

ANNUAL REPORT 1999

CONTENTS

Board of Directors' report	2
Income statement	6
Balance sheet	7
Notes	8
Cash flow statement	12
Accounting principles	13
Disposition of income	14
Auditors' report	15



DILIGENTIA

BOARD OF DIRECTORS' REPORT

The Board of Directors and Managing Director of Diligentia AB (publ), registration number 556467-1641, hereby submit their report on the company's operations in 1999.

Organisation and operations

Diligentia's organisation consists of the Parent Company, Diligentia AB, and the subsidiaries Diligentia Storstockholm AB, Diligentia Storgöteborg AB, Diligentia Öresund AB, Diligentia Nord AB and Diligentia Real Estate AB.

Diligentia's overall objective is to create value for its shareholders by achieving financial stability and healthy profitability. Its strategy is to concentrate the property portfolio on the Stockholm, Gothenburg and Öresund regions. The properties in Denmark are included in the Öresund region. At year-end, the remaining international properties amounted to SEK 466 million. At the same point in time the book value of the property portfolio amounted to SEK 11.7 billion.

During the year efforts to reduce the property portfolio progressed, with an increased concentration on Diligentia's priority regions: Stockholm, Gothenburg and the Öresund region. To increase its presence in its select market sectors, Diligentia made a number of strategic acquisitions during the year. Efforts to raise occupancy rates and rent levels and to improve efficiency in property management in order to increase the reported return on the property portfolio and thus profitability have continued according to plan.

Work to improve the quality of the property portfolio through investments and action programs has continued.

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.

Income after sales of properties amounted to SEK 812 million (691).

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).

Income statement for 1999 compared with 1998

SEK million	Sweden		Int'l		Total	
	1999	1998	1999	1998	1999	1998
Rental income	1,239	1,173	14	100	1,253	1,273
Operations, maintenance, tax, rents	-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 expenses	-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

Quarterly income statement after net financial items 1999

SEK million	Q 1	Q 2	Q 3	Q 4	Q 4	Total	Total
	1999	1999	1999	1999	1998	1999	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 expenses	-82	-71	-83	-85	-105	-321	-352
Income after net financial items	149	111	78	84	92	421	240

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.

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.

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.

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.

Value of the Swedish property portfolio¹⁾

SEK million	1999	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 ²⁾	2,787	1,350

1) Including surplus value of participating interests in partnerships.

2) Expressed as the mean in the range of appraisals.

Property acquisitions, 1999

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) Excluding garages and parking places.

Property sales, 1999

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

1) Excluding garages and parking places.

Trends 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

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 downtown Copenhagen for a total of DDK 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 DDK 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.

Capital expenditures

Diligentia allocates capital expenditures for its property portfolio on a continuous basis. During the year, capital expenditures totaled SEK 158 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.

Financing and liquidity

Diligentia's finance function has been organised based on two primary objectives: to secure Diligentia's funding requirements on an ongoing basis at the lowest possible financing cost and to maintain strict control over the Group's financial risks in accordance with a conservative financial policy.

Finance is a Group function, with responsibility for Group funding, cash management, and interest and currency risk management.

Diligentia's financial policy has instructions for all relevant aspects of the business, including the use of derivatives for risk management.

Loan maturities and interest rates are established on the basis of allowable cash flow variations resulting from changes in interest rates. The standard portfolio that is used as a guideline is evenly distributed and has an average maturity of two years at an interval of 1 to 4 years.

Derivatives are used solely to reduce or eliminate interest and currency exposures and can always be related to an underlying exposure.

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.

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 53 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.

Board work

In 1999 the Board of Directors held eleven meetings, seven of which were scheduled meetings. Five scheduled meetings are planned for 2000. In addition to the Managing Director, other members of the management also made presentations to the Board, depending on the issue at hand. The Board's work is conducted actively and in close cooperation with Diligentia's management.

The Board possesses a wide range of expertise that is important to the operations and development of Diligentia. Members have experience from corporate management, finance, the law and operative real estate management.

Important events after December 31, 1999

Castellum's offer for Diligentia

On January 18, 2000, Castellum's Board of Directors announced a public offer to Diligentia's shareholders to exchange their shares in Diligentia for newly-issued shares in Castellum.

Diligentia's Board is responsible for furthering the interests of Diligentia's shareholders and for improving Diligentia's opportunities of creating value for its shareholders. In its assessment of the offer by Castellum's Board of Directors, Diligentia's Board emphasised both the industrial and the financial consequences of a merger.

Since the market value of the two companies involves a discount in relation to the net asset value, the dividend of SEK 4.50 per share proposed by Castellum's Board coupled with its intention of implementing the repurchase/redemption of shares with an aggregate value of SEK 2,500 million, was of considerable importance to the position taken by the Board of Diligentia.

In addition to a share exchange ratio of one share in Castellum for one share in Diligentia, Castellum's intention of implementing a dividend of SEK 4.50 per share and of carrying out repurchasing/redemption can be expected to correspond to a cash payment totaling SEK 27 per share in Diligentia. It also needs to be noted that the present Board of Castellum has clearly expressed its intention to act in a number of ways so that shareholder value continues to be created in the future.

Against this background, the Board of Diligentia decided unanimously to recommend the shareholders to accept Castellum's offer at the Diligentia Board meeting of February 18, 2000.

Balder's offer for Diligentia

On January 14, 2000, Balder's Board of Directors announced a public offer to Diligentia's shareholders on the exchange of their shares in Diligentia for newly-issued shares in Balder. Balder's Board decided on February 23, 2000, following Drott AB's acquisition of 56 percent of the shares in Balder, to cancel its offer to Diligentia's shareholders.

Skandia's offer for Diligentia

On March 20, 2000, the life insurance company Livförsäkrings AB Skandia (Skandia Liv) announced a public offer to Diligentia's shareholders whereby SEK 90 cash is to be paid for each share in Diligentia.

The Board of Diligentia noted at a Board meeting on March 21 that Castellum in all likelihood would fail to achieve 90 percent support for its offer. The reason for this is, in part, that SEB Fonder and Skandia, which own 8.7 percent and 6.7 percent of the shares in Diligentia, respectively, have publicly stated that they do not intend to accept Castellum's offer, and, in part, that Skandia announced an offer on March 20, 2000, whereby SEK 90 is to be paid in cash for every Diligentia share.

Because of Skandia's offer, the Board of Diligentia has commenced an evaluation of the current situation. The Board of Diligentia, however, is unable to give a recommendation as to which action shareholders should take, in the situation which has arisen, before the expiry of the application period for Castellum's offer.

Due to the above and the evaluation which has commenced, Diligentia's Board at a meeting on March 21, 2000, cancelled its earlier recommendation to accept Castellum's offer.

Board meeting and proposed dividend

Given that the above offer can lead to significant changes in the ownership of Diligentia, the Board of Diligentia has decided to postpone its dividend proposal and its Annual General Meeting until the situation has been clarified.

Concurrent with this, the Board of Diligentia wishes to point out that Diligentia, in its present situation, has reported robust income development and has a strong financial position. This has an important bearing on the evaluation of different alternatives which the Board has initiated in connection with Skandia's cash offer. The Board has also previously asserted that in the event of none of the current offers being carried through, the Board has declared its intention, as a minimum measure, of proposing a dividend of SEK 3.50 per share and, furthermore, of implementing a repurchase/redemption program of approximately SEK 1,500, which, when combined, is equivalent to a cash payment of at least SEK 27 per Diligentia share.

INCOME STATEMENT

SEK million		1999	Group 1998	1999	Parent company 1998
Property management					
Rental income	Note 1	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	—	—
Operating income from property management	Note 1	765	724	—	—
Depreciation		– 84	– 74	—	—
Income after depreciation		681	650	—	—
Sales proceeds		1,212	2,298	27	581
Sales expenses		– 90	– 68	– 1	– 4
Book value of assets sold		– 991	– 2,189	– 6	– 581
Result of sales	Note 2	131	41	20	– 4
Income/loss after sales		812	691	20	– 4
Administrative expenses	Note 3	– 70	– 99	– 53	– 55
Operating income		742	592	– 33	– 59
Profit from participating interests in associated companies	Note 11	11	11	—	—
Interest income and similar income items	Note 4	16	70	758	780
Interest expenses and similar expense items	Note 5	– 348	– 433	– 538	– 449
Total financial income and expenses		– 321	– 352	220	331
Income after net financial items		421	240	187	272
Tax paid	Note 6	– 76	– 3	– 52	– 78
Deferred tax	Note 6	– 40	– 50	—	—
Minority interest in income		– 20	– 20	—	—
Net income		285	167	135	194

BALANCE SHEET

SEK million		Group Dec. 31, 1999	Dec. 31, 1998	Parent Company Dec. 31, 1999	Dec. 31, 1998
ASSETS					
Fixed assets					
Tangible fixed assets					
Properties	Note 7	11,203	10,549	—	—
Machinery and equipment	Note 8	4	9	0	1
		11,207	10,558	0	1
Financial fixed assets					
Participating interests in Group companies	Note 9	—	—	528	534
Participating interests in associated companies	Note 11	380	378	—	—
Receivable from minority	Note 14	—	73	—	—
Other long-term receivables		6	4	—	—
		386	455	528	534
Total fixed assets		11,593	11,013	528	535
Current assets					
Properties held for resale	Note 7	466	1,165	—	—
		466	1,165	0	0
Current receivables					
Accounts receivable		23	32	—	—
Receivables from Group companies		—	—	10,948	8,736
Other receivables	Note 10	401	711	1	4
Prepaid expenses and accrued income	Note 12	47	29	7	5
		471	772	10,956	8,745
Short-term investments		4	3	4	—
Cash and bank balances		137	150	9	909
Total current assets		1,078	2,090	10,969	9,654
TOTAL ASSETS		12,671	13,103	11,497	10,189
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES					
Shareholders' equity	Note 13				
Restricted equity					
Share capital (62,709,163 shares, par value SEK 10)		627	627	627	627
Restricted reserves		1,047	1,062	1,008	1,008
		1,674	1,689	1,635	1,635
Non-restricted equity					
Non-restricted reserves		3,160	3,164	2,836	2,915
Net income for the year		285	167	135	194
		3,445	3,331	2,971	3,109
Total shareholders' equity		5,119	5,020	4,606	4,744
Minority interest	Note 14	7	0	—	—
Provisions					
Pensions and similar commitments		6	0	0	—
Deferred tax	Note 15	53	16	—	—
Other provisions		12	12	—	—
		71	28	0	0
Long-term liabilities					
Liabilities to credit institutions	Note 16	6,711	7,087	5,889	4,594
Other liabilities		1	12	—	—
		6,712	7,099	5,889	4,594
Current liabilities					
Accounts payable		56	88	7	3
Liabilities to Group companies		—	—	831	662
Tax		10	0	5	—
Other liabilities	Note 17	230	421	36	59
Accrued expenses and deferred income	Note 18	466	447	123	127
		762	956	1,002	851
Total liabilities and provisions		7,545	8,083	6,891	5,445
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES					
		12,671	13,103	11,497	10,189
Collateral pledged	Note 19	12,297	11,808	10,788	11,169
Contingent liabilities	Note 19	4	6	561	2,625

Rental income and income from property management

SEK million	Sweden		International		Total	
	1999	1998	1999	1998	1999	1998
Group						
Rental income	1,239	1,173	14	100	1,253	1,273
Income from property management	766	671	-1	53	765	724

Result of sales

SEK million	Properties	Shares in subsidiaries	Total
Group			
Sales proceeds	1,165	47	1,212
Sales expenses	—89	—1	—90
Book value of assets sold	—985	—6	—991
Total	91	40	131
Parent company			
Sales proceeds	—	27	27
Sales expenses	—	—1	—1
Book value of assets sold	—	—6	—6
Total	—	20	20

Administrative expenses

Parent Company	-49	
Subsidiaries	-21	
	-70	
SEK million		Parent Company
		1999 1998
Managing Director and Board of Directors	-9	-8
Expenses for Information and Investor Relations	-12	-13
Financial control function	-7	-9
Non-control financial function	-2	-3
Computer costs	-1	-1
Incentive to Group senior management and others	-13	-12
Other administration expenses	-9	-10
Total	-53	-55
Expenses attributable to the Group's operations outside Sweden	-4	-
Total administrative costs, Parent Company	-49	-55
Fees paid to the Company's auditors		
SEK '000	Group 1999	Parent Company 1999
Auditing		
PricewaterhouseCoopers	2,018	400
KPMG	406	166
Other auditing companies	72	-
	2,496	566
Assignments other than auditing commissions		
PricewaterhouseCoopers	2,056	1,045
KPMG	35	-
Other auditing companies	245	-
	2,336	1,045

Interest income and similar income items

SEK million	Group		Parent Company		
	1999	1998	1999	1998	
Interest subsidies	12	22	—	—	
Interest income	2	42	758	758	
Exchange rate gains	—	—	—	16	
Other financial income	2	6	—	6	
Total	16	70	758	780	
Interest subsidies					
Assuming a subsidy rate for conversions of 5 percent, the interest subsidies for the properties owned Dec. 31, 1999 for the next five years are as follows:					
Region, SEK million	2000	2001	2002	2003	2004
Stockholm	5.3	2.2	1.4	1.2	1.2
Gothenburg	0.3	0.1	0.1	0.1	0.1
Öresund	0.7	0.3	0.2	0.2	0.1
Total	6.3	2.6	1.7	1.5	1.4

Interest expenses and similar expense items

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Interest expenses	-338	-419	-485	-444
Exchange rate losses	-	-	-46	-
Other financial expenses	-10	-14	-7	-5
Total	-348	-433	-538	-449

Taxes

Taxes paid, SEK million	Group	
	1999	1998
Sweden	-13	0
Denmark	-1	-
Japan	-62	-3
Total taxes paid	-76	-3
Deferred tax	-40	-50
Total taxes	-116	-53

Properties

SEK million	1999			1998		
	Investment properties Sweden	Properties held for resale Int'l	Total	Investment properties Sweden	Properties held for resale Int'l	Total
Acquisition value	10,949	466	11,415	10,225	1,037	11,262
New construction in progress	410	-	410	398	128	526
Accumulated depreciation	-156	-	-156	-74	-	-74
Book value	11,203	466	11,669	10,549	1,165	11,714
Tax assessment value	7,713	-	7,713	7,239	-	7,239
of which buildings	6,433	-	6,433	5,782	-	5,782

The tax assessment value outside Sweden is not given. For the sale of Group properties at book values applicable for the Group an estimated income for tax purposes arises of SEK 601 (562) million.

Investment properties Acquisition value

Acquisition value	
Balance brought forward	10,225
Purchases	1,055
Sales	-469
Reclassifications	146
Translation differences	-8
Balance carried forward ¹⁾	10,949

Accumulated depreciation

Brought forward	-74
Depreciation for the year	-84
Reversed depreciation on properties sold	2
Depreciation carried forward	-156

New construction in progress

Brought forward	398
Expenses incurred during the year	158
Redistributions during the year	-146
New construction in progress carried forward	410

Book value of properties and new construction in progress

11,203

The acquisition value of the buildings includes capitalised interest of SEK 5 million.

Tax assessment value

Buildings	6,433
Land	1,280
Total	7,713

¹⁾ Including land SEK 2,230 million.

8 Machinery and equipment

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Acquisition value				
Acquisition value brought forward	29	33	5	6
Purchases	3	2	1	0
Sales/disposals	-7	-6	-1	-1
Balance carried forward	25	29	5	5
Accumulated depreciation				
Depreciation brought forward	-20	-17	-4	-3
Sales/disposals	4	1	1	0
Depreciation for the year	-5	-4	-2	-1
Balance carried forward	-21	-20	-5	-4
Residual value carried forward	4	9	0	1

9 Participating interests in Group companies

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Acquisition value brought forward			534	1,764
Capital contributions				
Diligentia Storstockholm AB			-	10
Diligentia Storgöteborg AB			-	10
Diligentia Öresund AB			-	10
Asticus			-	2,363
Divestments				
Asticus			-	-3,399
Diligentia Hotell AB			-	-1
Diligentia Stockholm AB			-	-13
Diligentia Syd AB			-	-5
Diligentia Väst AB			-	-205
Diligentia Nord AB			-6	-
Change during period			-6	-1,230
Total			528	534

Specification of subsidiaries' registrations numbers and registered addresses

Company name	Registration no.	Registered address
Diligentia Real Estate AB	556053-9149	Stockholm
Diligentia Storgöteborg AB	556562-4052	Gothenburg
Diligentia Storstockholm AB	556562-4011	Stockholm
Diligentia Öresund AB	556562-4045	Malmö

A list of subsidiaries' holdings of the shares of their subsidiaries can be obtained from Diligentia AB.

	No. of shares	% of capital	% of voting rights	Par value/share (SEK)	Book value (SEK 000)
Diligentia Real Estate AB	19,122,952	100	100	1	498
Diligentia Storgöteborg AB	1,000	100	100	100	10
Diligentia Storstockholm AB	1,000	100	100	100	10
Diligentia Öresund AB	1,000	100	100	100	10
Total					528

10 Other receivables

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Receivable property sales	311	569	-	-
Prepaid VAT	77	43	0	-
Other	13	99	1	4
Total	401	711	1	4

11 Participating interests in associated companies

Group	% of capital	% of voting rights	Book value 1999 SEK m.	Book value 1998 SEK m.
Participating interests in partnerships				
The property Oxen Större 21	46	46	380	378
The property Oxen Större 21 is co-owned through three partnerships:				
Partnership Oxen 10, registration number			916603-0768	
Partnership Oxen 30, registration number			916600-1439	
Partnership Oxen 60, registration number			916503-9034	
all with registered addresses in Stockholm.				

Diligentia's ownership interest in the property, through these companies, is 46 percent. The Group's share of the income of the partnerships was SEK 11 million.

12 Prepaid expenses and deferred income

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Accrued interest income	0	1	0	-
Accrued interest subsidies	1	2	-	-
Accrued rents	1	5	-	-
Property-related expenses	34	8	-	-
Other	11	13	7	5
Total	47	29	7	5

13 Change in shareholders' equity

SEK million	Share capital	Restricted reserves	Non-restricted reserves	Total
Group				
Balance brought forward	627	1,062	3,331	5,020
Cash dividend			– 157	– 157
Group adjustments			– 18	– 18
Translations during the period		– 11		– 11
Transfer restricted/ non-restricted		– 4	4	0
Net income for the year			285	285
Total change	0	– 15	114	99
Balance carried forward	627	1,047	3,445	5,119

SEK million	Share capital	Restricted reserves	Share premium reserves	Retained earnings	Total
Parent Company					
Balance brought forward	627	105	903	3,109	4,744
Cash dividend				– 157	– 157
Group contributions paid				– 161	– 161
Tax on Group contributions paid				45	45
Net income for the year				135	135
Total change	0	0	0	– 138	– 138
Balance carried forward	627	105	903	2,971	4,606

Group contributions are reported in accordance with the pronouncement of the Swedish Financial Accounting Standards Council on "Accounting for Group contributions and shareholders' contributions".

14 Minority interest

The real estate company HB Härden, which was fully consolidated, had negative shareholders' equity upon acquisition. In 1999 SEK 80 million was paid by the minority, after which the minority liability amounted to SEK 7 (-73) million. The minority liability corresponds to the minority partner's share of participation capital in the partnership.

15 Deferred tax

SEK million	1999	1998
Deferred tax claim, Sweden, net	-	-11
Deferred tax liability, international, net	26	-
Allocation for estimated tax exposure, international	27	27
Total	53	16

16 Liabilities to credit institutions

Group and Parent Company

The table below shows the loan structure based on maturities:

Year	2000	2001	2002	2003	2004	2005<	Total
Maturity structure, Group	1,062	22	3,825	210	1,591	1	6,711
Maturity structure, Parent Company	588	—	3,750	—	1,551	—	5,889

Loans granted but not utilised amounted to slightly more than SEK 1,100 million (450).

The item includes loans of SEK 250 million (234) with below-market interest. Of these loans, SEK 182 million (167) relates to loans for property investments which, in accordance with recommendation no. 3 of the Swedish Financial Accounting Standards Council, have been discounted by SEK 48 million (68). The nominal value of these discounted loans amounts to SEK 230 million (235). Total loans with below-market interest amount to SEK 298 million (302).

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

Exchange rates

	Closing day rate	Average rate
SEK/AUD	5.4075	5.2929
SEK/BEF	0.2124	0.2182
SEK/DEM	4.3815	4.5001
SEK/DKK	1.1515	1.1834
SEK/ESP	0.0515	0.0529
SEK/FRF	1.3064	1.3418
SEK/GBP	13.6175	13.3573
SEK/IEP	10.8810	11.1763
SEK/JPY	0.0832	0.0733
SEK/NLG	3.8887	3.9939
SEK/PTE	0.0427	0.0439
SEK/USD	8.4875	8.2888
SEK/EUR	8.5695	8.8015

17 Other liabilities

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Property tax	2	8	—	—
Value-added tax	—	4	—	—
Property acquisitions	161	263	—	—
Other	67 ¹⁾	146	36 ¹⁾	59
Total	230	421	36	59

1) In connection with the distribution of Asticus AB, Diligentia took over responsibility for the EU receivable of SEK 808 million net, covering the properties Beaulieu and Demot in Brussels. Diligentia's undertaking included carrying out the total renovation of the Demot property and the upgrading of the Beaulieu property. The renovation expenses were reported in the accounts of the Asticus Group and were guaranteed by Diligentia. Work on the Demot property was completed in 1999. Guarantees remain for the completion of the work on Beaulieu, along with certain costs relating to the agreement with Asticus. Asticus is responsible for ensuring that the renovations are carried out in conformity with the agreement that Diligentia International entered into with the EU in connection with the 27-year tenancy agreements they signed in December 1997.

In April and in June 1998, respectively, Diligentia sold both of the EU receivables to institutional investors. The remaining provision amounts to SEK 29 (54) million.

18 Accrued expenses and deferred income

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Accrued interest	69	97	62	71
Accrued social insurance charges	13	12	6	6
Prepaid rents	165	119	—	—
Sales expenses	68	19	—	1
Personnel-related expenses	31	29	30	27
Property-related expenses	83	52	—	16
Other	37	119	25	6
Total	466	447	123	127

19 Assets pledged and contingent liabilities

SEK million	Group		Parent Company	
	1999	1998	1999	1998
Assets pledged				
For liabilities to credit institutions				
Property mortgages	12,281	11,808		
Mortgages on subsidiaries' properties			10,788	11,169
Shares in subsidiaries	16	—	—	—
Contingent liabilities				
Sureties	4	6	561	2 625
Pensions	0	0	0	0

Personnel

Average number of employees

	1999			1998		
	No. of women	No. of men	Total	No. of women	No. of men	Total
Parent Company						
Stockholm	5	6	11	6	6	12
Subsidiaries						
Stockholm	11	11	22	9	11	20
Gothenburg	15	13	28	13	14	27
Malmö	8	8	16	8	7	15
Rest of Sweden	1	3	4	2	4	6
Portugal	6	4	10	8	11	19
Other countries	2	4	6	2	1	3
Total	48	49	97	48	54	102

Wages, salaries, other remuneration and social insurance charges

SEK million	1999		1998	
	Wages, salaries and other remuneration	Social insurance (of which pensions)	Wages, salaries and other remuneration	Social insurance (of which pensions)
Parent Company	12.7 ²⁾	18.2 (12.0) ¹⁾	18.5	12.7 (2.9)
Subsidiaries	31.8	12.8 (4.0)	33.2	13.6 (4.5)
Total	44.5	31.0 (16.0)	51.7	26.3 (7.4)

Wages, salaries, other remuneration distributed by country and between the Board, the Managing Director and other employees

SEK million	1999		1998	
	Board and MD	Other employees	Board and MD	Other employees
Sweden				
Parent Company	3.7	9.0 ²⁾	3.7	14.8
Subsidiaries	2.9	23.9	2.8	24.0
Sweden, total	6.6	32.9	6.5	38.8
International subsidiaries				
Portugal	0.3	4.4	0.5	4.0
Other countries	—	0.3	1.1	0.8
International, total	0.3	4.7	1.6	4.8
Total	6.9	37.6	8.1	43.6

1) Includes expenses of SEK 7.4 million for an earned, irrevocable portion of the Managing Director's pension entitlement from the age of 60.

2) Includes a provision for senior management incentive programs, performance-related pay and the Managing Director's qualitative bonus. The amount has been reduced to dissolve a reserve for incentives and performance pay set aside in 1998 as a result of a good yield in Diligentia's pension trusts.

Directors' fees

Remuneration to the Board totaled SEK 1,625,000 of which SEK 500,000 was paid to the Chairman. The amount has remained unchanged since 1996.

Managing Director

Salary and remuneration paid to the Managing Director during the year amounted to SEK 2,761,000 (2,578,000), including SEK 700,000 in the form of a qualitative bonus for 1998. In addition, pension provisions have been strengthened by the addition of SEK 2,077,000 within the framework of the incentive agreement for 1998.

Incentive agreement for Group Management

As from 1 January 1998, a new incentive agreement for the Group Management, consisting of seven persons, came into effect. A bonus, maximally totaling 12 months' salary, is intended to be used, after deductions for income tax, for the acquisition of call options or shares in Diligentia. The amount of the bonus is determined on the basis of, in part, total yield in relation to Carnegie's real estate index and, in part, the total yield of Diligentia's Swedish real estate portfolio in relation to the corresponding figure of Svenskt Fastighetsindex (the Swedish Property Index). The bonus outcome is determined on an annual basis by the Board.

For 1998, an incentive was determined comprising 30 percent of annual salary, which amounts to SEK 1,875,000 excluding social security payments for other members of Group Management apart from the Managing Director.

For 1999, the outcome of the Group Management incentive agreement was 100 percent, that is, 12 months' salary.

Performance-related pay in Diligentia

Diligentia has had a performance-related pay system since January 1, 1998. This applies, in principle, to all the personnel in the Group, excluding the Managing Director. Performance-related pay is based on the efforts of respective regions during the year. The aim is to provide an incentive for continued achievement, and to reward efforts with regard to income, and improved service and client care. For the latter, Diligentia uses the outcome and the change between years in NKI (the Satisfied Customer Index). A maximum of one, two or three monthly salaries per year can be paid as performance-related pay. For the Group Management members, excluding the Managing Director, a maximum of two monthly salaries can be paid.

Performance-related pay by region for 1999 was fixed at a level of between 50 and 80 percent of maximum outcome.

For the Managing Director, the Board has decided that a qualitative bonus of SEK 900,000 (700,000) is to be paid for 1999, over and above a fixed salary of SEK 2 million per year.

Provisions for incentives, performance-related pay and the Managing Director's qualitative bonuses in 1999

In the financial statements, provision has been made for expenses for Group Management's incentive agreements and performance-related pay, as well as a qualitative bonus for the Managing Director, amounting to SEK 9,086,000 excluding social security payments.

Conditions of employment

For the Managing Director, other conditions of employment involve a period of notice, when employment is terminated by the Company, of 12 months' and 24 months' severance pay less deductions. Should the Managing Director terminate his employment on his own initiative, the period of notice is six months. The Managing Director is entitled to receive a pension from the age of 60. The pension amounts to 65 percent of pensionable salary up to the age of 65 and subsequently 65 percent of the portion of salary up to 40 index-linked base amounts and 32.5 percent of the portion of salary in addition to this. A future pension is strengthened through the above-mentioned incentive programs.

For the other six members of Group Management, the period of notice, when employment is terminated by the Company, is twelve months and severance pay amounts to 12 months' salary. Should a member of Group Management terminate his/her employment on his/her own initiative, the period of notice is maximally six months. In most cases, pension benefits correspond to supplementary benefits for salaried employees, given a retirement age of 60. The Vice President has the same type of pension agreement as the Managing Director. In addition, the above-mentioned incentive programs can have a pension-strengthening effect for the persons concerned.

CASH FLOW STATEMENT

SEK million	1999	Group Pro forma 1998 ¹⁾	1998	Parent Company	
	1999		1998	1999	1998
Result from property management	765	724	724	–	–
Administrative expenses excluding depreciation of equipment	–65	–95	–95	–52	–55
Net financial items	–321	–352	–352	220	331
Tax payments (excluding property sales)	–5	–3	–3	–5	0
Cash flow from operating activities	374	274	274	163	276
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	–3	2
Increase (+)/decrease (–) in current liabilities	–72	30	–483	–18	60
Change in working capital	–35	–364	–741	–21	62
Cash flow from operating activities before capital expenditures and property sales	339	–90	–467	142	338
Capital expenditures and acquisitions	–1,214	–2,435	–2,431	0	–2,389
Property sales, net, after tax paid	1,051	1,873	1,873	25	220
Sales, net, owing to Asticus distribution			7,378	–	3,399
Cash flow before financing	176	–652	6,353	167	1,568
Financing					
Debt financing	–376	–905	–905	1,295	328
Debt financing, change owing to Asticus distribution			–3,800		
Change in liabilities to Group companies				168	–
Change in receivables from Group companies				–2,212	1,084
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	–157	–63
Group contributions				–161	–272
Distribution of Asticus			–3 563	–	–3,399
Cash effect on minority interest	59	2	2		
Net change in financing	–189	688	–6,485	–1,067	–2,322
Change in liquid assets	–13	36	–132	–900	–754
Liquid assets at beginning of year	150	114	282	909	1,663
Change in liquid assets	–13	36	–132	–900	–754
Liquid assets at year-end	137	150	150	9	909

1) Pro forma 1998 is exclusive of Asticus.

ACCOUNTING PRINCIPLES

The annual report is prepared in accordance with the Annual Accounts Act. Accounting and valuation principles are essentially unchanged compared with the previous year.

Consolidated accounts

The consolidated accounts are prepared in accordance with the recommendation (RR1:96) of the Swedish Financial Accounting Standards Council.

The consolidated accounts comprise Diligentia AB and the companies in which it directly or indirectly owns more than 50 percent of the voting rights or where it has a controlling influence.

Associated companies are included in the consolidated accounts in accordance with equity accounting method.

The consolidated accounts are prepared in accordance with the purchase accounting method. Thus, the book value of shares and participating interests in subsidiaries is eliminated against the equity in the subsidiaries at the time of acquisition, with consideration given to deferred tax.

The Group's equity includes only the portion of equity created after the acquisition. The difference between the acquisition value of the subsidiaries' shares/participating interests and acquired equity has, after an analysis of the market value of the assets and liabilities, been applied in its entirety against the Group's properties.

Income in companies which were sold during the year has not been included.

The income statements and balance sheets of foreign subsidiaries, which have been prepared in accordance with the prevailing accounting principles in each country, have been adjusted to the accounting principles of the Diligentia Group when consolidated.

The accounts of foreign subsidiaries are translated to Swedish kronor in

accordance with the current method. This means that balance sheet items are translated at closing day rates. Income statement items are translated at the average rate for the year. This gives rise to translation differences. These differences are not included in consolidated income, and instead are transferred directly to shareholders' equity.

Group contributions

Group contributions received and paid are reported in accordance with the pronouncement of the Swedish Financial Accounting Standards Council's so-called acute group directly on the balance sheet in non-restricted reserves under shareholders' equity rather than as an appropriation.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currency have been translated at closing day rates. If an asset or liability in foreign currency is effectively covered by a matching item in a foreign currency (hedge), this is taken into account, because of which fluctuations in exchange rates do not affect the consolidated income statement.

Properties

The Group's Swedish properties were valued at the year-end 1999/2000 by the valuation firm DTZ. They are accounted for as fixed assets, since the intention of the holding is the long-term ownership and management of the properties.

As has been the case in previous years, Diligentia's properties outside Sweden is reported as current assets. The valuation of these properties was carried out by local valuation companies.

Accrued expenses attributable to the new construction, extension or reconstruction of properties are reported as fixed assets under construction up until their completion. All direct expenses

including interest payments for large projects are reported as accrued expenses.

Depreciation

Book depreciation is one percent of the construction value in the accounts for the Group's investment property. With regard to tax, all the properties have been depreciated at the maximally permitted amount.

Depreciation of machinery and equipment is generally 20 percent annually. Computers and other computer hardware are depreciated at 33 percent annually.

Leasing

The Group has leasing contracts on office equipment and company cars. These are reported as operational leasing contracts. The amount of the contracts is small in scope.

Liabilities to credit institutions

All loans with property as collateral are reported in the consolidated balance sheet under their own heading among long-term liabilities.

Loans are amortised as properties are sold. Loans that fall due for repayment are normally renewed continuously, provided that the underlying property has not been sold.

The maturity structure of the loans is reported in Note 16 of the balance sheet on page 10. The reported amount includes current amortisation.

Loans for investments in properties which carry a below-market interest rate have been discounted to present value in accordance with recommendation no. 3 of the Swedish Financial Accounting Standards Council (see also Note 16).

DISPOSITION OF INCOME

The following amounts are available for distribution by the Annual General Meeting:

balance brought forward	SEK 2,836,216,069
plus net income for the year	SEK 135,272,605
Total	SEK 2,971,488,674

The Group's non-restricted shareholders' equity amounts to SEK 3,445 million. No allocation to restricted reserves is required.

The Board of Directors and the Managing Director recommend that disposable earnings be carried forward.

Given Diligentia's current situation, in which the Company's future ownership situation is uncertain, the Board, in conjunction with the invitation to attend the Annual General Meeting, may inform shareholders of a change in the proposed distribution of unappropriated earnings.

Stockholm, March 24, 2000


Anders Rydin
Chairman


Leif Almstedt


Björn Edgren


Bernt Johansson


Sven Nyman


Lars Trane


Mats Cederholm
Managing Director

Our audit report on this annual report was submitted on March 24, 2000.


Göran Jacobsson
Authorised Public Accountant


Thomas Thiel
Authorised Public Accountant

AUDITORS' REPORT

**To the Annual General Meeting
of Diligentia AB, registration
number 556467-1641.**

We have audited the annual report, the consolidated financial statements, the accounting records and the administration of Diligentia AB by the Board of Directors and the Managing Director for the financial year 1998. The accounting records and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion of the annual report, the consolidated financial statements and the administration on the basis of our audit.

Our audit has been carried out in accordance with generally accepted auditing standards. This requires that we plan and implement the audit in such a way as to reasonably assure ourselves that

the annual report and the consolidated financial statements are free of material errors. An audit includes a review of a selection of the documents that support the amounts and other information in the financial statements. An audit also includes the examination of the accounting principles and their application by the Board of Directors and the Managing Director and an evaluation of the overall information in the annual report and the consolidated financial statements. We have examined important decisions, actions taken and the condition of the Company in order to determine whether any of the members of the Board of Directors or the Managing Director is liable for damages to the Company or in any other way has acted in violation of the Swedish Companies Act, the Swedish Annual Accounts Act or the Company's articles of associ-

ation. We feel that our audit has provided us with a reasonable basis for our opinion as set forth below.

The annual report and consolidated financial statements have been prepared in accordance with the Annual Accounts Act and thereby give a true and fair impression of the Company's and the Group's income and position in accordance with generally accepted auditing standards in Sweden.

We recommend that the Annual General Meeting adopts the income statement and balance sheet for the Parent Company and the Group, deals with the profit of the Parent Company in accordance with the proposal in the Directors' Report and discharges the members of the Board of Directors and the Managing Director from liability for the financial year.

Stockholm, March 24, 2000



Göran Jacobsson
Authorised Public Accountant



Thomas Thiel
Authorised Public Accountant



DILIGENTIA

Diligentia AB (publ)

P.O. Box 7154

SE-103 88 Stockholm

Telephone: +46-8-5875 8100

Fax: +46-8-20 30 89

e-mail: diligentia@diligentia.se

web: www.diligentia.se