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The process of change within Drott is continuing

- **New organization and cost review**
- **Daniel Skoghäll named President of Bostadsaktiebolaget Drott**
- **Market adjustment of derivative portfolio**

As previously announced, the Drott Group (hereinafter "the Group") is being divided into two companies, each with a clear strategy and direction. At the Annual General Meeting in 2004, shareholders will vote on the Board of Directors' proposal to distribute Bostadsaktiebolaget Drott, an active, streamlined real estate company in approximately ten growth regions. At the same time, it is proposed that Drott AB change its name to Fabege AB, an active, streamlined commercial real estate company focused on Stockholm.

The demerger of the Group and refocusing of its operations will necessitate changes. During the summer, a review was made of the organization and its efficiency and cost structure, with the goal of creating two strong, competitive companies with good future prospects in line with the strategy and direction that were recently adopted.

New organization and cost review

The Group's new organization will primarily result in two major changes:

- **Bostadsaktiebolaget Drott** will be managed as of September 1, 2003 as an independent subsidiary within the Group.
- The Group's other operations (Fabege) will be divided into two business areas: **Förvaltning**, which will be responsible for the management and letting of commercial properties, and **FM (Facility Management)**, which will be responsible for purchasing, external and internal project-based technical support and services, and other property management services.

The new organizational structure takes effect on September 1, 2003.

Negotiations have begun with unions representing approximately 65 full-time positions within the Group. Personnel changes, which will be made following the conclusion of negotiations, are expected to be finalized this autumn.

Fabege is planning a staff of 155 full-time positions. In addition, there will be nearly 30 full-time positions associated with the commercial property portfolio outside Stockholm. Bostadsaktiebolaget Drott is planning a staff of nearly 150 full-time positions, including staff units that will be established as a result of the company's proposed distribution and stock market listing.

In parallel with the organizational work, a cost review has been conducted by the Group. Savings as well as efficiency and productivity improvements have been identified.

The savings potential is approximately SEK 85 million on an annual basis, which can be attained within one year. In addition, there will be a reduction in direct property costs stemming from implemented and planned property sales. Scheduled maintenance, tenant modifications, tariff-based fees and property tax may affect this amount. The majority of the savings will be in reduced personnel and purchasing routines. Current overhead costs resulting from the establishment of an independent organization for Bostadsaktiebolaget Drott has been taken into account.

Nonrecurring items for the savings program and demerger that affect profit, including estimated costs for the market listing of Bostadsaktiebolaget Drott, total approximately SEK 75 million, which has been earmarked as an item affecting comparability in the third quarter of 2003. Moreover, other items attributable to the demerger are expected to be capitalized, including a stamp tax of approximately SEK 65 million. These items will be incurred through the first half of 2004.

President of Bostadsaktiebolaget Drott

Daniel Skoghäll has been appointed President of Bostadsaktiebolaget Drott. Daniel, 40, has been President of Drott Bostad since 1998 after having overseen Skanska's residential property portfolio. He received his education at Chalmers University of Technology in Gothenburg.

The recruitment of a president of Fabège is under way. The process is expected to be complete by year-end.

Market adjustment of derivative portfolio

The Group's financing currently consists largely of long-term bilateral credit facilities from banks. Interest rates are fixed through the use of derivatives, which requires a balance between the credit and derivative portfolio.

The property sales this summer reduced the Group's loans by approximately SEK 6 billion. Planned sales will further reduce these loans. Even taking into account the funds transferred to shareholders from the implemented and planned property sales, there is an imbalance in size between the derivative and loan portfolios. This has necessitated a review of the derivative portfolio to adapt its size and obtain a suitable fixed interest term and maturity structure.

Against the above backdrop, derivatives have been eliminated or adapted to current interest rate levels. The cost involved, SEK 280 million, will be reported as an item affecting comparability in the third quarter of 2003.

The average interest charge for all the Group's interest-bearing loans will then be 3.9 percent with a fixed interest term of 1.3 years. As proceeds are received from implemented and planned property sales, the average fixed interest term will increase, as loans with short interest-fixing terms are repaid. Compared with the Group today, Fabège will have a slightly higher interest rate level as it will only be

mortgaging commercial properties. By year-end, the interest charge for the Group excluding Bostadsaktiebolaget Drott will amount to 4.1 percent with an average fixed interest term of 1.2 years based on implemented property sales.

Looking forward, Bostadsaktiebolaget Drott intends to obtain its financing through mortgage loans. During the summer, Bostadsaktiebolaget Drott's fixed interest structure was secured through derivatives with fixed interest rates as of January 2004. The intention is to convert this position this autumn to long-term, fixed-rate mortgage loans. Bostadsaktiebolaget Drott will then have an average fixed interest term of approximately 5.3 years at an interest rate of about 4.75 percent. As planned, loans will amount to slightly over SEK 6 billion.

The market adjustment of the derivative portfolio have not previously been taken into account in the Group's profit forecast for 2003. All else being equal, these measures are expected to improve profit from ongoing property management operations by approximately SEK 30 million for the remainder of 2003.

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