Fabege

# 2011
## Interim Report January–June

- After-tax profit for the period improved to SEK 656m (501), corresponding to earnings per share of SEK 4.03 (3.05).
- Profit from property management declined to SEK 270m (391), and rental income declined to SEK 894m (1,025) as a result of net sales of properties and higher market interest rates.
- Earnings before tax from the segment Property Management amounted to SEK 721m (625) and from the segment Property Development to SEK 140m (132).
- Net lettings amounted to SEK 60m (2).

| **Key figures, MSEK** | **2011** Apr–Jun | **2010** Apr–Jun | **2011** Jan–Jun | **2010** Jan–Jun |
|---|---|---|---|---|
| Rental income | 448 | 507 | 894 | 1,025 |
| Running costs and central costs | –139 | –166 | –325 | –382 |
| Net financial items (excl. changes in value) | –152 | –131 | –299 | –252 |
| Profit from property management activities | 157 | 210 | 270 | 391 |
| Changes in value | 225 | 169 | 623 | 207 |
| Tax | –104 | –39 | –237 | –97 |
| Profit/loss after tax | 278 | 340 | 656 | 501 |
| Surplus ratio, % | 72 | 71 | 67 | 66 |
| Equity/assets ratio, % | – | – | 39 | 34 |
| Equity per share, SEK | – | – | 70 | 62 |
| Return on equity, % | – | – | 11.5 | 10.0 |

# Chief executive's review

**The healthy business climate contributed to Fabege's continued favourable performance, with stronger demand and rising property values.**

The trend of positive net lettings in 2010 and early 2011 resulted in a lower vacancy rate in the first six months. Higher rental values resulting from renegotiations and strong net lettings will make a positive contribution ahead, although this has yet to impact on earnings.

The positive net lettings trend continued during the second quarter. Activity in the rental market rose and I am delighted to report that we signed, and extended, several important contracts. Contracts were signed with such organisations as the Swedish Football Association for the Uarda 1 property in Arenastaden. Several minor lettings were also made from among property management's vacant premise, which will gradually contribute to a higher occupancy rate during the second half of the year. We have ambitious targets and our organisation is fully focused on pursuing a successful letting effort aimed at increasing the occupancy rate and thus cash flow and property value.

In a strong economy, cost control becomes even more important. Our continued focus on costs and efficiency resulted in the surplus ratio rising both for the quarter and on an accumulated basis, despite a higher vacancy rate during this period than in the year-earlier period.

Having good buildings in good locations is of great value for us since we foresee a clear migration toward quality in the rental market. This is reflected in rising rents and values in central locations and modern properties. The project portfolio has also contributed to the value growth. In total, the value of our properties increased by approximately 2 per cent.

For two years, we have endeavoured to strengthen the balance sheet through such measures as the sale of non-prioritised properties, which has also increased the quality of the portfolio. However, in 2011, we have net invested in properties through acquisitions and by increasing the pace of investment in our existing project portfolio. The projects are proceeding as planned and the return on completed investments exceeded our target of 20 per cent. An expected decrease in vacancies combined with increased investments in the project portfolio will contribute to future revenue growth and stronger cash flow.

CHRISTIAN HERMELIN
*Chief Executive Officer*

# Second quarter in brief[1)]

**QUARTER 2**
**APRIL–JUNE 2011**

- The rental market continued to develop well and market activity increased during the quarter.
- New lettings amounted to SEK 59m (37), while net lettings totalled SEK 47m (6).
- Profit from property management declined to SEK 157m (210) due to a smaller property portfolio and higher market interest rates.
- The surplus ratio was 72 per cent (71).
- Four properties outside the company priority areas, were sold for a combined sales consideration of SEK 136m, generating a capital gain before tax of SEK 50m.
- After-tax profit for the quarter amounted to SEK 278m (340).

1) The comparison figures for income and expense items relate to values for the period April–June 2010 and for balance sheet items as at 31 December 2010.

# This is Fabege

Fabege, which is one of the leading property companies in Sweden, conducts operations that are primarily focused on letting office premises and property development.

The company's portfolio is highly concentrated to three sub-markets offering robust growth in the Stockholm area; Stockholm's inner city, Solna and Hammarby Sjöstad. Fabege offers attractive and efficient premises, principally for offices but also for retail and other operations.

Fabege manages a well-located property portfolio, which is developed continuously through improvements, sales and acquisitions. By collecting properties in clusters, increased customer proximity is achieved which, combined with comprehensive market knowledge, creates conditions for efficient management and a high occupancy rate.

At 30 June 2011, Fabege owned 101 properties with a combined market value of SEK 28.2bn. The rental income amounted to SEK 2.1bn.

# Results[1]

**The earnings trend was positive during the first half of the year, which was characterised by increasing rental income in the existing portfolio, rising interest expenses and continued positive value growth in the project properties and the investment properties.**

### REVENUES AND EARNINGS

Profit for the period improved by SEK 155m from SEK 501m to SEK 656m. Before tax, the segment Property Management generated earnings of SEK 721m (625) and the segment Property Development earnings of SEK 140m (132), making a total of SEK 861m (757). Earnings per share after tax amounted to SEK 4.03 (3.05).

Rental income totalled SEK 894m (1,025) and net operating income SEK 599m (676). The decline in rental income was due to net sales of properties. Continued efficiency enhancements in the Property Management operations enabled the surplus ratio to increased to 67 per cent (66). In a comparable portfolio, rental income stayed unchanged while net operating income increased about 2 per cent.

Realised changes in the value of properties amounted to SEK 50m (96), and unrealised changes in value totalled SEK 541m (270). The SEK 411m unrealised change in the value of the portfolio of investment properties was primarily attributable to properties with potential for an increase in rent levels and a reduction in vacancy rates. The project portfolio contributed to an unrealised value change of SEK 130m, which comfortably surpassed Fabege's return requirement of 20 per cent on invested capital. Share in profit of associated companies amounted to SEK –1m (–7). Changes in the value of interest-rate derivatives and equities amounted to SEK 32m (–159), and net interest expense increased to SEK -298m (-245) as a result of higher market interest rates (refer to the Financing section).

**Business model's contribution to earnings**

| SEKm | Jan–Jun 2011 | Jan–Jun 2010 |
|---|---|---|
| Profit from Property Management | 281 | 382 |
| Changes in value (portfolio of investment properties) | 411 | 151 |
| **Contribution from Property Management** | **692** | **533** |
| Profit from Property Management | –11 | 9 |
| Changes in value (profit from Property Development) | 130 | 119 |
| **Contribution from Property Development** | **119** | **128** |
| **Contribution from Transactions** (Realised changes in value) | **50** | **96** |
| Changes in value, derivatives and equities | 32 | –159 |
| **Profit before tax** | **893** | **598** |

### TAX

The tax expense for the period amounted to SEK –237m (–97), corresponding to 26.3 per cent tax on continuous taxable earnings. Sales of properties resulted in a total deferred tax cost of SEK 14m.

### CASH FLOW

Profit contributed SEK 319m (460) to liquidity. After a decrease of SEK 1,210m (–171) in working capital, which varies primarily as a result of the impact of occupancy/final settlement for acquired and divested properties, the liquidity of operating activities changed by SEK 1,529m (289). Acquisitions of and investments in properties exceeded sales by SEK 902m (–1,553). Accordingly, the total change in liquidity resulting from operating activities was SEK 627m (1,842). Cash flow during the period

[1] The comparison figures for income and expense items relate to values for the period January–June 2010 and for balance sheet items as at 31 December 2010.

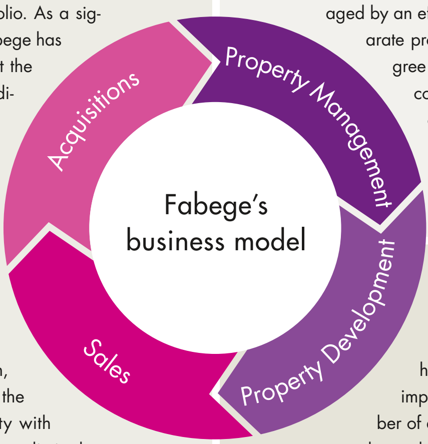
**TRANSACTIONS**

## Create growth

Fabege aims to acquire properties that offer better growth opportunities than existing investment properties in its portfolio. As a significant player in a number of select sub-markets, Fabege has acquired in-depth experience and knowledge about the markets, plans for development, other players and individual properties. The company continuously monitors and analyses developments with a view to exploiting opportunities to develop its property portfolio.

## Concentrating the portfolio

Fabege aims to sell properties that are located outside its concentrated property management units or have limited prospects for further growth. Location, condition and vacancies are key factors determining the growth potential of a property. A fully let property with modern and efficient premises that is deemed to have limited potential for rent increases and capital growth could thus become a candidate for divestment.




**PROPERTY MANAGEMENT**

## Close to the customer

Property management is Fabege's main business area. The properties are managed by an efficient in-house organisation, which is divided into separate property management areas. Each area has a large degree of individual responsibility to ensure a high degree of commitment and proximity to the customer. The company's customer-facing property management activities are designed to support a high occupancy rate and encourage customers to remain with Fabege. Satisfied customers help to improve our net operating income.

## Adding value

Property development in properties with growth potential is a key element of Fabege's business model, helping to add value. In addition to developing and improving acquired properties, Fabege already has a number of development and project properties in its portfolio, and seeks to develop its potential as market conditions permit. The volume of projects is adapted to market demand. New builds and more extensive development projects are always based on the principles defined in the EU GreenBuilding programme.

**PROPERTY DEVELOPMENT**

### Interest rate maturity structure
30 June 2011

| | Amount SEKm | Average interest rate % | Share % |
|---|---|---|---|
| < 1 year | 9,086 | 3.67 | 55 |
| 1–2 years | 4,550 | 3.84 | 27 |
| 2–3 years | 0 | 0.00 | 0 |
| 3–4 years | 0 | 0.00 | 0 |
| 4–5 years | 2,800 | 3.97 | 17 |
| > 5 years | 200 | 3.95 | 1 |
| **Total** | **16,636** | **3.77** | **100** |

### Loan maturity structure
30 June 2011

| | Credit agreements SEKm | Drawn SEKm |
|---|---|---|
| Certificate programme | 5,000 | 1,936 |
| < 1 year | 2,020 | 1,500 |
| 1–2 years | 3,500 | 3,200 |
| 2–3 years | 2,175 | 175 |
| 3–4 years | 5,000 | 4,250 |
| 4–5 years | 2,000 | 1,600 |
| > 5 years | 4,975 | 3,975 |
| **Total** | **24,670** | **16,636** |

### Property sales
Jan–Jun 2011

| Properties | Area | Category | Lettable area, sqm |
|---|---|---|---|
| **Quarter 1** | | | |
| Bocken 51 | Norrmalm | Residential | 2,438 |
| Grimbergen | Belgium | | 0 |
| **Quarter 2** | | | |
| Induktorn 33 | Bromma | Industry/Warehouse | 17,415 |
| Märsta 15:5 | Märsta | Land | 0 |
| Sickla 392:1 | Danvikstull | Land | 0 |
| Uarda 2 | Arenastaden | Land | 0 |
| **Total property sales** | | | **19,853** |

### Property acquisitions
Jan–Jun 2011

| Properties | Area | Category | Lettable area, sqm |
|---|---|---|---|
| **Quarter 1** | | | |
| Pyramiden 3 | Solna | Land | 0 |
| Signalen 3 | Solna | Land | 0 |
| **Total property acquisitions** | | | **0** |

was charged with SEK 489m (329) for the payment of dividends. Share buybacks amounted to SEK 0m (61). After the reduction in debt, consolidated cash and cash equivalents totalled SEK 201 m (174).

#### FINANCING

Fabege employs long-term credit lines with fixed terms and conditions. At 30 June 2011, these had an average maturity of 6.2 years. The company's lenders are the major Nordic banks.

Interest-bearing liabilities at the end of the period totalled SEK 16,636m (16,646) and the average interest rate was 3.77 per cent excluding and 3.86 per cent including commitment fees on the undrawn portion of committed credit facilities.

Interest rates on 45 per cent of Fabege's loan portfolio were fixed using fixed-income derivatives. The average fixed-rate period was 15 months, taking the effect of derivative instruments into account, while the average fixed-rate period for variable-rate loans was 48 days.

Fabege has callable swaps totalling SEK 7,550m with interest rates ranging from 3.33 to 3.98 per cent.

In compliance with the accounting rules contained in IAS 39, the derivatives portfolio has been measured at market value and the change in value is recognised in the profit and loss account. At 30 June 2011, the recognised negative fair value adjustment of the portfolio amounted to SEK 229m (267). The derivatives portfolio has been measured at the present value of future cash flows. The change in value is of an accounting nature and has no impact on the company's cash flow.

During the second quarter, Fabege extended a credit limit of SEK 1bn until 2015 and a credit limit of SEK 500m until 2012. At 30 June 2011, the company had unused committed lines of credit of SEK 3,034m.

Fabege has a commercial paper programme in an amount of SEK 5bn. At the end of the second quarter, outstanding commercial paper amounted to SEK 1,936m, compared with SEK 2,249m at the beginning of the year. Fabege has available long-term credit facilities covering all outstanding commercial paper at any given time.

The total loan volume includes SEK 790m in loans for projects, on which interest of SEK 11m has been capitalised.

Net interest expense includes SEK 6m in nonrecurring costs, of which SEK 4m pertains to the first quarter.

#### FINANCIAL POSITION AND NET ASSET VALUE

Shareholders' equity amounted to SEK 11,443m (11,276) at the end of the period and the equity/assets ratio was 39 per cent (39). Shareholders' equity per share totalled SEK 70 (69). Excluding deferred tax on fair value adjustments of properties, net asset value per share was SEK 79 (77).

# Operations

**During the first half of the year, the trend of an increased number of transactions and an ever-stronger rental market in the Stockholm region continued.**

#### FABEGE'S PROPERTY PORTFOLIO AND PROPERTY MANAGEMENT

Fabege's activities in Property Management and Property Development are concentrated to a few selected submarkets in and around Stockholm. Stockholm's inner city, Solna and Hammarby Sjöstad are the company's principal markets. At 30 June 2011, Fabege owned 101 properties with a total rental value of SEK 2.1bn, a lettable floor area of 1.1m sqm and a carrying amount of SEK 28.2bn, including development and project properties totalling SEK 5.6bn. The financial occupancy rate for the entire property portfolio, including project properties, was 89 per cent (89). The occupancy rate in the portfolio of investment properties was 92 per cent (92).

New lettings during the period totalled SEK 99m (105), while net lettings amounted to SEK 60m (2). Rents in negotiated contracts increased an average of 8 per cent.

#### CHANGES IN THE PROPERTY PORTFOLIO

During the period, six properties were sold for a total of SEK 296m. The sales generated a before-tax profit of SEK 50m and after-tax profit of SEK 36m.

Two properties were acquired for a total of SEK 325m. The two properties are undeveloped and comprise sites totalling about 25,000 sqm, which can be developed primarily for offices but also for retail and residential purposes.

## CHANGES IN THE VALUE OF PROPERTIES

A total of 23 per cent of Fabege's properties were externally valued at 30 June 2011 and the remaining properties were internally valued based on the latest valuations. The entire property portfolio is externally valued at least once a year. The total market value at 30 June 2011 was SEK 28.2bn (27.0).

Unrealised changes in the value of properties amounted to SEK 541m (270). The yield requirement decreased somewhat during the first half of the year and the yield requirement for the portfolio averaged 5.8 per cent (5.9). The SEK 411m (151) increase in the value of the portfolio of investment properties was primarily attributable to rising rents and properties for which the risk of vacancies has declined. The project portfolio contributed to a value increase of SEK 130m (119).

## PROJECTS AND INVESTMENTS

Fabege's project investments are designed to reduce vacancy rates and increase rents in the property portfolio, thereby improving cash flows and adding value. The development of properties is a key feature of Fabege's business model and should make a significant contribution to consolidated profit. The aim is to achieve a return of at least 20 per cent on invested capital.

Investments in existing properties and projects during the period totalled SEK 581m (339). The investments involved new builds, extensions and conversions.

### Completed projects

During the first quarter 2011 the projects in the properties Fräsaren 10, Solna Business Park (let to Vectura and Axfood) and Farao 20, Arenastaden (let to Egmont and Fabege), were completed. The properties have been transferred to the portfolio of investment properties.

### Major ongoing projects

The project in the Uarda 5 property, Arenastaden, pertaining to the construction of Vattenfall's new headoffice, is proceeding as planned. Production of prefabricated frames, windows, roofs and facades is proceeding, as are interior works.

The office project in the Bocken 39 property on Lästmakargatan 14 is proceeding as planned. Interior works are currently under way and the property is scheduled for completion in the fourth quarter of 2011.

At the Klamparen 10 property on Fleminggatan 12, construction and installation work is in progress on behalf of the National Agency for Education, which will assume occupancy in October 2011. Detail planning work to enable an add-on to the property continues.

At the Apotekaren 22 property on Tulegatan/Rådmansgatan basic standard production and adaptation to the needs of the tenant Björn Borg AB is under way.

During the first quarter, a decision was taken to develop and invest in a part of the Uarda 1 property, Arenastaden. Work in progress encompasses demolition, reinforcement of the frame and foundation engineering. During the quarter, a lease was signed with the Swedish Football Association concerning the letting of 4,550 sqm of office and production premises, with occupancy scheduled for the end of 2012.

## SEGMENT REPORTING

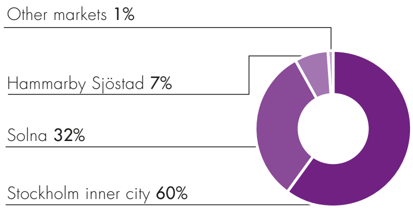
During the first half of the year, three project properties were transferred from Property Development to Property Management.

The segment Property Management generated net operating income of SEK 544m (619), corresponding to a surplus ratio of 68 per cent (67). The occupancy rate was 92 per cent (92). Profit from Property Management amounted to SEK 281m (382). Realised and unrealised changes in value totalled SEK 440m (243).

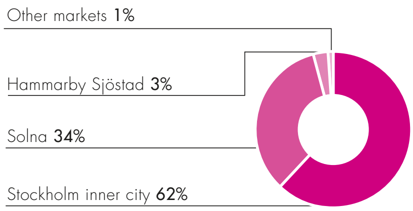
The segment Property Development generated net operating income of SEK 55m (57), corresponding to a surplus ratio of 59 per cent (53). Profit from Property Management totalled SEK -11m (9). Realised and unrealised changes in value amounted to SEK 151m (123).

**Distribution of carrying amount/ market value**
30 June 2011

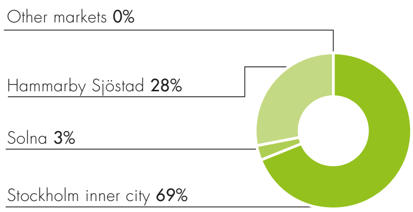
All properties, SEK 28.2bn



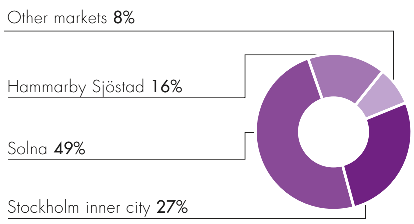

Investment properties, SEK 22.6bn




Development properties, SEK 3.0bn




Project properties, SEK 2.6bn



## Projects in progress >SEK 50m
30 June 2011

| Property name | Property type | Area | Completed | Lettable area, sqm | Occupancy rate, area, % 1) | Estimated rental value, SEKm 2) | Carrying amount, SEKm | Estimated investment, SEKm | Of which, accrued, SEKm |
|---|---|---|---|---|---|---|---|---|---|
| Apotekaren 22 3) | Office | Norrmalm | Q4-2012 | 31,422 | 61% | 83 | 940 | 129 | 22 |
| Bocken 39 3) | Office | Östermalm | Q4-2011 | 19,800 | 75% | 69 | 1,080 | 157 | 141 |
| Klamparen 10 3) | Office | Kungsholmen | Q4-2011 | 22,530 | 47% | 60 | 618 | 160 | 60 |
| Uarda 1 3) | Office | Arenastaden | Q3-2012 | 41,079 | 34% | 75 | 300 | 482 | 42 |
| Uarda 5 | Office | Arenastaden | Q3-2012 | 44,500 | 100% | 103 | 591 | 1,050 | 412 |
| **Total** | | | | **159,331** | **65%** | **390** | **3,529** | **1,978** | **677** |
| Other Land and Project properties | | | | | | | 1,062 | | |
| Other Development properties | | | | | | | 1,031 | | |
| **Total Project, Land and Development properties** | | | | | | | **5,622** | | |

1) Operational occupancy rate at 30 June 2011.
2) The annual rent for the largest projects in progress could increase to SEK 390m (fully let) from SEK 89m in annualised current rent as of 30 June 2011.
3) Information regarding area, rental value and carrying amount pertains to the entire property. The investment amount pertains to only a portion of the property.

## Property portfolio
30 June 2011

| | 30 June 2011 | | | | | 1 January – 30 June 2011 | | |
|---|---|---|---|---|---|---|---|---|
| | No. of properties | Lettable area, '000 sqm | Market value, SEKm | Rental value 2), SEKm | Financial occupancy rate, % | Rental income, SEKm | Property expenses, SEKm | Net operating income, SEKm |
| **Property holdings** | | | | | | | | |
| Investment properties 1) | 71 | 923 | 22,563 | 1,791 | 92 | 804 | –203 | 601 |
| Development properties 1) | 7 | 117 | 3,050 | 204 | 77 | 78 | –28 | 50 |
| Land and Project properties 1) | 23 | 70 | 2,570 | 68 | 40 | 15 | –10 | 5 |
| **Total** | **101** | **1,110** | **28,183** | **2,063** | **89** | **897** | **–241** | **656** |
| of which, inner city | 41 | 503 | 16,746 | 1,166 | 91 | 519 | –139 | 380 |
| of which, Solna | 35 | 449 | 9,029 | 703 | 89 | 298 | –69 | 229 |
| of which, Hammarby Sjöstad | 14 | 132 | 2,075 | 175 | 81 | 71 | –29 | 42 |
| of which, Other | 11 | 26 | 333 | 19 | 86 | 9 | –4 | 5 |
| **Total** | **101** | **1,110** | **28,183** | **2,063** | **89** | **897** | **–241** | **656** |
| Expenses for lettings, project development and property administration | | | | | | | | –47 |
| **Total net operating income after expenses for lettings, project development and property administration** | | | | | | | | 609 3) |

1) See definitions on page 9.
2) Time-limited deductions of approximately SEK 70m have not been recognised in the rental value.
3) The table refers to Fabege's property portfolio at 30 June 2011. Income and expenses are recognised as if the properties had been held during the entire period. The difference between recognised net operating income, SEK 609m, and net operating income in the profit and loss account, SEK 599m, is attributable to net operating income from divested properties being excluded and acquired/completed properties being adjusted upwards as if they had been owned/completed throughout the January–June 2011 period.

## Segment report (summary) 1)

| SEKm | Management properties Jan–Jun 2011 | Development properties Jan–Jun 2011 | Total Jan–Jun 2011 | Management properties Jan–Jun 2010 | Development properties Jan–Jun 2010 | Total Jan–Jun 2010 |
|---|---|---|---|---|---|---|
| Rental income | 800 | 94 | 894 | 918 | 107 | 1,025 |
| Property expenses | –256 | –39 | –295 | –299 | –50 | –349 |
| **Net operating income** | **544** | **55** | **599** | **619** | **57** | **676** |
| *Surplus ratio, %* | *68%* | *59%* | *67%* | *67%* | *53%* | *66%* |
| Central administration and marketing | –24 | –6 | –30 | –27 | –6 | –33 |
| Net interest expense | –238 | –60 | –298 | –204 | –41 | –245 |
| Share in profit/loss of associated companies | –1 | 0 | –1 | –6 | –1 | –7 |
| **Operating profit/loss** | **281** | **–11** | **270** | **382** | **9** | **391** |
| Realised changes in value, properties | 29 | 21 | 50 | 92 | 4 | 96 |
| Unrealised changes in value, properties | 411 | 130 | 541 | 151 | 119 | 270 |
| **Profit/loss before tax per segment** | **721** | **140** | **861** | **625** | **132** | **757** |
| Changes in value, fixed income derivatives and equities | | | 32 | | | –159 |
| **Profit/loss before tax** | | | **893** | | | **598** |
| | | | | | | |
| Properties, market value | 22,561 | 5,622 | 28,183 | 23,284 | 4,512 | 27,796 |
| Occupancy rate, % | 92% | 67% | 89% | 92% | 72% | 89% |

1) See definitions on page 9.

# Other financial information

### STAFF

At the end of the period, the Fabege Group had 118 employees (120).

### NEW DIRECTOR OF COMMUNICATIONS FOR FABEGE

Bo Nilsson, 49, has been appointed the new Director of Communications for Fabege AB, and assumed his position on 1 July 2011.

Bo is an entrepreneur and business owner with experience from several sectors. However, his primary focus is on finance and communications.

### PARENT COMPANY

Sales during the period amounted to SEK 53m (64) and the result before appropriations and tax was SEK –99m (–266). Net investments in property, equipment and shares totalled SEK 2m (29).

The parent company applies Recommendation RFR 2, Accounting for Legal Entities, and the Swedish Annual Accounts Act (see also the profit and loss account and the balance sheet on page 11).

### SHARE BUYBACK PROGRAME

The 2011 AGM passed a resolution authorising the Board, not longer than up to the next AGM, to buy back and transfer shares in the company. Share buybacks are subject to a limit of 10 per cent of the total number of outstanding shares at any time. During the period, no shares were bought back. At 30 June 2011, the company held 2,411,488 treasury shares, representing 1.5 per cent of the total number of registered shares.

### ONGOING TAX CASES

As announced previously, the Swedish Tax Agency has decided to increase the Fabege Group's taxable income in respect of a number of property sales made through limited partnerships (see also the press release from 7 December 2006 and page 53 of Fabege's 2010 Annual Report). As at 30 June 2011, the total increase in taxable income amounts to SEK 7,096m. The decisions have resulted in total tax demands of SEK 1,858m plus a tax penalty of SEK 164m, making a total demand of SEK 2,022m excluding interest payments. At 30 June 2011, accrued interest amounted to SEK 247m. Fabege strongly contests the tax demands resulting from the Tax Agency's and Administrative Court's decisions and has appealed the decisions.

During the spring of 2011, the Swedish Administrative Court announced verdicts in all of Fabege's ongoing tax cases. The Swedish

Bo Nilsson, new Director of Communications for Fabege.

Administrative Court ruled in favour of the Swedish Tax Agency's position that Fabege should be taxed pursuant to the Swedish Tax Evasion Act. All of the verdicts have been appealed with the Swedish Administrative Court of Appeals and Fabege has been granted a respite for the payments of taxes until the Swedish Administrative Court of Appeals has issued a verdict. The Swedish Administrative Court of Appeals has issued a stay of proceedings in all cases pending the Supreme Administrative Court's hearing of the Swedish National Tax Board's preliminary verdict in what is known as the "Cyprus case."

Fabege considers that the Tax Agency and the Administrative Court has disregarded a number of important aspects and that the verdicts are therefore incorrect – an assessment shared by Fabege's advisors on the matters. Fabege is of the opinion that it is highly probable that the Administrative Court of Appeal will amend the Administrative Court's rulings to the benefit of Fabege.

Fabege is adhering to its view that the sales were accounted for and declared in compliance with applicable rules. This assessment is shared by external legal experts and tax advisors that have analysed the sales, the arguments of the Swedish Tax Agency and the verdicts of the Administrative Court.

No provision has been made in Fabege's balance sheet. However, until further notice, the amount is instead being recognised as a contingent liability, as in previous financial statements.

### RISKS AND UNCERTAINTIES

Risks and uncertainties relating to cash flow from operating activities are primarily attributable to changes in rents, vacancies and interest rates. A more detailed description is presented in the risk section of the 2010 Annual Report (pages 9–10), and a description of the effect of these changes on consolidated earnings is presented in the sensitivity analysis in the 2010 Annual Report (page 52).

Properties are recognised at fair value and changes in value are recognised in profit and loss. The effects of changes in value on consolidated earnings, the equity/assets ratio and the loan-to-value ratio are shown in the sensitivity analysis in the 2010 Annual Report (page 52).

A description of financial risk, which is the risk that the company will have insufficient access to long-term loan funding, and Fabege's management of this risk is presented in the 2010 Annual Report (pages 10–11 and 64).

No material changes in the company's assessment of risks have been made after publication of the 2010 Annual Report. Under its adopted targets for capital structure, Fabege aims to have an equity/assets ratio of at least 30 per cent and an interest coverage ratio of at least 2 (including realised changes in value).

## Fabege a sector leader in terms of reduced energy consumption

The property companies that work systematically to reduce their energy consumption are positioned far ahead of their competitors. This is apparent from a review of the energy consumption of seven property companies. All of these companies have energy consumption below the average level reported by the Swedish Energy Agency and Fabege had the best level, 37 per cent below the average.

"We have worked systematically to increase the efficiency of our energy consumption since 2002, and these efforts are now generating clear results. However, the considerable differences between the property companies at the forefront and the average for the industry is evidence of immense untapped potential for energy efficiency," says Mia Östman, Environmental Coordinator at Fabege. ■

*Read more in Fabege´s press release dated 30 June 2011 at the website.*

## EVENTS AFTER THE END OF THE REPORTING PERIOD

At 1 July Fabege signed a lease with the Swedish Contingecies Agency pertaining 5,040 sqm in the Klamparen 10 property, Flemminggatan 12-14, Stockholm, at an annual rent of SEK 16m. Read more in Fabege´s press release dated 5 July 2011 at the website.

## ACCOUNTING PRINCIPLES

Fabege prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting.

The Group has applied the same accounting policies and valuation methods as in the most recent annual report.

The parent company prepares its accounts in accordance with RFR 2 Accounting for Legal Entities and the Swedish Annual Accounts Act and has applied the same accounting policies and valuation methods as in the most recent annual report.

## SIGNING OF THE INTERIM REPORT

The Board of Directors and Chief Executive Officer hereby certify that the half-yearly report gives a true and fair overview of the business, financial position and earnings of the parent company and the Group and describes material risks and uncertainties faced by the company and the companies included in the Group.

Stockholm, 7 July 2011.

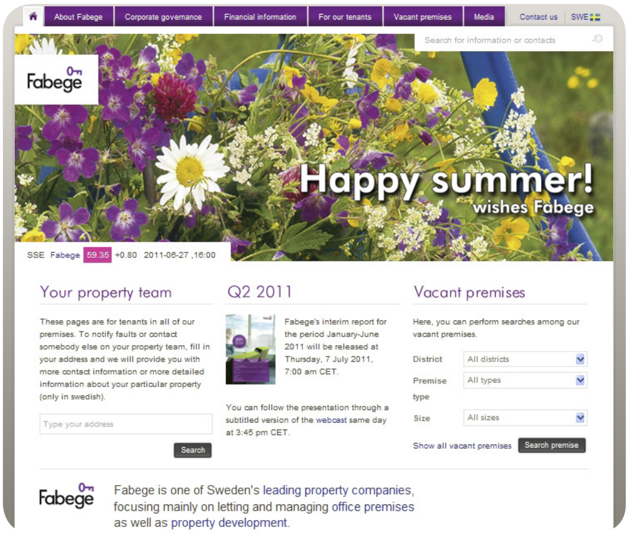
| | | |
|---|---|---|
| Erik Paulsson<br>*Chairman of the Board* | Göte Dahlin<br>*Board Director* | Oscar Engelbert<br>*Board Director* |
| Eva Eriksson<br>*Board Director* | Märtha Josefsson<br>*Board Director* | Pär Nuder<br>*Board Director* |
| Svante Paulsson<br>*Board Director* | Mats Qviberg<br>*Board Director* | Christian Hermelin<br>*Chief Executive Officer* |

This interim report has not been examined by the company's auditors.

# Monitor developments at Fabege's website!

You are most welcome to visit Fabege's website, which is one of our main information channels. The aim is to continuously provide you with relevant, up-to-date information.

The website provides information on the company and its operations and strategies. You can also find financial information, share data, details about our properties and ongoing projects and much more. Visitors to the website can also search for vacant premises, and our tenants are able to easily find contact details or other information related to the property in which they are located.



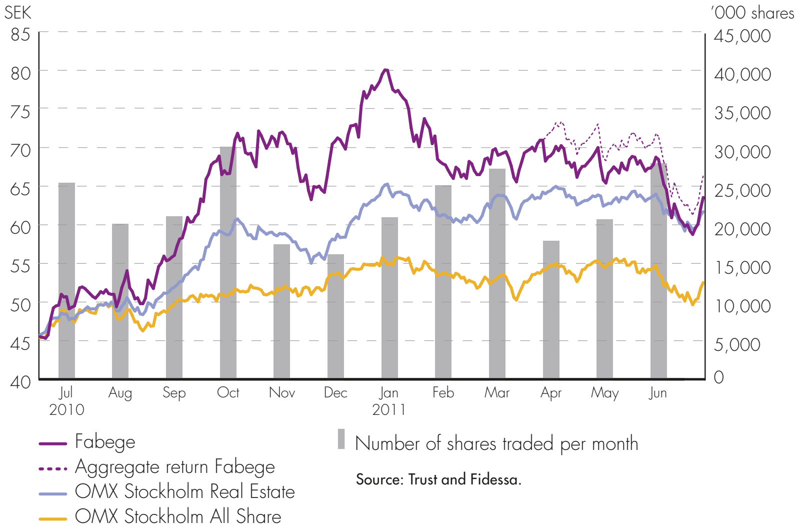

## Financial calendar

| | |
|---|---|
| Interim report January–September: | 26 October 2011 |
| Year-end report for 2011: | 2 February 2012 |
| Annual report for 2011: | March 2012 |

# Fabege share

## Fabege's shares are quoted on the Nasdaq OMX Nordic Exchange Stockholm in the Large Cap segment.

### Share price performance




Source: Trust and Fidessa.

### Largest shareholders

31 May 2011

| Shareholder | No. of shares | Share of capital, % | Share of votes, % |
|---|---|---|---|
| Brinova AB | 23,291,092 | 14.1 | 14.3 |
| Investment AB Öresund | 10,746,597 | 6.5 | 6.6 |
| BlackRock funds | 8,938,454 | 5.4 | 5.5 |
| Länsförsäkringar funds | 8,237,070 | 5.0 | 5.1 |
| SEB funds | 6,414,816 | 3.9 | 3.9 |
| Nordea funds | 4,846,434 | 2.9 | 3.0 |
| SHB funds | 3,839,278 | 2.3 | 2.4 |
| Swedbank Robur funds | 3,591,975 | 2.2 | 2.2 |
| Mats Qviberg and family | 2,890,036 | 1.7 | 1.8 |
| State of Norway | 2,613,894 | 1.6 | 1.6 |
| ENA City AB | 2,460,000 | 1.5 | 1.5 |
| Lannebo funds | 1,667,400 | 1.0 | 1.0 |
| Second AP-fund | 1,641,175 | 1.0 | 1.0 |
| AMF Försäkring& Fonder | 1,630,000 | 1.0 | 1.0 |
| Skandia Liv | 1,360,024 | 0.8 | 0.8 |
| Other Swedish shareholders | 40,314,427 | 24.3 | 24.7 |
| Other foreign shareholders | 38,497,412 | 23.3 | 23.6 |
| **Total no. of outstanding shares** | **162,980,084** | **98.5** | **100.0** |
| Treasury shares | 2,411,488 | 1.5 | 0.0 |
| **Total no. of shares** | **165,391,572** | **100.00** | **100.0** |

An updated owner list as per 30 June 2011, will be published on Fabege's website in mid-July.

## Definitions

**RETURN ON EQUITY**
Profit for the period/year divided by average shareholders' equity. In interim reports the return is converted to its annualised value without taking account of seasonal variations.

**RETURN ON CAPITAL EMPLOYED**
Profit before tax plus interest expenses-, divided by average capital employed. In interim reports, the return is converted to its annualised value without taking account of seasonal variations.

**LEVERAGE, PROPERTIES**
Interest-bearing liabilities divided by the carrying amount of the properties at the end of the period.

**DIVIDEND YIELD**
Dividend for the year divided by the share price at year-end.

**EQUITY PER SHARE**
Parent company shareholders' share of equity according to the balance sheet divided by the number of shares at the end of the period.

**FINANCIAL OCCUPANCY RATE**
Contract value divided by rental value at the end of the period.

**INVESTMENT PROPERTIES**
Properties that are being actively managed on an ongoing basis.

**DEVELOPMENT PROPERTIES**
Properties in which a conversion or extension is in progress or planned that has a significant impact on the property's net operating income. Net operating income is affected either directly by the project or by limitations on lettings prior to impending development work.

**RENTAL VALUE**
Contract value plus estimated annual rent for vacant premises after a reasonable general renovation.

**CASH FLOW PER SHARE**
Profit before tax plus depreciation-, plus/minus unrealised changes in value less current tax, divided by average number of shares.

**CONTRACT VALUE**
Stated as an annual value. Index-adjusted basic rent under the rental agreement plus rent supplements.

**LAND & PROJECT PROPERTIES**
Land and developable properties and properties in which a new build/complete redevelopment is in progress.

**NET LETTINGS**
New lettings during the period less terminations to vacate.

**PROFIT/EARNINGS PER SHARE**
Parent company shareholders' share of profit after tax for the period divided by average number of outstanding shares during the period.

**INTEREST COVERAGE RATIO**
Profit after financial items plus financial expenses and plus/minus unrealised changes in value, divided by financial expenses.

**SEGMENT REPORT**
In accordance with IFRS 8, segments are reported as viewed by management, i.e. broken down into two segments: Investment Properties and Development Properties.

Rental income and property expenses as well as realised and unrealised changes in value including tax are directly attributable to properties in each segment (direct income and expenses). In cases where a property changes character during the year, earnings attributable to the property will be allocated to either segment based on the period of time that the property belonged to the segment. Central administration and items in net financial items have been allocated to the segments in a standardised manner based on each segment's share of the total property value (indirect income and expenses).

The property asset is directly attributable to each segment and is recognised as of the closing date

**DEBT/EQUITY RATIO**
Interest-bearing liabilities divided by shareholders' equity.

**EQUITY/ASSETS RATIO**
Shareholders' equity (including minority share) divided by total assets.

**CAPITAL EMPLOYED**
Total assets less non-interest bearing liabilities and provisions.

**SURPLUS RATIO**
Net operating income divided by rental income.

## Consolidated statement of comprehensive income (summary)

| SEKm | 2011 Apr–Jun | 2010 Apr–Jun | 2011 Jan–Jun | 2010 Jan–Jun | 2010 Jan–Dec | Rolling 12 m Jul 10–Jun 11 |
|---|---|---|---|---|---|---|
| Rental income | 448 | 507 | 894 | 1,025 | 2,007 | 1,876 |
| Property expenses | –124 | –149 | –295 | –349 | –659 | –605 |
| **Net operating income** | **324** | **358** | **599** | **676** | **1,348** | **1,271** |
| *Surplus ratio, %* | *72%* | *71%* | *67%* | *66%* | *67%* | *68%* |
| Central administration and marketing | –15 | –17 | –30 | –33 | –62 | –59 |
| Net interest expense | –151 | –129 | –298 | –245 | –522 | –575 |
| Share in profit/loss of associated companies | –1 | –2 | –1 | –7 | 18 | 24 |
| **Profit/loss from property management activities** | **157** | **210** | **270** | **391** | **782** | **661** |
| Realised changes in value of properties | 50 | 65 | 50 | 96 | 237 | 191 |
| Unrealised changes in value of properties | 250 | 205 | 541 | 270 | 843 | 1,114 |
| Change in value of fixed income derivatives | –71 | –99 | 38 | –134 | 106 | 278 |
| Change in value of equities | –4 | –2 | –6 | –25 | –39 | –20 |
| **Profit/loss before tax** | **382** | **379** | **893** | **598** | **1,929** | **2,224** |
| Current tax | 0 | 0 | 0 | 0 | –3 | –3 |
| Deferred tax | –104 | –39 | –237 | –97 | –229 | –369 |
| **Profit/loss for period/year** | **278** | **340** | **656** | **501** | **1,697** | **1,852** |
| **Comprehensive income attributable to parent company shareholders** | **278** | **340** | **656** | **501** | **1,697** | **1,852** |
| Earnings per share, SEK | 1.71 | 2.08 | 4.03 | 3.05 | 10.38 | 11.36 |
| No. of shares at end of period, millions | 163.0 | 163.0 | 163.0 | 163.0 | 163.0 | 163.0 |
| Average no. of shares, millions | 163.0 | 163.7 | 163.0 | 164.0 | 163.5 | 163.0 |

## Consolidated statement of financial position (summary)

| SEKm | 30 Jun 2011 | 30 Jun 2010 | 31 Dec 2010 |
|---|---|---|---|
| **Assets** | | | |
| Properties | 28,183 | 27,796 | 26,969 |
| Other tangible fixed assets | 3 | 1 | 3 |
| Financial fixed assets | 935 | 613 | 714 |
| Current assets | 365 | 755 | 1,504 |
| Cash and cash equivalents | 201 | 174 | 73 |
| **Total assets** | **29,687** | **29,339** | **29,263** |
| **Equity and liabilities** | | | |
| Equity | 11,443 | 10,080 | 11,276 |
| Provisions | 647 | 430 | 423 |
| Interest-bearing liabilities | 16,636 | 17,658 | 16,646 |
| Derivatives | 229 | 507 | 267 |
| Non-interest-bearing liabilities | 732 | 664 | 651 |
| **Total equity and liabilities** | **29,687** | **29,339** | **29,263** |
| Equity/assets ratio, % | 39 | 34 | 39 |
| Contingent liabilities | 2,689 | 1,907 | 2,520 |

## Statement of changes in equity

| SEKm | Equity | Of which, attributable to parent company shareholders | Of which, attributable to minority |
|---|---|---|---|
| **Equity, 1 Jan 2010** | **9,969** | **9,969** | **–** |
| Share buybacks | –61 | –61 | – |
| Cash dividend | –329 | –329 | – |
| Profit/loss for the year | 501 | 501 | – |
| **Equity, 30 Jun 2010** | **10,080** | **10,080** | **–** |
| Profit/loss for the year | 1,196 | 1,196 | – |
| **Equity, 31 Dec 2010** | **11,276** | **11,276** | **–** |
| Cash dividend | –489 | –489 | – |
| Profit/loss for the period | 656 | 656 | – |
| **Equity, 30 Jun 2011** | **11,443** | **11,443** | **–** |

## Statement of cash flows

| SEKm | 2011 Jan–Jun | 2010 Jan–Jun | 2010 Jan–Dec |
|---|---|---|---|
| **Net operating income and realised changes in the value of existing property portfolio excluding depreciation** | **650** | **763** | **1,600** |
| Central administration | –30 | –33 | –62 |
| Net financial items paid | –301 | –270 | –520 |
| Income tax paid | 0 | 0 | –3 |
| Change in other working capital | 1,210 | –171 | –1,099 |
| **Cash flow from operations** | **1,529** | **289** | **–84** |
| Investments and acquisition of properties | –916 | –350 | –940 |
| Sale of properties, carrying amount of divested properties | 243 | 2,012 | 3,978 |
| Other investments (net) | –229 | –109 | –201 |
| **Cash flow from investing activities** | **–902** | **1,553** | **2,837** |
| Dividend to shareholders | –489 | –329 | –329 |
| Share buybacks | – | –61 | –61 |
| Change in interest-bearing liabilities | –10 | –1,451 | –2,463 |
| **Cash flow from financing activities** | **–499** | **–1,841** | **–2,853** |
| Change in cash and cash equivalents | 128 | 1 | –100 |
| Cash and cash equivalents at beginning of period | 73 | 173 | 173 |
| **Cash and cash equivalents at end of period** | **201** | **174** | **73** |

## Key ratios

| | 2011 Jan–Jun | 2010 Jan–Jun | 2010 Jan–Dec |
|---|---|---|---|
| **Financial** | | | |
| Return on capital employed, % | 8.6 | 6.0 | 8.7 |
| Return on equity, % | 11.5 | 10.0 | 16.0 |
| Interest coverage ratio, times | 2.1 | 3.0 | 3.0 |
| Equity/assets ratio, % | 39 | 34 | 39 |
| Loan-to-value ratio, properties, % | 59 | 64 | 62 |
| Debt/equity ratio, times | 1.5 | 1.8 | 1.5 |
| **Share-related** [1] | | | |
| Earnings per share for the period, SEK | 4.03 | 3.05 | 10.38 |
| Equity per share, SEK | 70 | 62 | 69 |
| Cash flow per share, SEK | 1.97 | 3.02 | 6.13 |
| No. of outstanding shares at end of period, '000 | 162,980 | 162,980 | 162,980 |
| Average no. of shares, '000 | 162,980 | 164,029 | 163,504 |
| **Property-related** | | | |
| No. of properties | 101 | 122 | 103 |
| Carrying amount, properties, SEKm | 28,183 | 27,796 | 26,969 |
| Lettable area, sqm | 1,110,000 | 1,260,000 | 1,138,000 |
| Financial occupancy rate, % | 89 | 89 | 88 |
| Surplus ratio, % | 67 | 66 | 67 |

[1] No dilution effect arises, since there are no potential shares (such as convertibles).

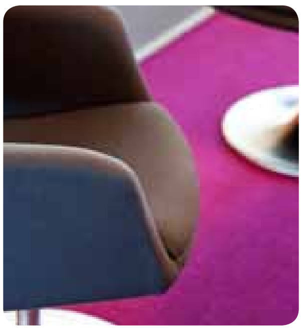
## Parent Company profit and loss account (summary)

| SEKm | 2011 Jan–Jun | 2010 Jan–Jun | 2010 Jan–Dec |
|---|---|---|---|
| Income | 53 | 64 | 102 |
| Expenses | –93 | –105 | –190 |
| Net financial items | –96 | –66 | –139 |
| Change in value, fixed income derivatives | 38 | –134 | 106 |
| Change in value, equities | –1 | –25 | –29 |
| **Profit/loss before tax** | **–99** | **–266** | **–150** |
| Tax | 24 | 139 | 29 |
| **Profit/loss for period/year** | **–75** | **–127** | **–121** |

## Parent Company balance sheet (summary)

| SEKm | 30 Jun 2011 | 30 Jun 2010 | 31 Dec 2010 |
|---|---|---|---|
| Interests in Group companies | 13,328 | 13,328 | 13,328 |
| Other fixed assets | 37,372 | 39,727 | 37,669 |
| *of which, receivables from Group companies* [1] | *37,230* | *39,408* | *37,524* |
| Other current assets | 9 | 8 | 25 |
| Cash and cash equivalents | 198 | 166 | 64 |
| **Total assets** | **50,907** | **53,229** | **51,086** |
| Equity | 8,799 | 9,200 | 9,363 |
| Provisions | 64 | 64 | 63 |
| Long-term liabilities | 39,048 | 37,355 | 35,771 |
| *of which, liabilities to Group companies* [1] | *25,293* | *25,501* | *24,676* |
| Short-term liabilities | 2,996 | 6,610 | 5,889 |
| **Total equity and liabilities** | **50,907** | **53,229** | **51,086** |

[1] For the items receivables from Group companies and liabilities to Group companies, the comparative figures have been adjusted. This is because these items should in fact have been recognised net at 30 June 2010, although they were previously recognised gross.



**Questions concerning the report will be answered by:**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www.fabege.se

More information about Fabege and its operations is available on the Group's website. The website also includes a webcast presentation from 7 July 2011, in which Christian Hermelin and Åsa Bergström present earnings for the quarter.

The information contained in this report is such that Fabege is legally obliged to disclose under the Securities Market Act and/or the Financial Instruments Trading Act. The information was released for publication on 7 July 2011.


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