

REPORT ON FIRST SIX MONTHS OF 1999

- **Profit shows strong improvement**
 - Pretax profit for the period amounted to SEK 702 M (Q1, 1998: 344), of which capital gains accounted for SEK 350 M (200).
 - Earnings per share SEK 5.77 (2.72)
 - Cash flow (excluding capital gains and nonrecurring items) amounted to SEK 4.01 per share during January–June 1999 (2.78) .
 - Based on an identical portfolio, rental revenues were 4% higher than in the year-earlier period.
- **High level of activity**
 - Investments in acquisitions amounted to SEK 1.9 billion and running projects amounted to SEK 0.6 billion - mainly in Stockholm.
 - Divestments amounted to SEK 1.2 billion – all hotel properties were sold, phase-out of foreign operations is proceeding as planned.
- **Forecast**
 - Full-year pretax profit for 1999 is expected to exceed SEK 1,100 M (including the capital gains of SEK 420 M reported to date).

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Drott AB (publ) is a pure real estate company that focuses on the Swedish market. The Company's mission is to generate a return on shareholders' equity through the management of its own real estate and the active use of the capital structure. With the support of satisfied tenants, profitable properties and a strong position in local growth markets – mainly for offices and housing – Drott aims to secure a rising operating surplus in real terms from every property, combined with growth in cash flow per share. At the end of June 1999, Drott owned 556 properties with 3.0 million square meters of rentable floor space, of which housing (about 18,500 apartments) accounted for 1.3 million square meters. Rental revenues (including vacant premises) amounted to SEK 2.7 billion, with the Stockholm area

accounting for half. Drott has 300 employees, 55,000 shareholders and is the largest real estate company on the Stockholm Stock Exchange.

◆ Business comments

• Rental and real estate market

The rental market for commercial premises remained strong during the period in the major regional centers that are experiencing industrial expansion and population growth. Stockholm's position as the principal growth market was further strengthened. A number of major real estate transactions were conducted, including the purchase of two exchange-listed companies, the acquisition by a Swedish/international consortium of a large portion of Sweden Post's property holdings and Drott's acquisition of properties from HSB for SEK 1.7 billion. However, recent interest-rate rises have reduced the intensity of such commercial activity.

• Offices

Office premises represent Drott's main market. Commercial premises account for nearly two thirds of the Group's rental income and Drott is enjoying substantial growth in this sector. City-center locations are showing increasing rents and the potential for project development activity is increasing, particularly in Stockholm. Drott is currently engaged in projects valued at SEK 600 M, involving annual rents totaling more than SEK 70 M (of which SEK 50 M is contracted), and negotiations are under way with prospective tenants regarding these and other planned projects.

• Housing

During the period, Drott acquired well-located residential properties, largely in central Stockholm, from HSB. Drott currently owns 18,500 apartments, including approximately 2,400 in central Stockholm, making the company Sweden's largest owner of private residential property.

Growth areas, particularly Stockholm, are exhibiting very strong demand and stable rent flows, and vacancies are only occurring in conjunction with the few relocations that occur.

Increases in residential rents are either slow or nonexistent, and current rents are far below the market level in growth areas, why we expect a greater differentiation between rents in the future.

A number of expressions of interest in the formation of tenant ownership associations have been received from tenants, and Drott plans to initiate price negotiations with a number of associations in Stockholm in the near future.

• Outside Sweden

The divestment of Drott's property holdings outside Sweden is proceeding according to plan. Eleven of thirteen properties owned by Drott in the UK have been sold (up to July 1999), yielding capital gains totaling SEK 75 M. Steps will be taken during the autumn to dispose of the Fashion Center property in Amsterdam and Haus Paris in Düsseldorf. In common with other properties in major Scandinavian cities, the Liertoppen Mall near Oslo has recently shown positive growth and, in this specific case, Drott aims to be a more active owner than before and does not foresee divesting the property before next year at the earliest. Apart from Liertoppen, it is expected that all the properties outside Sweden will have been sold by the end of June 2000.

◆ Comments on the interim report

Income statement January–June 1999

The figures within parentheses below pertain to pro forma results for the first half of 1998¹

- **Rental revenues and operating surplus**

The Group's rental revenues amounted to SEK 1,235 M (1,223). The change between 1998 and 1999 is affected by changes in the identical portfolio (renegotiated leases and new leases) and by acquisitions and divestments. Based on an identical portfolio, the increase was SEK 43 M, or 4%. Since year-end, the occupancy ratio has risen to 94% (93).

The operating surplus was SEK 744 M (726).

- **Operating profit**

Operating profit increased to SEK 978 M (774), of which capital gains accounted for SEK 350 M (200).

- **Net financial items**

Interest expense decreased by SEK 70 M to SEK 305 M (375), due to lower interest on loans. On June 30, 1999, interest-bearing liabilities carried an average interest rate of 4.7% and the average period of fixed interest was 2.5 years.

Interest subsidies decreased to SEK 23 M (28).

- **Pretax profit for the period**

Pretax profit for the period amounted to SEK 702 M (344). The improvement was due primarily to higher capital gains, a higher operating surplus and lower interest expense, in addition to the fact that figures for the first half of 1998 included nonrecurring costs. Profit from continuing real estate management operations² improved by SEK 71 M to SEK 352 (281).

- **Net profit for the period**

The estimated tax costs for the period amounted to SEK 115 M (34) and net profit for the period to SEK 587 M (310). Capital gains, after tax, accounted for SEK 285 M of profit.

¹ The pro forma accounts for 1998 are based on the assumption that the acquisition of Närkebro became effective on January 1, 1998. The acquisition of Närkebro shares is assumed to have been loan financed with a borrowing cost of 4.9%, corresponding to SEK 83 M on a six-month basis. The tax effect of this interest charge has been taken into account at a rate of 28%. The figures for Drott excluding Närkebro are based on the interim report for the first six months of 1998 (published in the prospectus issued in connection with the IPO). With respect to Närkebro, the pro forma accounts are based on the official interim report on the first six months of 1998. Drott's pro forma profit for the first half of 1998 was affected by restructuring costs resulting from its demerger from Skanska (charge of SEK 50 M against operating profit and SEK 147 M against net profit for the period) and by profits from other operating sectors (contribution of SEK 10 M).

² See definitions on page 10.

Balance sheet as of June 30, 1999

The figures within parentheses below pertain to December 31, 1998.

• Properties

At June 30, 1999, Drott owned 556 (500) properties, booked at SEK 19,385 M (18,310), with 2,970,000 (2,911,000) square meters of rentable floor space.

During the first half of 1999, Drott acquired 92 properties with a total of 282,200 square meters of floor space for SEK 1.9 billion.

A total of 38 non-priority properties comprising 221,200 square meters of floor space were sold for a total of SEK 1.2 billion, generating a capital gain of SEK 350 M. Sales of properties included in the acquisition of Näckebro accounted for SEK 0.9 billion of the sales value and SEK 91 M of the capital gains. The divestments included all of the Group's hotel properties. The sale of the Group's foreign real estate portfolio is under way and properties outside Sweden accounted for seven of the 38 properties sold.

As a result of the transactions completed during the year, Drott has withdrawn from a number of non-priority markets and strengthened its remaining real estate portfolio, mainly by acquisition of centrally located residential properties in Stockholm.

Change in Drott's real estate portfolio since year-end 1998

Drott's properties³	June 30, 1999	December 31, 1998
Number of properties	556	500
Book value, SEK M	19 385	18 310
Rentable floor space, sq. m.	2 969 550	2 910 570
Number of apartments	18 513	17 454
Rents, incl. vacant space, SEK M	2 691	2 619

Distribution of Drott's real estate portfolio

Types of premises	June 30, 1999	December 31, 1998
Rents, incl. vacant space, SEK M	2 691	2 619
Office	46%	46%
Retail	8%	8%
Storage/Industrial	6%	6%
Other	4%	6%
Housing	36%	34%
Total	100%	100%

Region	June 30, 1999	December 31, 1998
Rents, incl. vacant space, SEK M	2 691	2 619
Stockholm	48%	47%
Gothenburg	14%	14%
Öresund	15%	16%
Rest of Sweden	16%	15%
Outside Sweden	7% ⁴	8%
Total	100%	100%

³ Including 50% of properties in half-owned companies (four properties).

⁴ Following divestments made after the end of the report period, the share is 6%.

Change of booked value Properties

Properties	Book value SEK M
December 31, 1998	17 923
Former projects	387
Acquisitions	1 890
Investments (mainly projects)	227
Sales	-871
Depreciation	-86
Currency effects	-85
June 30, 1999	19 385

Additional properties have been divested following the end of the report period – see page 6⁵.

- **Current assets**

The Group's liquid funds, including short-term investments, amounted to SEK 91 M (126). Total current assets in the Drott Group amount to SEK 849 M (320). These include current receivables related to properties sold during the period but not yet taken over by the purchaser.

- **Shareholders' equity**

On June 30, 1999, shareholders' equity amounted to SEK 5,922 M, represented by 101,688,759 shares⁶. As a result of the payment of dividends on shares, shareholders' equity was reduced by SEK 3.00 per share.

- **Provisions**

Provisions totaled SEK 267 M, of which SEK 248 M was attributable to a provision for deferred tax.

- **Interest-bearing liabilities**

On June 30, 1999, the Drott Group's interest-bearing liabilities totaled SEK 13,097 M (11,776).

Fixed-interest-rate structure at June 30, 1999

Year	Swedish krona	Average interest rate, %	Foreign currency	Average interest rate, %	Total	Propor- tion	Average interest rate, %
	SEK M		SEK M		SEK M	%	
1999	1 672	3,5	1 137	4,4	2 809	21	3,9
2000	2 220	5,0	522	7,7	2 742	21	5,5
2001	1 237	5,0	-	-	1 237	10	5,0
2002	2 104	4,7	-	-	2 104	16	4,7
2003-	4 205	4,6	-	-	4 205	32	4,6
Total	11 438	4,6	1 659	5,4	13 097	100	4,7

The average interest rate was 4.7%, with an average period of fixed interest of 2.5 years. On July 31, 1999, the average interest rate was unchanged at 4.7% and the average period of fixed interest was 2.6 years.

⁵ A specification of the properties acquired and sold during the period is presented on www.drott.se (it may also be ordered from Drott – call Ingemo Österberg (Tel: +46-8-545 83 011)).

⁶ Drott's Annual General Meeting approved a reduction in the Parent Company's share capital by SEK 24.3 M through the cancellation of the Drott shares owned by the Drott Group. The reduction has been registered with the Patents and Registration Office (PRV) and Drott has notified the Swedish Securities Register Center (VPC) that the total number of Drott shares is to be reduced from 113,854,968 to 101,688,759.

Maturity structure of loans at June 30, 1999

Year	SEK M	Proportion %
1999	5 616	43
2000	240	2
2001	402	3
2002	3 153	24
2003	2 564	20
2004-	1 122	8
Total	13 097	100

During September 1999, SEK 3.4 billion – related to loans raised in connection with the acquisition of Näckebro shares – of the short-term loans (the year 1999 in the table) will be refinanced through long-term loans with terms of five to ten years.

- **Interest-free liabilities**

Interest-free liabilities totaled SEK 998 M (1,112).

Parent Company

The Parent Company reported a loss of SEK 119 M (loss: 1) and had no sales revenues during the period.

Significant events following the report period

Following the report period, four properties in the UK were sold for SEK 380 M, generating a pretax capital gain of SEK 70 M. Thereafter, Drott has six properties outside Sweden with a total book value of SEK 1.3 billion.

Outlook for 1999

The previously issued forecast remains valid, adjusted for the capital gains noted to date. Accordingly, pretax profit for 1999 is expected to exceed SEK 1,100 M (including capital gains of SEK 420 M). The estimated tax rate on 1999 profits is approximately 15%.

Stockholm, August 13, 1999

Drott AB (publ)

Mats Mared

President and Chief Executive Officer

This interim report is unaudited.

◆ Income statements, balance sheets and statement of changes in financial position

Consolidated income statement

SEK M	Actual Jan-June 1999	Pro forma Jan-Jun 1998	Actual Jan-Dec 1998
Rental revenues	1 235	1 223	2 439
Other revenues	8	14	18
Operating, maintenance and property modification costs	-332	-351	-686
Ground rent	-25	-23	-49
Property tax	-65	-67	-134
Property management	-77	-70	-150
Operating surplus	744	726	1 438
Depreciation	-90	-89	-174
Profit from real estate operations	654	637	1 264
Profit from other operating sectors	-	10	10
Gross profit	654	647	1 274
Capital gains	350	200	487
Central Corporate and Group expenses	-26	-23	-65
Restructuring costs	-	-50	-130
Operating profit	978	774	1 566
Interest subsidy	23	28	55
Interest income	6	14	16
Interest expense	-305	-375	-584
Nonrecurring interest expense prior to capital contribution	-	-97	-97
Profit after net financial items	702	344	956
Acquired profit	-	-	-284
Profit for the period before taxes	702	344	672
Taxes	-115	-34	-177
Net profit for the period	587	310	495

Consolidated balance sheet

SEK M	June 30, 1999	June 30, 1998 Pro forma	December 31, 1998
Properties	19 385	18 277	18 310
Equipment	20	18	19
Other fixed assets	30	35	30
Fixed assets	19 435	18 330	18 359
Other current assets	758	247	194
Liquid funds	91	330	126
Current assets	849	577	320
TOTAL ASSETS	20 284	18 907	18 679
Shareholders' equity	5 922	5 275	5 628
Minority interest	-	2	-
Provisions	267	75	163
Interest-free liabilities	998	1 216	1 112
Interest-bearing liabilities	13 097	12 339	11 776
SHAREHOLDERS' EQUITY AND LIABILITIES	20 284	18 907	18 679

Statement of changes in financial position

SEK M	Actual Jan-June 1999	Pro forma ⁷ Jan-Dec 1998
♦ CONTINUING OPERATIONS		
Operating surplus	744	1 438
Central Corporate and Group expenses	-26	-65
Interest subsidies	23	55
Interest income	6	16
Interest expense	-305	-584
Taxes paid for continuing real estate management operations	-34	-92
Cash flow in eliminated acquired profit	-	-121
Cash flow from continuing real estate management operations	408	647
<u>Nonrecurring items:</u>		
Cash flow in other operating sectors	-	12
Restructuring costs	-	-130
Nonrecurring interest before capital contribution	-	-97
Taxes paid for nonrecurring items	-	38
Cash flow in eliminated acquired profit	-	-4
Cash flow before change in working capital	408	466
Change in working capital	-30	306
Cash flow from continuing operations	378	772
♦ INVESTMENT OPERATIONS		
Net investments in fixed assets	-804	1 126
Taxes paid for capital gains	-45	-50
Cash flow from investment operations	-849	1 076
♦ FINANCING OPERATIONS		
Change in interest-bearing liabilities	1 321	-819
Change in other receivables (excl. operating receivables)	-580	-
Dividend	-305	-
Näckebo's acquisition cost for purchase of Drott shares	-	-1 079
Dividend in Näckebo	-	-31
Cash flow from financing operations	436	-1 929
Change in liquid funds	-35	-81
Liquid funds on January 1	126	207
Liquid funds at period end	91	126

⁷ See Drott's 1998 Annual Report (page 32) for the conditions underlying the pro forma accounts.

◆ Key data and definitions

Key data

SEK M	Actual Jan-June 1999	Pro forma Jan-June 1998	Actual Jan-Dec 1998
PROPERTY-RELATED DATA			
Rental revenues	1 235	1 223	2 439
Rentable space, sq. m.	2 970 000	2 885 000	2 911 000
Rent-based occupancy ratio, %	94	93	93
Operating surplus	744	726	1 438
Book value of properties	19 385	18 277	18 310
Surplus ratio, %	60	59	59
FINANCIAL DATA			
Profit for the period	587	310	495
Shareholders' equity ⁸	5 922	5 275	5 628
Return on equity, %	10,2	5,9	9,2
Total assets	20 284	18 907	18 679
Equity/assets ratio, %	29,2	27,9	30,1
Interest-bearing liabilities	13 097	12 339	11 776
Interest-coverage ratio, times	3,3	1,7	3,5 ⁹
Interest-coverage ratio – continuing real estate management operations, times	2,2	1,7	4,7 ⁹
Debt/equity ratio, times	2,2	2,3	2,1
Cash flow	408	316	647 ⁹
Cash flow, incl. capital gains	713	516	836 ⁹
DATA PER SHARE¹⁰			
Number of shares	101 688 759	113 854 968	113 854 968
Earnings, SEK	5,77	2,72	4,35
Shareholders' equity, SEK	58,24	46,33	49,43
Cash flow, SEK	4,01	2,78	5,68
Cash flow, incl. capital gains	7,01	4,53	7,34

⁸ If the SEK 786 M write-up of property values effected in 1998 were to be charged with full tax, shareholders' equity would be reduced by SEK 220 M.

⁹ Items included in "acquired profit" have been taken into account.

¹⁰ In June 1999, Drott raised a convertible debenture loan in an amount of SEK 46.2 M with preferential rights for Drott employees in Sweden. To date, employees have subscribed for SEK 22.5 M, while the remaining convertible debentures have been subscribed by a wholly owned subsidiary of Drott AB for future allotment to employees. Conversion may occur no later than April 30, 2004 at a price of SEK 84. Based on full conversion, the number of Series B Drott shares will increase by 550,000. The dilution effect resulting from possible conversion to shares has not been taken into account in the summary of key data, since such dilution will have only a minor impact on the key data.

Definitions

PROPERTY-RELATED

Rent-based occupancy ratio	Contracted rental revenues at June 30, 1999 divided by total of contracted rental revenues plus value of vacant premises.
Rent, including vacant properties	Contracted rental revenues plus value of vacant premises.
Contracted rent	Basic annual leased-based rent, after indexing, adjusted for rent discounts and rent surcharges.
Rentable space	Contracted rental revenues plus value of vacant premises.
Vacant space	Rentable space includes garage space within buildings. Estimated rent for unleased housing plus market rent for unleased commercial premises after reasonable upgrading measures.

FINANCIAL

Return on equity	Net profit for the period as a percentage of average shareholders' equity.
Central Corporate and Group costs	Costs that are not directly attributable to real estate management operations, such as costs for corporate management, Group Staff functions and maintaining a stock-exchange listing.
Cash flow	Pretax profit for the period after the reversal of depreciation, capital gains and nonrecurring items, less taxes paid for continuing real estate management operations.
Profit from continuing real estate management operations	Profit excluding capital gains and nonrecurring items.
Interest-coverage ratio	Profit after net financial items after the reversal of interest expense divided by interest expense.
Interest-coverage ratio – continuing real estate management operations	Profit after net financial items after the reversal of interest expense, capital gains and nonrecurring items, divided by interest expense..
Debt/equity ratio	Interest-bearing liabilities divided by shareholders' equity.
Equity/assets ratio	Shareholders' equity plus minority interest as a percentage of total assets.
Earnings per share	Profit for the period divided by the number of shares.
Surplus ratio	Operating surplus as a percentage of rental revenues.

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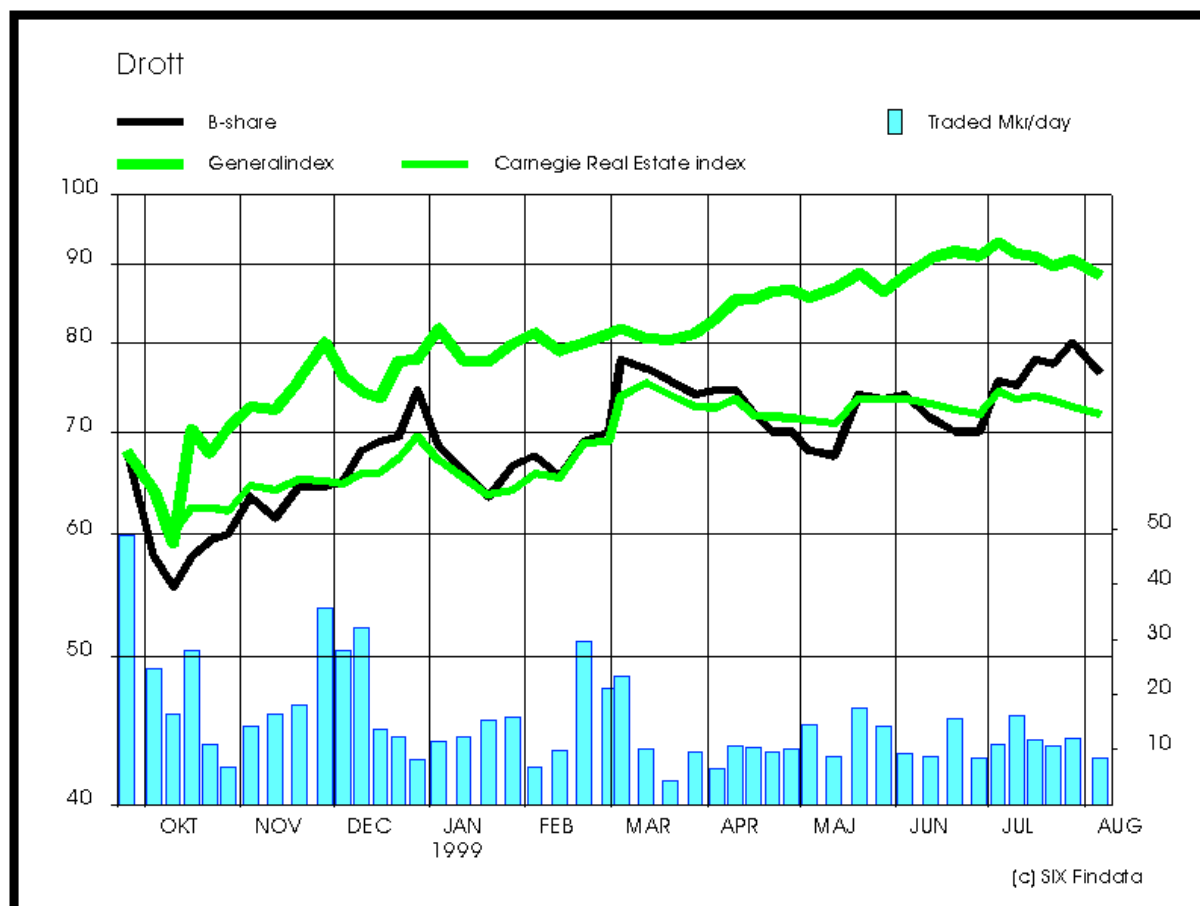
Planned information

Nine-month report October 22, 1999
 Report on 1999 operations February 16, 2000
 Annual General Meeting 2000 April 12, 2000

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◆ The Drott share



Largest shareholders in Drott on June 30, 1999¹¹ (adjusted for subsequent known changes)

Shareholder	Series A shares	Series B shares	Total number of shares	Percentage of share capital	Percentage of voting rights
Föreningssparbanken's mutual funds	0	15 538 647	15 538 647	15,3%	14,3%
Fourth AP Fund	112 988	6 707 456	6 820 444	6,7%	7,2%
Nordbanken's mutual funds	0	5 889 340	5 889 340	5,8%	5,4%
Handelsbanken's mutual funds	0	4 067 600	4 067 600	4,0%	3,8%
Skandia	0	3 946 496	3 946 496	3,9%	3,6%
SEB's mutual funds	0	3 880 970	3 889 970	3,8%	3,6%
SPP	0	2 955 270	2 955 270	2,9%	2,7%
SEB-Trygg Försäkring	0	2 576 500	2 576 500	2,5%	2,4%
SB Foundation	0	2 000 000	2 000 000	2,0%	1,8%
AMF Försäkring	0	1 573 140	1 573 140	1,5%	1,5%
Foreign shareholders	32 750	12 409 174	12 441 924	12,2%	11,8%
Other (approx 55,000)	598 139	39 400 289	39 989 428	39,4%	41,9%
Total	743 877	100 944 882	101 688 759	100,0 %	100,0 %

¹¹ Following the approved cancellation of shares.