

Akademiska Hus Year-End Report 2006



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

The Board and President of Akademiska Hus AB hereby present the Year-End Report for 2006.

- **Profit before tax** for the period amounted to SEK 4,229 million (9,270), of which the increase in value of the investment properties was SEK 1,874 million (7,214).
- **The profit after tax** for the period was SEK 3,038 million (6,654). The profit after financial items, but excluding the change in value of investment properties, increased from SEK 2,056 million for 2005 to SEK 2,355 million for 2006. Lower maintenance costs and improved net financial items contributed to the improvement in profit.
- **The assessed fair value of investment properties** was SEK 48,454 million (45,616). The increase is attributable to the following factors:
 - A continued general upturn on the Swedish property market during 2006.
 - Net investments increased from SEK 469 million in 2005 to SEK 1,804 million in 2006.
- **Rental income** totalled SEK 4,544 million (4,481).
- **The average term** for newly signed leases is ten years and at the year-end the average remaining lease term was 6.4 years (6.5).
- **The total yield on investment properties** amounted to 9.8 per cent (24.7). The direct yield amounted to 6.0 per cent (6.5).
- **Rentable space** totalled 3,230,000 square metres (3,281,000).
- **During the year** the Växthuset block (the former Pedagogen) in Möndal with approximately 35,000 square metres, the Royal College of Music property in Stockholm with 16,000 square metres and the Seminarieriet block in Uppsala totalling 11,000 square metres were sold. The sales have contributed to profit to the amount of SEK 56 million.
- **The Board will** decide on a proposed dividend at its meeting on March 7, 2007.
- **Prospects for 2007** are a profit in line with the profit for 2006, notwithstanding changes in the value of properties and financial items.

Profit and key figures

	2006	2005
Management income, SEK m	4,596	4,533
Net operating income, SEK m	2,843	2,727
Changes in value, investment properties, SEK m	1,874	7,214
Profit after financial items, SEK m	4,229	9,270
Net operating income per square metre	875	835
Assessed fair value, investment properties, SEK m	48,454	45,616
Total yield, properties, %	9.8	24.7
of which direct yield, %	6.0	6.5
of which change in value, %	3.8	18.2
Return on equity after standard tax, %	12.9	34.2
Equity ratio, %	47.2	44.8

Year-End Report 2006

Statement by the President

Akademiska Hus reports a stable and very good result for 2006. This can be seen primarily in the following factors:

- An increase in the value of investment properties amounting to SEK 1,874 million as a result of the continued strength of the property market in 2006. The increase in value is almost entirely an effect of the reduced yield requirements.
- Rental income is stable and vacant space has continued to be very low, equivalent to 2.6 per cent of the rent.
- A considerable increase in the market price of energy has had a limited impact on profit as a result of previous negotiations and the continued work aimed at bringing about energy savings.
- The net operating income has increased to SEK 2,843 million (2,727), primarily as a result of reduced maintenance costs.
- Net interest income/expense improved to SEK –419 million (–647) through the increase in value of derivatives as a result of the rise in interest rates.

A considerable part of the profit – the changes in value in investment properties and derivatives – are non-recurring effects in the form of unrealised, positive changes in value.

The underlying, current property operations are, however, very stable and it is particularly gratifying to see that the net operating income is developing positively.

The relatively weak rental market means that we are continuing to encounter strong competition from other property companies and that the scope for increasing rents is non-existent or very limited. A positive effect of this is that it puts cost efficiency in property management in focus in order to achieve good profitability. We have therefore taken new initiatives to capitalise further on volume benefits in procurement and the potential for co-ordination savings within the group.

The three major property sales during the year involve objects which are no longer needed for higher education – Pedagogen, used for teacher training in Mölndal, the Seminariet teacher training facility in Uppsala and the present Royal College of Music in Stockholm. Agreements have been reached whereby Akademiska Hus constructs completely new premises for the Royal College of Music in Stockholm and for teacher training and other activities in Uppsala. These are major investments worth a total of approximately SEK 1,000 million.

During the year a number of construction projects were commenced, including a pharmaceutical centre in Gothenburg and new construction for the Faculty of Technology and Science in Karlstad. A decision has also been reached on major new construction in Solna for the Karolinska Institute Science Park. It is stimulating to see that the renewal work is continuing to create attractive education and research facilities. At the same time, it is a major challenge bearing in mind the present construction market, which is under considerable pressure.

Key events in 2006

Reconstruction of the property Tre Vapen II at Gärdet in Stockholm is currently in progress on behalf of the National Academy of Mime and Acting and the National Swedish Environmental Protection Agency. The group has decided to construct a major new building in Uppsala for teacher training programmes, education and psychology at Uppsala University. The cost of the project has been estimated that SEK 515 million. The group has also decided to invest in modern research laboratories at the Karolinska Institute Science Park, which it is estimated will comprise 16,000 square metres. The investment is estimated to be worth just over SEK 500 million and the largest tenant will be Biovitrum.

The sale has commenced of parts of the Svea Artilleri block in Stockholm to Veidekke/Bouwfunds for the construction of what will be mainly residential units. In Uppsala, a property on the Seminariet block has been sold to NCC. In 2006, the Växthuset block (the former Pedagogen) in Mölndal was sold.

In October 2006, Thomas Norell took up the position of president of Akademiska Hus. He was previously vice president and replaces Joakim Ollén.

Investments

Net investments in 2006 totalled SEK 1,804 million (469).

A number of major projects were completed in 2006, including buildings at the Centre for Chemistry and Chemical Engineering and the Biomedicine Centre in Lund, the A-building Part B in Linköping and a new wing at the Ångström Laboratory in Uppsala. In Stockholm, mention can be made of the new SIDA premises at Tre Vapen, the University College of Dance and ECDC (the European Centre for Disease Prevention and Control) in what was formerly Tomtebodaskolan.

In Umeå there has been redevelopment and extension of the university library and in Luleå there has been redevelopment and an extension of the F-building which, among other things, houses the Department of Civil, Mining and Environmental Engineering.

Major current new construction, redevelopment and extension projects include new construction in Karlstad at the Faculty of Technology and Science. In the Kåkenhus block in Norrköping there is currently an extension in progress of general office premises and a lecture theatre. On the Tre Vapen block in Stockholm reconstruction is in progress for the National Academy of Mime and Acting and the National Swedish Environmental Protection Agency. Planning is also in progress for the Karolinska Institute Science Park and the Royal College of Music in Stockholm and for Pedagogikum in Uppsala.

Results

Rental income

Rental income totalled SEK 4,544 million, which is an increase compared with the same period in 2005 (4,481). The level of income was affected positively by the addition of new construction, redevelopment and extensions together with full-year effects of an equiva-

lent nature in respect of 2005. Rental income has fallen as a result of the sales which have taken place in Mölndal (the former Pedagogen), Uppsala (Seminariet) and Stockholm (Royal College of Music building).

Rental level and vacant space level

The total holdings amounted to 3,230,000 square metres (3,281,000) of rentable space. During 2006, the three above-mentioned properties in Mölndal, Uppsala and Stockholm, totalling 62,000 square metres, were sold. Vacant space was 3.5 per cent (3.2), which is equivalent to 111,955 square metres (103,635). The vacant space within Akademiska Hus compared with other property companies is low. The figure includes vacancies of SEK 125 million (88) or just 2.6 per cent (2.1) of the rental income, fully rented plus supplements. This reflects the fact that a large proportion of the vacant space has a clearly lower rental value than the average for the holdings. During 2007, vacant space expressed as rent, fully rented plus supplements, is expected to fall to the 2005 level.

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 6.4 years (6.5). For the larger, more complex specialist buildings for laboratory and research operations a lease agreement is normally required where the investment is largely repaid within the agreement period. In these cases the leases are normally ten years or longer.

Operating costs

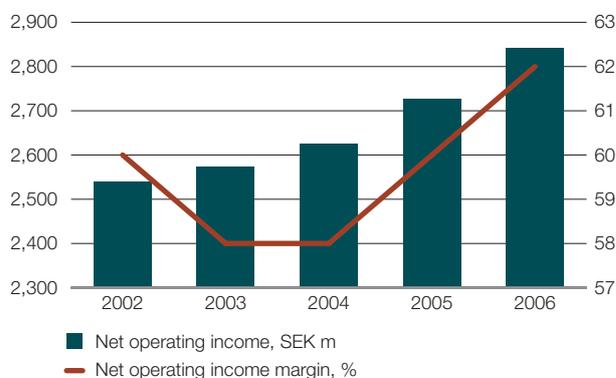
In 2006, operating costs amounted to SEK 803 million (762), of which energy and water totalled SEK 541 million (510). Average operating costs for the Group for the year amounted to SEK 247/m² (230). Of the operating costs, energy, fuel and water accounted for SEK 167/m² (155). The operating cost trend can be explained mainly by the increase in energy costs in the form of substantial price increases and increased energy taxes. The increasing technical complexity of the buildings is also significant. Compared with other property companies, the operating costs calculated in SEK/m² are relatively high within Akademiska Hus due to the high proportion of laboratories. Laboratory premises total just over 1.1 million square metres (36 per cent) and from an energy point of view they are considerably more demanding in terms of resources than other premises.

Maintenance costs

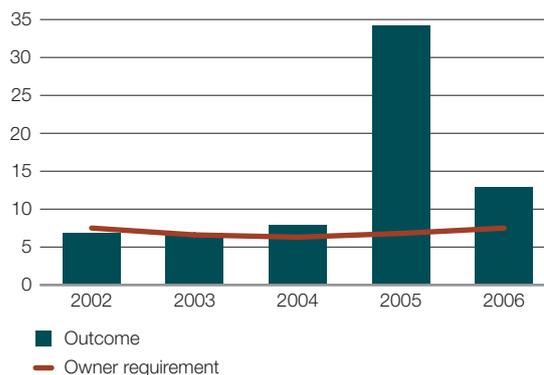
Maintenance costs for the year totalled SEK 624 million (717). Investments by Akademiska Hus in maintenance extending over several years have meant that the standard of the property holdings is now generally high. Of the maintenance costs, SEK 115 million (154) refers to tenant adaptations.

On average for the Group, maintenance costs for the year totalled SEK 192/m² (220).

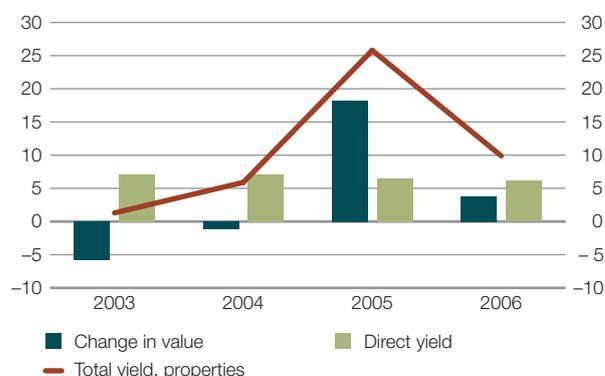
Net operating income, 2002–2006



Return on equity, %



Direct yield, %



Net financial items

Net financial items for the year totalled SEK –419 million (–647).

The reason for the improvement is the increasing value of derivative instruments as a result of the rise in interest rates. The average financing cost was 2.48 per cent (3.85).

Profitability

Net operating income i.e. the result of Group operations before changes in value, central administration costs and net financial items totalled SEK 2,843 million (2,737). The net operating income level increased from 60 per cent to 62 per cent.

As a result of the improved assessed fair value of the investment properties the direct yield during 2006 was slightly lower and amounted to 6.0 per cent (6.5) of the value.

Return on equity amounted to 12.9 per cent (34.2). This exceeded the owner's profitability requirement, which was 7.5 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 dividend target is 2.5 per cent of equity.
- The equity ratio should be at least 35 per cent.

Property valuation

The assessed fair value of Akademiska Hus investment properties as at 31-12-2006 was determined by means of an internal property valuation. The fair value was SEK 48,454 million, an increase of SEK 2,838 million since the previous year-end. The increase is due in the first instance to a positive unrealised change in value amounting to SEK 1,818 million and also to investments for the year totalling SEK 1,020 million net. The positive change in value can be attributed to a reduction in the direct yield requirement. The general upturn in the property market also continued during 2006. The category of properties which dominate the Akademiska Hus holdings, properties with relatively long leases and with tenants with a good credit rating, encountered a good level of demand during the year.

Change in the property holdings during 2006

	SEK m
Assessed fair value, December 31, 2005	45,616
+ Investments in new construction, extensions and redevelopment	1,603
+ Acquisitions	32
– Sales	–615
+ Unrealised change in fair value	1,818
Of which increase in value, reduced yield requirement	(1,683)

Assessed fair value, investment properties December 31, 2006

48,454

New construction in progress as at December 31, 2006 amounted to SEK 894 million.

The internal cash flow valuation according to the above reported prerequisites accounts for SEK 45,651 million (94 per cent) of the reported value of the investment properties. The expansion reserves of SEK 984 million (two per cent) have been calculated using the location price method. The remaining value of SEK 1,819 million (4 per cent) refers to objects with a special valuation basis. Properties which have been assigned a value using a special valuation basis include mainly development properties with uncertain future income and costs as well as the few Akademiska Hus residential buildings.

Assessed fair value	SEK m	Proportion, %
Internal cash flow valuation	45,651	94%
Expansion reserves according to the location price method	984	2%
Other valuation made with a special valuation basis	1,819	4%
Assessed fair value, December 31, 2006	48,454	100%

External valuations have been made as a benchmark for the internal cash flow valuations. Fourteen of the larger objects have been valued externally. The value of these amounts to SEK 4,805 million or approximately 10 per cent of the total value. The deviation in value for the externally valued objects compared with the internal valuation is on the object level within the +/- 10 per cent margin of error. External valuations confirm the reliability of the Akademiska Hus internal valuation model.

Assessed fair values, investment properties, regions, SEK m

	31-12-2006	31-12-2005	Change	Of which investment, net	Unrealised change in value
North	4,190	3,967	223	126	98
Uppsala	6,170	6,007	163	152	151
Stockholm	19,670	18,972	698	663	410
East	4,729	4,392	337	73	264
West	7,252	6,717	535	130	497
South	6,443	5,561	882	491	398
Total	48,454	45,616	2,838	1,635	1,818

Financing

Interest-bearing liabilities

Net loan debt at the year-end amounted to SEK 16,781 million compared with SEK 17,143 million as at 31-12-2005. The maturity at the beginning of year was 4.0 years compared with 3.7 years at the turn of the year. Bond issues under the long-term programmes were implemented in January to the amount of CHF 250 million and in December to the amount of SEK 800 million.

The fixed interest period for the part of the liability portfolio covered by the fixed interest mandate has been reduced to 1.9 years compared with 2.4 years at the previous year-end. The change is the result of the fact that interest rates are expected to rise at a slightly slower rate than was assessed previously.

Interest-bearing liabilities

Amounts in SEK m	31-12-2006	31-12-2005
Commercial paper	1,606	–
ECP	510	435
Bonds and MTN	4,716	4,886
EMTN	6,967	10,593
Other loans	3,108	1,582
Total loans	16,07	17,496
Financial derivatives	1,122	944
Collateral received for derivatives entered into	29	498
Pension provision	212	202
Total, other interest-bearing liabilities	1,363	1,643
Total, interest-bearing liabilities	18,270	19,140

Financing cost

The interest cost for the period according to IFRS, including changes in market value, totalled 2.48 per cent (3.85) 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. According to earlier accounting principles, the interest cost was 4.24 per cent (4.10).

Financing cost breakdown

	IFRS		According to earlier principles	
	31-12-2006	31-12-2005	31-12-2006	31-12-2005
Loan financing cost, %	2.81	2.62	2.81	2.62
Interest swaps, net interest, %	0.93	1.05	0.94	1.05
Period allocation and charges, %	0.04	0.03	0.49	0.43
Changes in value, financial instruments, %	-1.30	0.15	–	–
Total financing cost	2.48	3.85	4.24	4.10



Five-year Summary

	2006	2005	2004	2003	2002
Income Statement, SEK m					
Management income	4,596	4,533	4,530	4,413	4,240
Operating costs	803	762	783	730	677
Maintenance costs	624	717	806	835	775
Property administration	253	254	245	216	195
Net operating income	2,843	2,727	2,625	2,573	2 539
Change in value, investment properties	1,874	7,214	-478	-	-
Central administration costs	38	35	35	22	24
Operating profit	4,649	9,917	2,119	1,604	1,604
Net financial income	-419	-647	-794	-895	-917
Profit before taxes	4,229	9,70	1,324	710	687
Profit for the year	3,038	6,654	950	503	495
Balance sheet, SEK m					
Assessed fair value, properties	48,454	45,616	38,230	36,118	36,475
New construction in progress	894	1,121	806	1,555	1,251
Other assets	3,147	3,414	1,365	1,471	2,708
Equity	24,801	22,455	16,618	7,506	7,248
Interest-bearing liabilities	18,270	19,140	17,454	16,794	17,390
Other liabilities and provisions	9,424	8,556	6,349	3,138	3,099
Cash flow, SEK m					
Cash flow from current operations	1,784	1,675	1,200	1,591	1,575
Investments	-1,006	-328	-1,502	-1,894	-1,766
Cash flow before financing	778	1,347	-302	-303	-191
Cash flow from financing	-624	-450	164	-840	-147
Cash flow for the year	154	897	-139	-1,143	-338
Property-related key figures					
Direct yield, %	6,0	6,5	7,1	7,1	7,0
Change in value, %	3,8	18,2	-1,2	-5,8	-
Total yield, %	9,8	24,7	5,9	1,3	-
Rental income per m ²	1,399	1,372	1,365	1,342	1,302
Operating costs per m ²	247	233	238	225	210
Maintenance costs per m ² (including tenant adaptations)	192	219	245	257	240
Net operating income in relation to management income, %	62	60	58	58	60
Net operating income per m ²	875	835	799	791	787
Level of vacant space, area	3,5	3,2	2,8	1,8	1,8
Level of vacant space, rent	2,6	2,1	1,8	1,2	1,1
Assessed fair value, properties, SEK/m ²	15,000	13,903	11,534	11,089	11,243
Financial key figures					
Return on equity after standard tax, %	12.9	34.2	7.9	6.9	6.9
Interest-bearing net loan liability	16,781	17,143	-	-	-
Equity ratio, %	47.2	44.8	41.1	-	-
Interest cost in relation to average interest-bearing liability, %	2.5	3.8	4.7	5.3	5.6
Tenants and personnel					
Satisfied Tenant Index (NKI)	69	67	67	67	63
Average number of employees	434	446	440	430	427
Satisfied Employee Index (NMI)	66	66	66	67	63

Accounting principles

The Akademiska Hus consolidated accounts have been prepared according to the International Financial Reporting Standards (IFRS). This Year-End Report has been prepared according to IAS 34 Interim Financial Reporting. The accounting principles and computation methods have remained unchanged compared with the 2005 Annual Report.

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).

Consolidated Income Statement, Summary

Amounts in SEK m	Jan-Dec 2006	Jan-Dec 2005	Oct-Dec 2006	Oct-Dec 2005
Rental income	4,544	4,481	1,175	1,147
Other property management income	52	52	14	13
Total income from property management	4,596	4,533	1,189	1,160
Operating costs	-803	-762	-200	-209
Maintenance costs	-624	-717	-248	-216
Property administration	-253	-254	-68	-84
Other property management costs	-73	-73	-27	-17
Total costs from property management	-1,753	-1,806	-543	-526
Net operating income	2,843	2,727	646	634
Changes in value, properties, positive	3,316	8,669	3,131	8,613
Changes in value, properties, negative	-1,442	-1,455	-1,442	-1,455
Total changes in value, properties	1,874	7,214	1,689	7,158
Central administration costs	-38	-35	-15	-15
Other operating income	107	72	42	22
Other operating costs	-138	-61	-57	-7
Total, other operating items	-31	11	-15	15
Profit before financial items	4,648	9,917	2,305	7,791
Net financial income/expense	-419	-647	-125	-127
Profit before taxes	4,229	9,270	2,180	7,664
Taxes	-1,191	-2,616	-617	-2,168
Net profit for the year	3,038	6,654	1,563	5,496

Income and profit/loss

The Company's income totalled SEK 132 million (107). Of this figure, income from regional companies amounted to SEK 122 million (97). The operating loss was SEK 3 million (-20) and net financial income/expense was SEK 1,181 million (416), including dividends from regional companies amounting to SEK 710 million (190). The profit before appropriations and tax was SEK 1,184 million (396).

Investments

Investment in machinery and equipment amounted to SEK 3 million (4).

Equity

Equity totalled SEK 5,683 million (5,361).

Consolidated Balance Sheet, Summary

Amounts in SEK m	31-12-2006	31-12-2005
ASSETS		
Tangible assets		
Investment properties	48,454	45,616
New construction in progress	894	1,121
Equipment and fittings	25	27
Total tangible assets	49,373	46,764
Financial assets	1,032	1,074
Current assets		
Receivables	711	1,088
Liquid funds	1,379	1,225
Total current assets	2,090	2,313
Total assets	52,495	50,151
EQUITY AND LIABILITIES		
Equity	24,801	22,455
Liabilities		
Non-current liabilities		
Interest-bearing	14,182	14,599
Non-interest-bearing	7,231	6,259
Total non-current liabilities	21,413	20,858
Current liabilities		
Interest-bearing	4,088	4,540
Non-interest-bearing	2,193	2,298
Total current liabilities	6,281	6,838
Total liabilities	27,694	27,696
TOTAL EQUITY AND LIABILITIES	52,495	50,151
Memorandum items		
Pledged assets	320	52
Contingent liabilities	2	2

Consolidated Cash Flow Statement, Summary

Amounts in SEK m	2006	2005
Cash flow from current operations before changes in working capital	2,007	1,516
Change in working capital (excl. liquid funds)	-223	159
Cash flow from current operations	1,784	1,675
Net investments ¹⁾	-1,006	-328
Cash flow from investments	-1,006	-328
Dividend granted	-660	-394
Financing	36	-56
Cash flow from financing	-624	-450
Cash flow for the year	154	897

¹⁾ Refers to the part of net investments which have affected cash flow.



Changes in consolidated equity

Amounts in SEK m	Attributable to the Parent Company's shareholders				Total equity
	Share capital	Share premium reserve	Hedging reserve	Profit brought forward	
Equity 1-1-2005	2,135	2,135	-16	11,892	16,146
Equity not reported in the Income Statement	-	-	49	-	49
Dividend	-	-	-	-394	-394
Profit for the year	-	-	-	6,654	6,654
Equity 31-12-2005	2,135	2,135	33	18,152	22,455
Equity not reported in the Income Statement	-	-	-32	-	-32
Dividend	-	-	-	-660	-660
Profit for the year	-	-	-	3,038	3,038
Equity 31-12-2006	2,135	2,135	1	20,530	24,801

Group's Geographical Areas, Summary

	Full year 2006	Full year 2005	Oct-Dec 2006	Oct-Dec 2005
Income, including other operating income				
South	693	654	187	164
West	719	749	187	131
East	448	451	112	111
Uppsala	730	717	196	183
Stockholm	1,637	1,563	424	407
North	477	473	126	132
Other operations	133	107	47	-179
Elimination of intra-Group income	-134	-108	-48	178
Total income	4,703	4,606	1,231	1,127

Profit before financial items, excluding central overheads				
South	704	1,053	448	792
West	946	1,466	428	1,074
East	567	712	253	495
Uppsala	598	728	96	438
Stockholm	1,493	4,920	883	4,149
North	376	1,109	205	922
Other operations	38	-18	16	-23
Elimination of intra-Group income	-36	-18	-9	-32
Profit before financial items, excluding central overheads	4,686	9,952	2,320	7,815

Income Statement reconciliation				
Profit before financial items, excluding central overheads	4,686	9,952	2,320	7,815
Central overheads	-38	-35	-15	-25
Profit on financial items (net)	-419	-647	-125	-120
Tax for the period	-1,191	-2,616	-617	-2,168
Profit for the period according to the Income Statement	3,038	6,654	1,563	5,502



Definitions

Direct yield

Operating surplus in relation to the average assessed fair value.

Equity ratio

Reported equity in relation to total assets carried forward.

Floor space, m², gross

The gross floor space of the buildings. Comprises rentable floor space as well as common areas and the area surrounding the building.

Floor space, m²

Rentable floor space in square metres.

Letting and vacant space levels

Rented or vacant floor space in relation to the total rentable floor space. Financial letting or vacant space levels are rental income for space let and estimated rental income for vacant space in relation to the total rental income.

Maintenance costs

Costs for measures taken to reinstate worn or damaged parts of buildings to their original standard and function.

Net debt

Interest-bearing liabilities minus interest-bearing assets.

Net investments

Closing balance minus the opening balance for non-current assets plus depreciation and impairments minus revaluations.

Net loan liability

Interest-bearing loans, financial derivatives and current interest-bearing investments.

Operating expenses

Expenses for measures taken with an expected interval of less than once a year aimed at maintaining the function of a management object. Operating expenses are divided into energy and water supply and other operating expenses.

Property administration

Cost of management, day-to-day accounting administration, letting, contact with tenants, handling of registers, contracts and drawings, technical planning and follow-up and personnel administration.

Rental income

The basic rent, index-linked, and estimated rent for vacant rentable floor space and supplements, with a deduction for vacancies and rent reductions.

Return on capital employed

Operating profit plus financial income in relation to average total assets.

Return on equity after standard tax

Earnings after financial income and expense with a deduction for full tax in relation to average equity.

Return on total capital

Operating profit plus financial income in relation to the average total assets.

Financial information (Calendar)

Annual Report, March 2007

1st Quarter 2007, April 19, 2007

Annual General Meeting, April 19, 2007

2nd Quarter 2007, August 15, 2007

3rd Quarter 2007, October 23, 2007

Year-End Report 2007, January 2008

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