

Diligentia AB

Year-end report 1999

Operating results

- **Income after net financial items rose by 75 percent compared with the previous year to SEK 421 million (240).**
- **Net operating income for the Swedish operations rose by 14 percent during the year to SEK 766 million (671). Total net operating income rose by 6 percent during the year to SEK 765 million (724).**
- **The net gain on property sales during the year amounted to SEK 131 million (41), of which sales in Sweden accounted for SEK 97 million. SEK 71 million relates to a sale in Japan, of which SEK 62 million is deducted in tax.**
- **Net income amounted to SEK 285 million (167), corresponding to earnings per share of SEK 4.54 (2.67).**
- **Cash flow per share from operating activities continued to improve, amounting to SEK 5.96 (4.37).**

Highlights during the year

- **The property portfolio was restructured through the sale of 36 properties and purchase of 8 others. Aggregate sales amounted to SEK 1,212 million (1,927), with a capital gain of SEK 131 million (41). International sales accounted for SEK 630 million. Properties purchased during the year had an aggregate value of SEK 1,055 million.**
- **During the year, Diligentia signed new leases and actively renegotiated existing contracts in Sweden with annual rent of SEK 181 million and lettable area of 230,000 square meters.**

Highlights following the conclusion of the year

Summary of Castellum's offer for Diligentia

- **On January 18, 2000, Castellum AB (publ) announced a public offer to the shareholders of Diligentia. For every share in Diligentia, Castellum is offering one new share in Castellum. Shareholders with fewer than 100 shares, as an alternative to the above offer, are offered a cash payment for their entire holding of SEK 79 per share.**
- **The Board of Directors of Castellum plans to recommend a dividend of SEK 4.50 per share for financial year 1999. The dividend will also apply to the newly issued shares. In light of the conditions of the tender offer, this recommendation represents a dividend of SEK 4.50 per Diligentia share with the current number of shares.**
- **Following the merger, the new group intends to repurchase and/or redeem shares with an aggregate value of up to SEK 2.5 billion.**
- **The Board of Directors of Diligentia has unanimously decided to recommend that shareholders accept Castellum's offer as stated above.**
- **A prospectus is expected to be released in early March 2000.**

Summary of Balder's offer for Diligentia

- **On February 14, 2000, Balder AB (publ) announced a public offer to Diligentia's shareholders. For every 13 shares in Diligentia, they are offered 10 new shares in Balder. As an alternative, shareholders may replace 20 percent of the new Balder shares being offered with cash proceeds amounting to 105 percent of the Balder share's average price during the last five trading days of the acceptance period, up to a maximum of SEK 150.**
- **The offer is conditional on a decision by the extraordinary general meeting of Balder's shareholders on March 6, 2000 to approve the new share issue.**
- **A prospectus is preliminarily scheduled to be released on March 20, 2000.**
- **The Board of Directors of Balder plans to recommend a dividend of SEK 3.50 per share for financial year 1999. The dividend will also apply to the newly issued shares. In light of the conditions of the tender offer, this recommendation represents a dividend of SEK 2.69 per Diligentia share with the current number of shares.**
- **Until Balder's extraordinary general meeting has decided whether to adopt the proposal of Balder's Board of Directors and it is clear whether or not Drott's cash offer to Balder's shareholders of SEK 135 per share announced on February 9, 2000 will be implemented, the Board of Directors of Diligentia is not in a position to make a recommendation**

regarding Balder's offer relative to Castellum's offer.

Position of the Board of Directors of Diligentia, Annual General Meeting and dividend recommendation

It is the duty of the Board of Diligentia to protect the interests of Diligentia's shareholders and seek out opportunities to create shareholder value. The Board acknowledges that the market valuations of the shares of Diligentia, Castellum and Balder are less than the net asset values that are stated or can be estimated for each company.

In its assessment of the recent proposal from the Board of Castellum, the Board of Diligentia took into particular consideration the industrial and financial consequences of a merger.

Since the market values the two companies at a discount in relation to net asset value, the proposal by the Board of Castellum of a dividend to the shareholders of SEK 4.50 per share as well as a share buyback worth SEK 2,500 million greatly influenced the position of the Board of Diligentia.

In addition to the tender condition of one Castellum share for one Diligentia share, Castellum's planned share buyback is estimated to represent a cash payment of SEK 26.70 per share in Diligentia. To this should be added the fact that Castellum's Board has stated its explicit intention to act in various ways to create further value for shareholders.

With these facts in mind, the Board of Diligentia unanimously decided to recommend that the shareholders accept Castellum's offer, provided that Castellum's Board and shareholders decide to implement the proposal. This recommendation by the Board of Diligentia still stands.

With respect to the proposal by the Board of Balder, the Board of Diligentia can at present only state that the implementation of Balder's offer requires that Balder's shareholders approve the share issue necessitated by the offer to Diligentia's shareholders. If that occurs, Drott has announced that it will withdraw its offer to Balder's shareholders to tender their shares for a cash payment of SEK 135 per share.

Against this background, the Board of Diligentia cannot assess the offer from the Board of Balder until these issues have been clarified.

Since the offers mentioned above could lead to substantial changes in the ownership of Diligentia, the Board of Diligentia has decided to delay a dividend recommendation and to postpone the Annual General Meeting until the situation has been clarified.

The Board of Diligentia would also note that Diligentia, in its current situation, has shown strong earnings growth and has a strong financial position. If none of the offers mentioned above are accepted by a majority of Diligentia's shareholders, or

if the two offers are withdrawn, the Board of Diligentia intends to recommend a dividend in accordance with Diligentia's dividend policy, or SEK 3.50 per share, in addition to a share buyback program of approximately SEK 1,500 million. Together, this would be equivalent to a cash payment of approximately SEK 27 per Diligentia share.

Operating results

Rental income for the period totaled SEK 1,253 million (1,273), of which SEK 1,239 million (1,173) is related to the Swedish property portfolio and SEK 14 million (100) to the international property portfolio.

Expenses for operations, management, maintenance, tenancy modifications, tax and rents totaled SEK 488 million (549), of which the Swedish property portfolio accounted for SEK 473 million (502) and the international portfolio for SEK 15 million (47). The Group's administrative expenses amounted to SEK 70 million (99).

Net operating income for the Group amounted to SEK 765 million (724) during the period, an increase of 6 percent. In the Swedish portfolio, net operating income rose by 14 percent compared with the previous year, from SEK 671 million to SEK 766 million.

The net gain on property sales during the year was SEK 131 million (41).

Operating income for the period amounted to SEK 742 million (592).

Income after net financial items amounted to SEK 421 million (240). For the Swedish operations, income amounted to SEK 426 million (322). Excluding the gain on property sales in the Swedish operations in 1999, which amounted to SEK 97 million (64), income after net financial items rose by 28 percent to SEK 329 million (258).

The international operations reported a loss after net financial items of SEK -67 million (-87). The total liquidation reserve for international operations amounts to SEK 57 million, of which SEK 38 million was charged against the sales result for the year.

Income for the period after tax and minority interests amounted to SEK 285 million (167), an increase of 71 percent.

Figure 1. Income statement for 1999 compared with 1998 divided between Swedish and international properties

SEK million	Sweden 1999	Sweden 1998	Int'l 1999	Int'l 1998	Total 1999	Total 1998
Rental income	1,239	1,173	14	100	1,253	1,273
Operations, maintenance, tax	-473	-502	-15	-47	-488	-549
Net operating income	766	671	-1	53	765	724
Depreciation	-84	-74	-	-	-84	-74
Result from property sales	97	64	34	-23	131	41
Administrative expenses	-66	-95	-4	-4	-70	-99
Operating income	713	566	29	26	742	592
Net financial income and	-287	-244	-34	-108	-321	-352
Income/loss after						

net financial items	426	322	-5	-82	421	240
Minority interests and tax	-74	-68	-62	-5	-136	-73
Net income/loss	352	254	-67	-87	285	167

Income, expressed as the yield on the property portfolio compared with the previous year, improved from 7.2 percent to 7.6 percent for managed properties.

Figure 2. Quarterly income statement after net financial items 1999

SEK million	Q 1 1999	Q 2 1999	Q 3 1999	Q 4 1999	Q 4 1998	Total 1999	Total 1998
Rental income	314	305	307	327	335	1,253	1,273
Operations and maintenance	-135	-115	-107	-131	-132	-488	-549
Net operating income	179	190	200	196	204	765	724
Depreciation	-21	-20	-20	-23	-19	-84	-74
Result from property sales	91	30	-4	14	38	131	41
Administrative expenses	-18	-18	-16	-18	-26	-70	-99
Net financial income and	-82	-71	-83	-85	-105	-321	-352
Income after net financial items	149	111	78	84	92	421	240

Financing and liquidity

The majority of the Swedish properties in the Diligentia Group carry interest-bearing financing in the form of consortium mortgage loans. These loans have been reduced, however, and replaced by consortium loans of SEK 1,551 million without mortgages. Financing also includes real estate mortgages and check overdraft facilities.

Diligentia's remaining international properties and its international property-related receivables are practically all fully financed directly or indirectly in local currency.

Interest-bearing liabilities in the Group amounted to SEK 6,711 million (7,087). As of December 31, 1999, the Group's average borrowing rate was 5.5 percent (5.3). The Swedish loan portfolio of SEK 5,285 million (5,471) had an average interest rate of 5.8 percent (5.7), while the international portfolio of SEK 1,426 million (1,616) had an average rate of 4.7 percent (4.0).

As of year-end, the average fixed interest period for the Swedish loan portfolio was 1.9 years.

The Group's liquid assets amounted to SEK 137 million (150) as of December 31, 1999. Unutilized loan facilities, including the consortium mortgage loan limit, amounted to SEK 1,100 million (450) as of December 31, 1999.

Cash flow from operating activities was SEK 374 million (274) for the period.

As of December 31, 1999, shareholders' equity amounted to SEK 5,119 million

(5,020).

Figure 3. Funding structure as of December 31, 1999

Maturing in	Total, SEK m.	Share, %
2000	1,062	16
2001	22	0
2002	3,825	57
2003	210	3
2004 and later	1,592	24
Total	6,711	100

Interest maturity in						Average interest rate, %		
	SEK	DKK	EMU	Other	Total	Share, %	SEK	Total
2000	2,357	265	550	46	3,218	48	4.9	4.7
2001 ¹⁾	1,372	0	0	0	1,372	20	8.1	8.1
2002	850	75	0	0	925	14	4.7	4.7
2003	265	0	145	0	410	6	5.7	5.9
2004 and later	441	345	0	0	786	12	4.8	5.2
Total	5,285	685	695	46	6,711	100	5.8	5.5
Avg. interest rate	5.8%	4.9%	4.4%	5.9%	5.5%			

1) Through a Floating Rate Agreement (FRA), the 2001 loan of SEK 500 million has been extended to 2005 at an interest rate of 5.8%.

Property portfolio

Of the property portfolio's total book value of SEK 11,669 million (11,714) on December 31, 1999, SEK 11,203 million (10,549) related to Sweden and SEK 466 million (1,165) to international properties. The total number of properties in the Group was 283 (310), of which 274 (289) were in Sweden and 9 (21) abroad.

Depreciation on the Swedish properties amounted to SEK 84 million in 1999. Because the international properties are reported as current assets, there is no depreciation. No revaluations or write-downs of international properties were necessary.

Figure 4. Changes per square meter and yield

for Swedish managed properties

	1999	1998	1997	1996	1995
Income/sq.m.	835	753	649	629	569
Expenses/sq.m.	307	318	301	320	317
Net operating income/sq.m.	528	435	348	309	252

Yield, %	7.6	7.2	6.5	6.5	5.8
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During the year, Diligentia signed new leases and actively renegotiated existing contracts in Sweden with annual rent of SEK 181 million and lettable area of 230,000 square meters.

Changes in the property portfolio

During the year, Diligentia sold a total of 36 properties (109) for an aggregate sales value of SEK 1,212 million (1,927). The net capital gain on property sales during the year was SEK 131 million (41). During the year, Diligentia purchased 8 properties at a value of SEK 1,055 million. Net operating income from the properties sold during the year amounted to SEK 20 million (81).

In total, 24 (49) properties were sold in Sweden for a sales value of SEK 582 million (798) and 12 (60) internationally for SEK 630 million (1,129).

During the spring, Diligentia sold the Sweden Center Building in Tokyo, Japan, to Mori Building Co. for SEK 332 million, generating a capital gain of SEK 71 million, of which SEK 62 million is deducted in tax. Diligentia also sold properties in Spain and Portugal.

In June, Diligentia acquired part of the property Bilen 4 in the Västra Hamnen section of Malmö from Malmö Municipality for SEK 143 million. In total, the purchase covered slightly over 100,000 square meters. Diligentia plans to gradually upgrade the property, the first stage of which involves the conversion of 30,000 square meters to offices.

During the autumn, Diligentia acquired five office buildings in central Copenhagen for a total of DKK 428 million from KEOPS and TK Development, among others. The properties have a combined lettable area of nearly 39,000 square meters. Two of the properties, which are under renovation, will reopen in 2000.

During the autumn, Diligentia exchanged properties with Mandamus, whereby Diligentia acquired an office building in Copenhagen for DKK 226.5 million and sold ten properties in Lund, Borås and Ljungby for SEK 238 million. In connection with the exchange, Diligentia took over Mandamus' organization in Copenhagen.

During the autumn, Diligentia also acquired a 20,000-sq.m. property (including a garage and parking spaces) in Gothenburg from Skandia for SEK 224 million.

Figure 5. Property acquisitions during the year

Region	No. of properties	Area, sq.m. ¹⁾	Purchase price, SEK m.
Stockholm	1	6,280	86
Gothenburg	1	16,927	231

Öresund	6	141,740	738
Total	8	164,947	1,055

1) excl. garages & parking places

Figure 6. Property sales during the year

Region	No. of properties	Area, sq.m.¹⁾	Sales price, SEK m.
Stockholm	4	43,196	190
Gothenburg	10	46,644	180
Öresund	10	54,135	212
Total in Sweden	24	143,975	582
International	12	24,961	630
Diligentia, total	36	168,936	1,212

1) excl. garages & parking places

Capital expenditures

Diligentia allocates capital expenditures for its property portfolio on a continuous basis. During the year, capital expenditures totaled SEK 159 million (412).

Value of the Swedish property portfolio

As in previous years, independent appraisals were conducted as of year-end. For the Swedish property portfolio, which is concentrated in Stockholm, Gothenburg and the Öresund region, the estimated market value at year-end exceeded book value by SEK 2,787 million (1,350). The appreciation in value during the year was SEK 1,437 million.

Figure 7. Value of the Swedish property portfolio, SEK m.

(Incl. surplus value of participating interests in partnerships)

	Sweden 1999	Sweden 1998
Sum of the properties' book value and surplus value	13,990	11,899
The properties' book value	11,203	10,549
The properties' surplus value expressed as	2,787	1,350

the mean in the range of appraisals		
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Net asset value (NAV)

Diligentia's reported shareholders' equity amounted to SEK 5,119 million (5,020) as of December 31, 1999. The surplus value in Diligentia's property portfolio, based on independent appraisals, amounted to SEK 2,787 million (1,350) on the same date. After deducting 28-percent deferred tax from the surplus value, net asset value therefore amounted to SEK 7,126 million (5,992), corresponding to SEK 114 per share (96).

Parent Company

Diligentia AB is the Group's Parent Company, in which the Group's shareholders' equity is concentrated. Borrowing in the Group is done in large part through the Parent Company. The Parent Company carries on customary Group-wide activities, the expenses for which amounted to SEK 49 million (55) during the period. As of December 31, 10 (11) people were employed by the Parent Company.

Year 2000

The work to identify potential problem areas related to the millennium shift was carried out continuously during 1998 and 1999 by an internal working group with the help of external consultants. The millennium shift passed without any problems.

Financial reports in 2000

(dates may change)

Interim report, January-March	Thursday, April 27
Interim report, January-June	Thursday, August 17
Interim report, January-September	Thursday, October 26

Diligentia is one of Sweden's largest real estate companies. The book value of the Group's Swedish property portfolio amounted to SEK 11,203 million on December 31, 1999. The book value of the international properties amounted to SEK 466 million. Diligentia's overall strategy is to concentrate and develop its operations in select market sectors in Stockholm, Gothenburg and the Öresund region. Diligentia is listed on the A-list of the Stockholm Stock Exchange.

Stockholm, February 18, 2000

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Condensed income statement

	1/1-12/31 1999	1/1-12/31 1998
Property management		
Rental income	1,253	1,273
Operating and management expenses	-291	-316
Expenses for maintenance and tenancy modifications	-117	-153
Ground rents	-10	-11
Property tax	-70	-69
Net operating income from property management	765	724
Depreciation of properties	-84	-74
Income from property management	681	650
Property sales		
Sales proceeds	1,212	2,298 ¹⁾
Sales expenses	-90	-68
Book value of properties sold	-991	-2,189 ¹⁾
Result from property sales	131	41
Income after property sales	812	691
Administrative expenses	-70	-99
Operating income	742	592
Interest subsidies	12	22
Net interest expense and other financial income and	-333	-374
Total financial income and expenses	-321	-352
Income after net financial items	421	240
Tax paid	-76	-3
Deferred tax	-40	-50
Minority interest in income	-20	-20
Net income for the year	285	167

1) Including sale of promissory note receivable for Capona AB and shareholding in Capona AB

Condensed balance sheet

	Diligentia Group Dec. 31, 1999	Diligentia Group Dec. 31, 1998
ASSETS		
Fixed assets		
Properties	11,203	10,549
Participating interests in associated companies	380	378
Other fixed assets	10	13
Receivable from minority	-	73
Total fixed assets	11,593	11,013
Current assets		
Properties	466	1,165
Current receivables	475	775
Cash and bank balances	137	150
Total current assets	1,078	2,090
TOTAL ASSETS	12,671	13,103
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES		
Shareholders' equity	5,119	5,020
Due to minority	7	-
Deferred tax	53	16
Interest-bearing liabilities	6,711	7,087
Non-interest-bearing liabilities	781	980
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES	12,671	13,103

Cash flow statement

Group

SEK million	Pro forma		
	1999	1998 ¹⁾	1998
Result from property management	765	724	724
Administrative expenses excl. depreciation of equipm.	-65	-95	-95
Net financial items	-321	-352	-352
Tax payments (excl. property sales)	-5	-3	-3
Cash flow from operating activities	374	274	274
Change in working capital			
(excluding liquid assets, properties, receivables on properties sold and amounts due on property acquisitions)			
Increase (-)/decrease (+) in current receivables	37	-394	-258
Increase (+)/decrease (-) in current liabilities	-72	30	-483
Change in working capital	-35	-364	-741
Cash flow from operating activities before capital expenditures and property sales	339	-90	-467
Capital expenditures and acquisitions	-	-2,435	-2,431
Property sales, net, after tax paid	1,051	1,873	1,873
Sales, net, owing to Asticus distribution			7,378
Cash flow before financing	176	-652	6,353
Financing			
Debt financing	-376	-905	-905
Debt financing, change owing to Asticus distribution			-3,800
Change in receivables on properties sold (increase = -)	258	1,623	1,750
Change in amounts due on properties sold and acquired (increase	-127	298	298
Exchange rate adjustment on loans/receivables/properties	172	-174	-174
Change in shareholders' equity incl. dividend	-175	-156	-93
Distribution of Asticus			-3,563
Cash effect on minority interest	59	2	2
Net change in financing	-189	688	-6,485
Change in liquid assets	-13	36	-132
Liquid assets at beginning of year	150	114	282
Change in liquid assets	-13	36	-132
Liquid assets at year-end	137	150	150

1) Pro forma 1998 is exclusive of Asticus

Property portfolio, Dec. 31, 1999

	Book value		Area ¹⁾			No. of
	SEK m.	%	000 sq.m.	%	SEK/sq.m.	properties
Sweden	11,203	96	1,615	98	6,937	274
International	466	4	34	2	13,706	9
Total	11,669	100	1,649	100	7,076	283

Swedish property portfolio

Book value	SEK m.	%	000 sq.m.	%	SEK/sq.m.	No.
Stockholm	5,974	54	641	40	9,319	115
Gothenburg	3,185	28	597	37	5,335	96
Öresund region ^{*)}	2,044	18	377	23	5,421	63
Sweden, total	11,203	100	1,615	100	6,937	274

Type of property	SEK m.	%	000 sq.m.	%	SEK/sq.m.	No.
Multi-family housing	2,868	26	452	28	6,345	102
Office buildings	7,768	69	868	54	8,950	114
Warehouses and industrial properties	557	5	295	18	1,888	50
Land	10	0	0	0	0	8
Sweden, total	11,203	100	1,615	100	6,937	274

International property portfolio

Diligentia Real Estate AB	SEK m.	%	000 sq.m.	%		No.
Germany	371	80	27	79		6
Portugal (land)	49	10	0	0		2
USA	46	10	7	21		1
Total	466	100	34	100		9

1) The area used for projects in progress refers to both area after completion and area for garage spaces

*) Including Copenhagen

Key financial ratios

Yield, %¹⁾ **Dec.31, 1999** **Dec.31, 1998**

Sweden, excluding interest subsidies	7.6	7.2
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Economic occupancy rate, %¹⁾

Sweden	95	93
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Book value of properties per share, SEK

Total	186	187
Sweden	179	168
International	7	19

Other key ratios

Debt to property book value, % ²⁾	58	61
Equity/assets ratio, % ³⁾	40	38
Equity per share, SEK	82	80
Net asset value per share, SEK ⁴⁾	114	96
Net operating income, SEK million	765	724
Share price, SEK	70.00	57.00
Earnings per share after tax, SEK	4.54	2.67
Cash flow per share, SEK ⁵⁾	5.96	4.37
Dividend per share, SEK ⁶⁾		2.50
Number of shares	62,709,163	62,709,163

1) Managed properties

2) Interest-bearing liabilities/book value of properties

3) Shareholders' equity/total assets

4) Shareholders' equity plus surplus values after deduction of deferred tax (28 percent)

5) Refers to cash flow from operating activities

6) Diligentia's Board of Directors has decided not to issue a dividend recommendation at present

pending the outcome of Castellum's offer, at which time the company's ownership structure will be clarified.