a number of construction projects were in progress, the largest of which are:

Project

	Location	Investment framework (SEK m)	Invested as at 30-6-2005 (SEK m)
Tre Vapen II	Stockholm	370	69
Swedish National Defence College	Stockholm	368	257
Centre for Chemistry and Chemical Engineering	Lund	346	115
Teknikens Hus	Karlstad	300	8

Key figures (according to IFRS)

	Jan – June 2005	Jan – June 2004	2004 (Full year)
Direct yield, %	7.1[1)]	7.1[1)]	7.1
Net operating income per sq. m.	825[1)]	780[1)]	806
Fair value, investment properties, SEK m	37,529	36,785	38,230
Return on equity after standard tax, %	8.6[1)]	4.7[1)]	5.8
Return on total equity, %	6.6[1)]	4.8[1)]	5.3
Equity ratio, %	38.7	40.4	40.9
Internal financing level, %	–215	92	81
Interest coverage level, %	328	266	265

[1)] Calculated on a full-year basis.

New financial objectives

With effect from 2005, the owner's financial objectives have been changed as follows:

- The yield requirement, calculated as the yield (profit after tax) on average equity shall be equivalent to the five-year government bond loan interest rate plus four percentage points, viewed over an economic 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.

Financing

Interest-bearing liabilities

Interest-bearing liabilities at the period-end amounted to SEK 19,511 million compared with SEK 17,648 million at the turn of the year (18,549 as at 1-1-2005).

According to the new accounting standards (IFRS), loans are now reported at the closing rate. Of the total reported increase, SEK 736 million is attributable mainly to changes in exchange rates. The maturity has been extended through issues under the long-term programmes. Under the MTN programme there has been a public bond issue on the Swedish market of SEK 1,500 million with a term of five years and under the EMTN programme CHF 310 million was issued with terms ranging from two to six years. The short-term financing programmes were utilised to a slightly lesser extent during the period.

The fixed interest period for the part of the liability portfolio covered by the fixed interest mandate has been reduced to 1.2 years compared with 1.6 years at the turn of the year. The change is the result of the changed interest rate scenario, with falling interest rates. Through the bond issues the liability maturity has been extended to 2.8 years from 2.3 years at the turn of the year.

Interest-bearing liabilities

Amounts in SEK m	30-6-2005	1-1-2005	31-12-2004
Bank financing	–	–	–
Commercial paper	1,251	2,323	2,323
ECP	452	883	963
Bonds and MTN	3,610	2,506	2,431
EMTN	10,950	9,663	9,645
Other loans	1,713	1,639	1,776
Total loans	**17,976**	**17,014**	**17,138**
Financial derivatives	875	1,024	–
Collateral received for derivatives entered into	462	316	315
Pension provision	198	195	195
Total, other interest-bearing liabilities	**1,535**	**1,535**	**510**
Total interest-bearing liability	**19,511**	**18,549**	**17,648**

Renewal structure for fixed interest and liability maturity as at 30-6-2005

Year	Fixed interest, SEK m	Liability maturity, SEK m
2005	14,250	2,297
2006	–3,136	3,460
2007	3,350	1,789
2008	200	2,881
2009	1,300	2,250
2010	800	3,442
2011 and later	461	1,106
Total	**17,225**	**17,225**

(Nominal amounts).

Financing cost

The reporting of financing costs has been changed due to the new accounting principles (IFRS), which means that changes in the market value of the derivatives that are used for the purpose of balancing the interest risk in the liability portfolio are now included in the reported financing cost. As the Group has a significant proportion of the interest risk coverage in derivatives which do not qualify for hedge accounting, the market value of these varies as a result of changes in the general interest level. Interest risk management aims to achieve a low financing cost over time. The changes in market value do not affect the cash flow and are not a target variable in financing operations.

The interest cost for the period according to IFRS, including changes in market value, totalled 5.03 per cent, measured as interest cost in relation to the interest-bearing liability's average capital. The change in value is explained by an increase in undervalue in interest swaps as a result of the fall in interest rates. According to earlier accounting principles, the interest cost was 4.25 per cent.

Financing cost breakdown

	IFRS	According to earlier principles	
	30-6-2005	30-6-2005	31-12-2004
Loan financing cost, %	2.72	2.72	3.05
Interest rate swaps, net interest, %	1.14	1.14	1.20
Period allocation and charges, %	–0.01	0.39	0.25
Changes in value, financial instruments, %	1.18	–	–
Total financing cost	**5.03**	**4.25**	**4.50**

The average interest on the outstanding interest-bearing liability, including interest rate swaps, was 3.50 per cent at the end of the period, compared with 3.95 per cent at the turn of the year.

Average interest on interest-bearing liability

	30-6-2005	31-12-2004
Loans, %	2.65	2.82
Interest rate swaps, %	0.85	1.13
Loans, including interest rate swaps, %	**3.50**	**3.95**

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. With effect from January 1, 2005, Akademiska Hus's consolidated accounts are prepared according to the International Financial Reporting Standards (IFRS). This Interim Report has been prepared in accordance with IAS 34, Interim Financial Reporting. At the end of this interim report, under the heading 'Implementation of IFRS 2005', 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. The new accounting principles are presented below. In other respects the accounting principles and computation methods applied are the same as in the Annual Report.

New accounting principles

Investment properties

Investment properties, i.e. properties owned with the aim of generating rental income or gains resulting from an increase in value are measured on a continuous basis at the fair value. The fair value is based on the period-end market values, which means the value a property could be assigned by knowledgeable parties who are independent of each other and who have an interest in the transaction being implemented. The changes in fair value are recognised in profit or loss and affect the operating profit.

Any profit or loss that arises in conjunction with disposal or scrapping of the investment properties comprises the difference between the sales price and the most recent valuation, i.e. an realised change in value which is recognised in profit or loss and which has an impact on the operating profit.

The term 'investment property' includes buildings, land, land improvements and building and land equipment.

In cases where Akademiska Hus uses part of a building for its own administration, the property is an investment property only if an insignificant part is used for administrative purposes. All properties in the Akademiska Hus Group have been classified as investment properties even if in exceptional cases there are properties where a slightly more significant part is used by Akademiska Hus, mainly for administrative purposes.

When an owner-occupied property is reclassified as an investment property, any fall in the reported value should be recognised in profit or loss. To the extent an increase in the reported value reverses a former impairment loss on the property, the increase is also recognised in net profit or loss. Any remaining part of the increase is reported in the revaluation reserve in equity. In conjunction with a subsequent disposal of the property, the surplus reported in equity (revaluation reserve) is transferred to the profit carried forward.

If an investment property is reclassified as an investment property or a stock asset, the property is reported at an assumed acquisition value, equivalent to a fair value of the property at the time of reclassification.

New construction in progress in investment properties is reported at the cost incurred until the new investment has been completed, whereupon it is reclassified as investment property. At the time of reclassification, the difference between the reported value and the fair value is recognised in profit or loss and has an impact on the operating profit.

Goodwill

Goodwill is reported in the Balance Sheet as an intangible asset at the acquisition value with a deduction for accumulated impairment losses. Goodwill is assessed to have an indeterminate period of use. Goodwill is allocated to cash-generating units and the reported value is tested for impairment at least once a year. Testing for impairment takes place more often if there are indications that a reduction in value has taken place during the year.

If an acquisition means that the fair value of acquired assets, liabilities and contingent liabilities exceeds the acquisition value, the surplus is reported immediately as income in the Income Statement.

Financial assets and liabilities

Initially, financial instruments are reported at fair value and thereafter on a continuous basis at the fair value or the accrued acquisition value based on the initial categorisation.

Financial instruments are divided into the following categories:
1. Financial assets at fair value through profit or loss
2. Held-to-maturity assets
3. Loans and receivables
4. Available-for-sale assets

All Akademiska Hus investments, as well as derivatives with a positive market value that do not satisfy the requirements for hedge accounting, are categorised as 'Financial assets at fair value through profit or loss'. This categorisation is based on two sub-categories: held for trading and other financial assets as covered by IAS 39. Assets in this category are reported initially at the acquisition value, i.e. the fair value at the time of acquisition, and are measured thereafter on a continuous basis at the fair value. The change in value is reported continuously through profit or loss.

Financial assets, with fixed or determinable payments, a fixed maturity date and where the company intends and is able to hold to maturity, are categorised as 'Held-to-maturity assets'. As at June 30, 2005, Akademiska Hus did not hold any financial instruments in this category.

Akademiska Hus accounts receivable are categorised as 'Loans and receivables' and are reported and measured continuously at the accrued acquisition value. At each period-end this asset is tested for impairment.

The 'Available-for-sale assets' category covers all instruments that do not fall under any of the other three categories. Akademiska Hus did not hold any financial instruments in this category as at June 30, 2005.

Financial liabilities can be divided into the following categories:
1. Liabilities at fair value through profit or loss
2. Designated

Derivatives with a negative market value and which do not satisfy the demands for hedge accounting are classified as 'Liabilities at fair value through profit or loss'. This categorisation is made based on two sub-categories, 'Liabilities held for trading' and 'Designated'. These liabilities are recognised initially at the acquisition value and thereafter directly at the fair value. The change in value is recognised directly in profit or loss.

Financial liabilities that are not covered by hedge accounting are categorised as 'Designated' and are reported and measured at the accrued acquisition value. Direct costs incurred in conjunction with the raising of loans are included in the acquisition value.

Hedge accounting

Hedge accounting at Akademiska Hus takes place through a division into two types of hedges depending on the purpose of the hedge: 'Fair value hedge' and 'Cash flow hedge'.

In the case of a fair value hedge, both the hedge item, in respect of the hedged risk, as well as the hedging instrument are measured at the fair value. The changes in value are recognised immediately in profit or loss.

In the case of a cash flow hedge, the derivative contract is measured at the fair value at the same time that the hedged item is measured according to the original categorisation. The change in value of the derivative instrument that qualifies for hedging according to the requirements for cash flow hedges is recognised directly in equity until the underlying transaction is reflected in the Income Statement, whereupon any accumulated gain or loss is taken up.

One of the criteria for hedge accounting to be applied is that the hedge is expected to be effective both on entering and during the hedging period. The ineffective part of the hedge, i.e. the difference between the change in value in the exposure (the risk associated with interest, price of electricity or currency exchange rate), which is hedged in underlying transactions and changes in value in the hedging instrument's (derivative's) equivalent risk, shall be taken up directly.

Financial assets and liabilities in a foreign currency

Financial assets and liabilities in a foreign currency are translated at the exchange rate at the period-end, whereupon exchange rate differences are recognised in profit or loss. Both realised and unrealised exchange rate differences are recognised in profit or loss.

Fair value, financial instruments

When valuing financial instruments at the fair value, official quotations as at the period-end are used. Where these are not available, a valuation is made through the discounting of future cash flows at the quoted market rate of interest for each period.

Parent Company

Operations

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

Income and profit

The Company's income totalled SEK 195 million (46), of which income from regional companies totalled SEK 195 million (46). Operating profit was SEK –5.1 million (1.2) and net financial income and expense was SEK 235 million (290), including SEK 190 million (185) in dividends from regional companies. Profit before appropriations and taxes was SEK 230 million (291).

Investments

Investments in machinery and equipment totalled SEK 4 million (2.9).

Equity

Equity totalled SEK 5,199 million compared with SEK 5,801 million at the turn of the year. The effect on opening equity as at 1-1-2005 as a result of a change in accounting principles for financial instruments (IAS 39) was SEK –472 million after tax.

Consolidated Income Statement, Summary

Amounts in SEK m	2005 Jan–June	2004 Jan–June	2005 Apr–June	2004 Apr–June	2004 Full year
Rental income	2,228	2,221	1,111	1,106	4,482
Other property management income	28	25	13	11	48
Total operating income	**2,256**	**2,246**	**1,124**	**1,117**	**4,530**
Property management costs					
Operating costs	–410	–403	–167	–162	–783
Maintenance costs	–322	–426	–176	–273	–806
Property administration	–122	–116	–53	–58	–244
Other property management costs	–37	–38	–20	–18	–72
Net operating profit	**1,365**	**1,263**	**709**	**606**	**2,625**
Realised changes in value, investment properties	56	–	–	–	–
Unrealised changes in value, investment properties	–	–154	–	–127	–478
Gross profit	**1,421**	**1,109**	**–**	**479**	**2,147**
Central administration costs	–10	–14	–6	–7	–35
Other operating income	33	28	13	17	51
Other operating costs	–40	–23	–22	–14	–44
Operating profit	**1,404**	**1,100**	**693**	**475**	**2,119**
Net financial income/expense	–419	–411	–272	–203	–795
Profit before taxes	**985**	**689**	**421**	**272**	**1,324**
Taxes	–276	–193	–118	–76	–374
Net profit for the period	**709**	**496**	**303**	**196**	**950**

Consolidated Balance Sheet, Summary

Amounts in SEK m	30-6-2005	30-6-2004	31-12-2004
ASSETS			
Intangible assets	24	7	33
Tangible assets			
Investment properties	37,529	36,785	38,230
New construction in progress	1,345	1,480	806
Equipment and fittings	34	49	41
Total tangible assets	**38,908**	**38,314**	**39,077**
Financial assets	1,327	192	194
Current assets			
Receivables	790	777	1,016
Liquid funds	1,547	677	329
Total current assets	**2,337**	**1,454**	**1,345**
Total assets	**42,596**	**39,967**	**40,649**
EQUITY AND LIABILITIES			
Equity	16,504	16,163	16,618
Liabilities			
Long-term liabilities			
Interest-bearing	13,162	12,365	11,858
Non-interest-bearing	4,283	4,106	4,283
Total long-term liabilities	**17,445**	**16,471**	**16,141**
Current liabilities			
Interest-bearing	6,349	5,206	5,790
Non-interest-bearing	2,298	2,127	2,100
Total current liabilities	**8,647**	**7,333**	**7,890**
Total liabilities	**26,092**	**23,804**	**24,031**
Total equity and liabilities	**42,596**	**39,967**	**40,649**
Memorandum items			
Pledged assets	19	16	77
Contingent liabilities	2	1	2

Consolidated Cash Flow Statement, Summary

Amounts in SEK m	2005 Jan–june	2004 Jan–june	2004 Full year
Cash flow from current operations before changes in working capital	1,216	728	1,690
Change in working capital (excl. liquid funds)	–79	–102	–490
Cash flow from current operations	**1,137**	**626**	**1,200**
Net investments[1)]	228	–754	–1,502
Cash flow from investments	**228**	**–754**	**–1,502**
Dividend granted	–394	–250	–250
Financing	247	587	414
Cash flow from financing	**–147**	**337**	**164**
Cash flow for the period	**1,218**	**209**	**–138**

1) The term 'net investments' refers to investments in intangible and tangible assets and sales thereof.

Changes in consolidated equity

	Restricted reserves		Non-restricted reserves		
Amounts in SEK m	Share capital	Restricted reserves	Non-restricted reserves	Profit for the period	Total equity
Equity 1-1-2004	**2,135**	**3,817**	**9,965**	**–**	**15,917**
Dividend	–	–	–250	–	–250
Profit for the period Jan–June 2004	–	–	–	496	496
Equity 30-6-2004	**2,135**	**3,817**	**9,715**	**496**	**16,163**
Movement between restricted and non-restricted equity	–	236	–236	–	–
Profit for the period July–Dec 2004	–	–	–	454	454
Equity 31-12-2004	**2,135**	**4,053**	**9,479**	**950**	**16,618**
Effects of the transition to IFRS (net after tax)	–	–	–472	–	–472
Equity 1-1-2005	**2,135**	**4,053**	**9,007**	**950**	**16,146**
Equity not reported in the Income Statement	–	–	–	44	44
Dividend	–	–	–394	–	–394
Profit for the period Jan–June 2005	–	–	–	709	709
Equity 30-6-2005	**2,135**	**4,053**	**8,613**	**1,703**	**16,504**

Group's Geographical Areas, Summary

Amounts in SEK m	2005 Jan–June	2004 Jan–June	2005 Apr–June	2004 Apr–June	2004 Full year
Income, including other operating income					
Lund	330	326	162	164	641
Göteborg	428	404	184	205	823
Linköping	227	218	114	108	443
Uppsala	365	353	184	175	716
Stockholm	767	750	378	369	1,508
North	228	223	115	113	450
Other operations	195	46	108	23	95
Elimination of intra-Group income	–195	–46	–108	–23	–95
Total income	**2,345**	**2,274**	**1,137**	**1,134**	**4,581**
Operating profit, excluding central overheads					
Lund	187	163	106	81	308
Göteborg	274	202	106	101	416
Linköping	133	85	68	20	88
Uppsala	192	28	96	–43	66
Stockholm	508	458	256	224	921
North	117	160	55	88	330
Other operations	–	5	–1	3	4
Elimination of intra-Group income	3	13	14	8	21
Total operating profit, excluding central overheads	**1,414**	**1,114**	**700**	**482**	**2,154**
Income statement reconciliation					
Operating profit, excluding central overheads	1,414	1,114	700	482	2,154
Central overheads	–10	–14	–6	–7	–35
Profit on financial items (net)	–419	–411	–272	–203	–795
Tax for the period	–276	–193	–118	–76	–374
Profit for the period according to the Income Statement	**709**	**496**	**303**	**196**	**950**

Investment properties

Amounts in SEK m	30-6-2005	31-12-2004
Opening book value	38,230	24,412
Sales and disposals	–855	–25
Investments	64	1,185
Transferred from new construction in progress	90	1,430
Adjustment in value, opening effect January 1, 2004	–	11,706
Adjustment in value, effect for the year	–	–478
Closing book value	**37,529**	**38,230**

Implementation of IFRS 2005

General

Akademiska Hus's date for the transition to IFRS is January 1, 2004 as IFRS requires re-computation of a comparative year. The financial information for the Group in 2004 according to the Swedish accounting principles has been recomputed to comply with IFRS. The following is a complete account and report on the transition from Akademiska Hus's previous accounting principles to IFRS.

The areas and IFRS standards that Akademiska Hus preliminarily considers will have the greatest impact on equity, the Balance Sheet and reported profit in conjunction with the transition to IFRS are:

• *Financial instruments (IAS 39)*
– Introduction of fair value as a measurement standard for financial instruments
– All financial instruments will be reported in the Balance Sheet
– Clarification that hedge accounting will only be applied when strict requirements are met

• *Investment properties (IAS 40)*
– Measurement of investment properties at fair value
– Changes in the fair value are recognised in profit or loss

• *Goodwill (IFRS 3)*
– Goodwill will not be amortised according to plan

• *Division of interest-bearing liabilities into current and long-term parts (IAS 1)*

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 balances according to IFRS. Certain exceptions to the retrospective application are permitted however. Akademiska Hus has chosen to apply the following:

• *Financial instruments (IAS 39)*
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-compute 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.

• *Goodwill (IFRS 3)*
The rules in IFRS 3 Business Combinations will be applied prospectively to business combinations that take place from and including the transition date, January 1, 2004.

• *Defined benefit pension plans (IAS 19)*
On January 1, 2004, Akademiska Hus implemented RR 29 Employee benefits. RR 29 concurs essentially with IAS 19 and consequently the pension liability computed 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 computations and to a non-reported part, the so-called corridor. Akademiska Hus instead reports all these effects directly in opening equity as at January 1, 2004. As this has already been done, based on RR 29, the introduction of IAS 19 will have no effect in conjunction with the transition to IFRS.

Change in accounting principles and effects in conjunction with the transition to IFRS – preliminary assessment

In the opinion of the management the following tables present and quantify (preliminarily) the most material effects of the transition to IFRS. The information below has been prepared according to IFRS standards, which are expected to be applied on December 31, 2005. IFRS is still the subject of review and approval by the EU and consequently changes could still take place. As the rules were recently introduced, clarification by the standard-setter and the development of practice within the area means further clarifications could affect the information below.

Consolidated Income Statement – summary

– reconciliation between Swedish accounting principles and IFRS 2004

Amounts in SEK m	Reference	According to Swedish accounting principles 2004, Jan–June	Effect of transition to IFRS 2004, Jan–June	IFRS 2004, Jan–June	According to Swedish accounting principles 2004, Apr–June	Effect of transition to IFRS 2004, Apr–June	IFRS 2004, Apr–June	According to Swedish accounting principles 2004, Jan–Dec	Effect of transition to IFRS 2004, Jan–Dec	IFRS 2004, Jan–Dec
Rental income		2,221	–	2,221	1,106	–	1,106	4,482	–	4,482
Other property management income		25	–	25	11	–	11	48	–	48
Total operating income		**2,246**	**–**	**2,246**	**1,117**	**0**	**1,117**	**4,530**	**0**	**4,530**
Property management costs										
Operating costs		–398	–5	–403	–159	–3	–162	–772	–11	–783
Maintenance costs		–426	–	–426	–273	–	–273	–806	–	–806
Property administration		–110	–6	–116	–55	–3	–58	–233	–11	–244
Other property management costs		–38	–	–38	–18	–	–18	–72	–	–72
Net operating profit		**1,274**	**–11**	**1,263**	**612**	**–6**	**606**	**2,647**	**–22**	**2,625**
Revaluation, investment properties	A	–	–154	–154	–	–127	–127	–	–478	–478
Depreciation and impairment losses and reversed impairment losses in property management	A, D	–473	473	–	–240	240	–	–1,013	1,013	–
Gross profit		**801**	**308**	**1,109**	**372**	**107**	**479**	**1,634**	**513**	**2,147**
Central administration costs		–14	–	–14	–7	–	–7	–35	–	–35
Other operating income	A	46	–18	28	35	–18	17	69	–18	51
Other operating expenses	A	–29	6	–23	–14	–	–14	–52	8	–44
Operating profit/loss		**804**	**296**	**1,100**	**386**	**89**	**475**	**1,616**	**503**	**2,119**
Financial items		–411	–	–411	–203	–	–203	–795	–	–795
Profit before taxes		**393**	**–296**	**689**	**183**	**89**	**272**	**821**	**503**	**1,324**
Taxes	A, E	–110	–	–193	–51	–25	–76	–233	–141	–374
Net profit for the period		**283**	**213**	**496**	**132**	**64**	**196**	**588**	**362**	**950**

Consolidated Balance Sheet – summary

– reconciliation between Swedish accounting principles and IFRS 1-1-2004, 30-6-2004, 31-12-2004 and 1-1-2005

Amounts in SEK m	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 30-6-2004	Effect of transition to IFRS 30-6-2004	IFRS 30-6-2004	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	–	6	7	–	7	33	–	33	–	33
Tangible fixed assets												
Investment properties	A	24,412	11,706	36,118	24,783	12,002	36,785	26,021	12,209	38,230	–	38,230
New construction in progress		1,556	–	1,556	1,480	–	1,480	806	–	806	–	806
Equipment and fittings		52	–	52	49	–	49	41	–	41	–	41
Total tangible fixed assets		**26,020**	**11,706**	**37,726**	**26,312**	**12,002**	**38,314**	**26,868**	**12,209**	**39,077**	**–**	**39,077**
Financial assets	B, E	185	–	185	192	–	192	194	–	194	726	920
Current assets												
Current receivables	B, C	761	–	761	777	–	777	1,016	–	1,016	33	1,049
Liquid funds		467	–	467	677	–	677	329	–	329	–	329
Total current assets		**1,228**	**–**	**1,228**	**1,454**	**–**	**1,454**	**1,345**	**–**	**1,345**	**33**	**1,378**
Total assets		**27,439**	**11,706**	**39,145**	**27,965**	**12,002**	**39,967**	**28,440**	**12,209**	**40,649**	**759**	**41,408**
EQUITY, PROVISIONS AND LIABILITIES												
Equity												
Restricted equity		5,952	–	5,952	5,952	–	5,952	6,188	–	6,188	–	6,188
Non-restricted equity	A, B, D, E	1,554	8,428	9,982	1,570	8,641	10,211	1,639	8,791	10,430	–472	9,958
Total equity		**7,506**	**8,428**	**15,934**	**7,522**	**8,641**	**16,163**	**7,827**	**8,791**	**16,618**	**–472**	**16,146**
Provisions	C	908	–908	–	934	–934	–	1,059	–1,059	–	–	–
Liabilities												
Long-term liabilities												
Interest-bearing	B, C	16,794	163	16,957	17,382	–5,017	12,365	17,454	–5,596	11,858	930	12,788
Non-interest-bearing	C, E	–	4,023	4,023	–	4,106	4,106	–	4,283	4,283	–	4,283
Total long-term liabilities		**16,794**	**4,186**	**20,980**	**17,382**	**–911**	**16,471**	**17,454**	**–1,313**	**16,141**	**930**	**17,071**
Current liabilities												
Current liabilities, interest-bearing	B, C	–	–	0	–	5,206	5,206	–	5,790	5,790	–29	5,761
Current liabilities, non-interest-bearing	B, C	2,231	–	2,231	2,127	–	2,127	2,100	–	2,100	330	2,430
Total current liabilities		**2,231**	**0**	**2,231**	**2,127**	**5,206**	**7,333**	**2,100**	**5,790**	**7,890**	**301**	**8,191**
Total liabilities		**19,025**	**4,186**	**23,211**	**19,509**	**4,295**	**23,804**	**19,554**	**4,477**	**24,031**	**1,231**	**25,262**
Total equity, provisions and liabilities		**27,439**	**11,706**	**39,145**	**27,965**	**12,002**	**39,967**	**28,440**	**12,209**	**40,649**	**759**	**41,408**

Changes in Group equity

– reconciliation between Swedish accounting principles and IFRS 2004 as well as 1-1-2005

Amounts in SEK m	Reference	Restricted reserves Share capital	Restricted reserves Restricted reserves	Non-restricted reserves Non-restricted reserves	Non-restricted reserves Profit/loss for the period	Total equity
Equity 1-1-2004 according to the present accounting principles		**2,135**	**3,817**	**1,554**	**–**	**7,506**
Fair value, investment properties, adjustment of opening balance	A	–	–	11,706	–	11,706
Deferred tax	E	–	–	–3,278	–	–3,278
Equity 1-1-2004 according to IFRS		**2,135**	**3,817**	**9,982**	**–**	**15,934**
Equity as at 30-6-2004 according to the present accounting principles		**2,135**	**3,817**	**1,287**	**283**	**7,522**
Effects in conjunction with the transition to IFRS						
Adjustment of opening effects as at January 1, 2004, see above	A	–	–	8,428	–	8,428
Reversal, depreciation, investment properties	A	–	–	–	462	462
Reversal, capital gain, investment properties	A	–	–	–	–12	–12
Fair value, investment properties, result for the period	A	–	–	–	–154	–154
Reversal, goodwill amortisation	D	–	–	–	–	–
Deferred tax	E	–	–	–	–83	–83
Equity as at 30-6-2004 according to IFRS		**2,135**	**3,817**	**9,715**	**496**	**16,163**
Equity as at 31-12-2004 according to the present accounting principles		**2,135**	**4,053**	**1,051**	**588**	**7,827**
Effects in conjunction with the transition to IFRS						
Adjustment of opening effects as at January 1, 2004, see above	A	–	–	8,428	–	8,428
Reversal, depreciation, investment properties	A	–	–	–	991	991
Reversal, capital loss, investment properties	A	–	–	–	–10	–10
Fair value, investment properties, result for the period	A	–	–	–	–478	–478
Reversal, goodwill amortisation	D	–	–	–	–	–
Deferred tax	E	–	–	–	–141	–141
Equity as at 31-12-2004 according to IFRS		**2,135**	**4,053**	**9,479**	**950**	**16,618**
Non-recurring effects in conjunction with the transition to IFRS (IAS 39)	B					
Losses brought forward, closed derivative transactions		–	–	–351	–	–351
Profits brought forward, closed derivative transactions		–	–	129	–	129
Financial assets measured at the fair value through profit and loss						
Fair value, financial derivatives		–	–	135	–	135
Financial liabilities measured at fair value through profit and loss						
Fair value, financial derivatives		–	–	–560	–	–560
Other financial liabilities						
Accrued acquisition value, financial loan liabilities		–	–	–3	–	–3
Hedging of fair value						
Underlying loans (currency and interest)		–	–	–90	–	–90
Hedging instruments (currency and interest)		–	–	106	–	106
Effects of the transition to IFRS to be carried forward/allocated to a specific period	B					
Cash flow hedging						
Hedging instrument (currency and interest)		–	–	–1	–	–1
Hedging instrument (electricity price)		–	–	–21	–	–21
Deferred tax on IFRS changes	E		–	183	–	183
Equity 1-1-2005 according to IFRS		**2,135**	**4,053**	**9,007**	**950**	**16,146**

Key figures

– reconciliation between Swedish accounting principles and IFRS

	According to Swedish accounting principles 30-6-2004	IFRS, 30-6-2004	According to Swedish accounting principles 31-12-2004	IFRS, 31-12-2004	IFRS, 1-1-2005
Direct yield, %	10.4[1]	7.1[1]	10.5	7.1	7.1
Direct yield on fair value, %	–	7.1[1]	7.1	7.1	7.1
Net operating income per square metre	780[1]	780[1]	806	806	806
Carrying value, properties, SEK m	24,783	36,785	26,021	38,230	38,230
Fair value, investment properties, SEK m	36,785	36,785	38,230	38,230	38,230
Return on equity after standard tax, %	7.2[1]	4.7[1]	7.7	5.8	5.9
Return on total equity, %	5.8[1]	4.8[1]	5.8	5.3	5.3
Equity ratio, %	26.9	40.4	27.5	40.9	39.0
Internal financing level, %	94	92	90	81	81
Interest coverage level, %	195	266	202	265	265

[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 reported 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 SEK 11,706 million before tax.

This means that changes in the fair value of the Group's property holdings is reported in the Income Statement and affects the operating profit. 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 SEK 991 million (January–June 462, April–June 234). Furthermore, the change in principles for the measurement of investment properties at fair value 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 capital gain net positively to the amount of SEK 10 million (January–June positive to the amount of SEK 12 million, April–June positive to the amount of SEK 18 million) 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)

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 reporting of the changes in value of the financial instruments are decided by the initial classification of each financial instrument. Under the current principles, Akademiska Hus reports all the financial instruments at cost. In conjunction with a transition to IFRS, all financial instruments, including derivatives, will be reported in the Balance Sheet. All Akademiska Hus's financial assets will be classified as 'Assets at fair value in profit or loss' and measured at fair value, i.e. the changes in value will be recognised directly in profit or loss. The financial liabilities will be measured at the amortised cost with the ongoing changes in value reported in the result. The effects which the revaluation from acquisition value to fair value and accrued acquisition value generate will affect the opening balance.

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

According to the earlier accounting principles, currency and interest derivatives, which are entered into for hedging purposes, are reported net with the underlying loan financing. According to IAS 39, all derivatives will be reported 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 or loss. The change in value for derivatives which qualify for hedge accounting according to the requirements for cash flow hedging are recognised directly in equity until the underlying transaction is reflected in profit or loss, whereupon any accumulated profit or loss is recognised as income. One of the criteria for hedge accounting to be applied is that the hedge is expected to be effective both on entering as well as during the hedging period. The ineffective part of hedging, i.e. the difference between the change in value in the exposure (interest or currency risk) which is hedged in the underlying transaction and the change in value in the hedging instrument's (derivative's) equivalent risk will be recognised directly in profit or loss.

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, which means that the realised profit on electricity derivatives brought forward to the underlying transaction affects the profit in accordance with the cash flow hedge. The electricity derivatives held/purchased within the deviation mandate is measured on an ongoing basis at the fair value, with changes in value reported against profit.

C) Division of interest-bearing liabilities into a current and long-term 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 interest-bearing liabilities into a current part and a long-term part. In conjunction with the transition to IFRS, the division of the Group's liabilities will be made into current and long-term interest-bearing liabilities. 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

According to IFRS, goodwill will not be amortised but will instead be tested annually for possible impairment. An impairment test will, however, take place more often if there are indications of impairment during the year. An impairment decrease of KSEK 617 reported in 2004 has been reversed. In conjunction with an examination of the purchase price allocation to identified assets, liabilities and contingent liabilities according to IFRS 3 for the business combinations made during 2004, no material differences were noted in relation to the purchase price allocation prepared according to the earlier Akademiska Hus reporting principles. The excess part between the price paid and the acquired net assets has been allocated to properties and goodwill.

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 reported. 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 the Swedish accounting principles and the cash flow statement according to IFRS.

Auditors' review report

We have reviewed this interim report for the period January 1 – June 30, 2005 for Akademiska Hus AB (Publ). Our review has been made in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants, FAR.

A review means that we have planned and implemented the review in order, with limited certainty, to assure ourselves that this interim report does not contain any material errors. A review is restricted largely to questions posed to the company personnel and an analytical examination of the financial information and our recommendation is thus based on limited certainty compared with an audit. We have not performed an audit and our statement is thus not based on an audit.

No circumstances have emerged during our review to indicate that this interim report does not satisfy the requirements laid down in the Swedish Annual Accounts Act and IAS 34.

Göteborg, July 15, 2005

Deloitte & Touche AB
Peter Gustafsson
Authorised Public Accountant

Swedish National Audit Office
Jonas Hällström
Authorised Public Accountant

AKADEMISKA HUS