

HUFVUDSTADEN

Interim Report January – June 2006

- **Profit for the period after tax amounted to SEK 664.0 million (595.9).**
- **The gross profit from property management increased by 4.9 per cent to SEK 422.7 million (403.0). The holdings are unchanged.**
- **Net sales for the Group for the period amounted to SEK 666.1 million (667.6)**
- **The rental vacancy level at the period-end was 8.5 per cent (7.1 at the turn of the year). The increase can be attributed to a major vacation of premises after the turn of the year.**
- **Profit per share was SEK 3.22 (2.89).**

CONSOLIDATED RESULTS

Property management¹

Gross profit for the period totalled SEK 422.7 million (403.0), an increase of 4.9 per cent. The increase can be explained by, among other things, a fall in property tax expense as the actual tax levied was less than the tax provision.

Net rents from property management during the period amounted to SEK 624.3 million (626.9).

The turnover-based rent supplement for the NK properties is reported in the fourth quarter. The turnover-based rent supplement for the preceding year was SEK 6.7 million. Apart from this there are no seasonal variations in rents.

The property management results for each business area are reported on page 6.

Other operations

Other operations comprise parking operations at Parkaden in Stockholm and conference operations at the World Trade Center in Stockholm.

Net revenue amounted to SEK 41.8 million (40.7), expenses amounted to SEK 37.1 million (35.9) and gross profit amounted to SEK 4.7 million (4.8).

Other income statement items

Central administration totalled SEK -13.8 million (-13.7). Changes in the value of investment properties totalled SEK 570.0 million (500.0).

¹ The property holdings remained unchanged compared with the same period the preceding year.

Financial income and expense

Net financial income and expense amounted to SEK -56.1 million (-64.6).

Tax

The Group's tax (current and deferred) for the period totalled SEK -263.5 million (-233.6), of which SEK -73.0 million was current tax and SEK -190.5 million deferred tax.

Profit for the period

The profit for the period after tax was SEK 664.0 million (595.9).

INVESTMENTS

Investments in properties and equipment for the period totalled SEK 92.2 million (35.3).

PROPERTY PORTFOLIO

As of June 30, 2006, the fair value of Hufvudstaden's property holdings was assessed at SEK 16,934.9 million (16,276.0 at the turn of the year). The rentable floor space was 407,512 square metres (407,694 at the turn of the year).

The total rental vacancy level as of June 30 was 8.5 per cent (7.1 at the turn of the year) and the total floor space vacancy level was 10.1 per cent (8.7 at the turn of the year). The increase in vacant space can be attributed to a major tenant vacating approximately 10,000 square metres in the Orgelpipan 7 property in January. During the period new leases

where signed with four tenants, representing a total of 7,000 square metres of floor space, equivalent to approximately 70 per cent of the vacated space.

Property value and net asset value

At the turn of each year Hufvudstaden makes an internal valuation of the fair value of each individual property. The assessment is made on the basis of a valuation using the direct yield method. To assure the valuations, external valuations are commissioned for part of the property holdings. An update is made continuously during the year of the internal valuation of the properties, taking into account purchases, sales and investments. Hufvudstaden examines continuously whether there are other indications of changes in the fair value of the properties. These could take the form of, for example, major lettings, termination of leases and significant changes in the yield requirements. In the light of the above, the value of the property holdings, in addition to investments made, is estimated to have increased by SEK 570 million during the period and consequently the fair value of the property holdings as of June 30, 2006 is estimated at SEK 16.9 billion. The increase can be attributed mainly to a lower estimated direct yield requirement as a result of a continued high level of interest in commercial properties from both Swedish and international investors, coupled with low interest rates. The average direct yield requirement for property holdings in conjunction with the above valuation was 5.4 per cent (5.7 at the turn of the year).

Net asset value

Based on the valuation of the property holdings, the net asset value is SEK 11.5 billion or SEK 56 per share after tax. When calculating the net asset value, calculated deferred tax has been used. This has been calculated at 10 per cent of the difference between the assessed fair value and the fiscal residual value of the properties. This has been assessed in the light of current tax legislation, which means the properties can be sold via a limited company without tax implications. The purchaser, however, loses the basis for depreciation, which is reason for payment of certain compensation, which has been set at 10 per cent. If the tax rate according to the balance sheet (28 per cent) is used in the calculation, the net asset value would have been SEK 8.8 billion or SEK 43 per share.

RENTAL MARKET

Interest in modern, flexible office space in central Stockholm has increased during the period, mainly as a result of good economic growth. For premises of a low standard, demand has fallen slightly with an increasing level of vacant space as a consequence. For new office leases in Stockholm's most attractive locations within the Golden Triangle, at Norrmalmstorg/Hamngatan and in the Hötorget area, rents were noted of SEK 3,200-3,800 per square metre per year, excluding the property tax supplement. Demand for retailing premises with a good location in the same area continued to be good. Rents for prime location retailing space are SEK 10,000-13,000 per square metre per year, excluding the property tax supplement.

Demand for modern office premises in the central sub-markets in Gothenburg has been good. There was, however, a low level of interest in premises of a lower standard. The level of vacant space for this category of premises has therefore increased. Market rents for modern, space-efficient office premises in prime locations were SEK 1,600-1,800 per square metre per year, excluding the property tax supplement. For prime site retailing premises, the market rent was SEK 5,000-8,500 per square metre per year, excluding the property tax supplement.

The Group's current renegotiations for both retailing and commercial premises have proceeded in line with our expectations. In total, approximately 33,500 square metres have been renegotiated at a value of SEK 100 million. These renegotiations have resulted in an average fall in rent of around 5 per cent.

FINANCING STRUCTURE

Hufvudstaden's borrowing as of June 30, 2006 amounted to SEK 3,540.0 million (3,525.0 at the turn of the year). The average fixed interest period was 26 months (30 at the turn of the year), the average capital tie-up period was 36 months (32 at the turn of the year) and the average interest cost was 3.9 per cent (3.9 at the turn of the year). Net liabilities amounted to SEK 3,511.1 million (3,432.2 at the turn of the year).

The fair value of interest swaps as of June 30 was SEK 9.0 million (-47.2 at the turn of the year). The change in value of financial instruments between December 31, 2005 and June 30, 2006 has affected the hedge reserve in equity by SEK 40.6 million.

Capital tie-up structure, June 30, 2006

Maturity date	Volume SEK m	Share, %
2006	350.0	10
2007	790.0	22
2008	600.0	17
2010	500.0	14
2011	950.0	27
2013	350.0	10
Total	3,540.0	100

Fixed interest structure, June 30, 2006

Maturity date	Volume, SEK m	Share, %	Average APR, %
2006	1,540.0	43	3.5
2007	200.0	6	3.5
2008	600.0	17	4.8
2010	500.0	14	4.1
2011	350.0	10	3.9
2013	350.0	10	4.1
Total	3,540.0	100	3.9

SHARES AND SHAREHOLDERS

Hufvudstaden, whose shares are listed on the Stockholm Stock Exchange A-list, had approximately 20,200 shareholders at the end of the period. The proportion of foreign ownership as of June 30 was 19.7 per cent of the number of outstanding

shares (14.7 at the turn of the year). The price of series A shares as of June 30, 2006 was SEK 55.25, equivalent to a market value of SEK 11.4 billion, calculated on the number of outstanding shares.

The largest shareholders as of June 30, 2006

	No. of shares, %	No. of votes, %
Lundbergs	44.2	87.6
SEB Trygg Liv	11.4	2.3
Mellon	4.4	0.9
Skandia Liv	2.4	0.5
JP Morgan	2.1	0.4
Robur Fonder	2.1	0.4
Northern Trust	1.6	0.3
State Street Bank & Trust	1.5	0.3
FPG Pensionsgaranti	1.4	0.3
Fortis Bank	1.2	0.2
Handelsbanken Fonder	1.1	0.2
KK-stiftelsen	0.9	0.2
Other shareholders	23.3	5.7
Outstanding shares	97.6	99.5
Held by Hufvudstaden	2.4	0.5
Total number of issued shares	100.0	100.0

BUY-BACK OF COMPANY SHARES

As of June 30, 2006, the Company held a total of 5,006,000 series A shares, equivalent to 2.4 per cent of the total number of shares issued. No buy-backs were made during the period or after the end of the reporting period. At the 2006 Annual General Meeting the Board was granted renewed authorization to acquire up to 10 per cent of all issued shares and to assign company shares.

Buy-back of shares as of June 30, 2006, million shares

	Total no. of shares	Held by Hufvudstaden	Other shareholders
As of January 1, 2006	211.3	5.0	206.3
Buy-back	-	-	-
As of June 30, 2006	211.3	5.0	206.3

PARENT COMPANY

Net revenue was SEK 331.6 million (357.4). The profit for the period after net financial income and expense was SEK 66.8 million (152.6). The decrease in revenue can be explained by a major vacation of premises in the beginning of the year. In addition, increased costs for maintenance effected the profit.

Liquid funds at the period-end amounted to SEK 28.7 million (21.1). Investments in properties and equipment during the period amounted to SEK 28.3 million (13.7).

SECOND QUARTER²

Gross profit from property management amounted to SEK 229.5 million (199.2). Net rental income amounted to SEK 312.8 million (313.3). Property management expenses totalled SEK 83.3 million (114.1).

The gross profit from Other operations totalled SEK 2.4 million (2.6). Net sales amounted to SEK 21.6 million (20.5) and operating costs amounted to SEK 19.2 million (17.9).

Changes in the value of investment properties amounted to SEK 570.0 million (500.0).

ACCOUNTING PRINCIPLES

This interim report for the Group has been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting principles remain the same as in the most recent annual report.

The Parent Company applies the same accounting principles as in the most recent annual report, the only difference being that financial instruments are reported in the same way as for the Group.

FORTHCOMING INFORMATION

Interim Report, January-September 2006 November 6, 2006
 Year-end Report 2006 February 8, 2007
 Annual Report 2006 March 2007
 Annual General Meeting 2007 in Stockholm March 22, 2007

This information is also published on Hufvudstaden's website, www.hufvudstaden.se

In certain cases there has been rounding off, which means that tables and calculations do not always tally.

² The comparative figures refer to the second quarter of 2005.

CONSOLIDATED INCOME STATEMENTS – SUMMARY

SEK m	April- June 2006	April- June 2005	January- June 2006	January- June 2005	January- December 2005
Net revenue					
Property management	312.8	313.3	624.3	626.9	1,258.5
Other operations	21.6	20.5	41.8	40.7	86.0
	334.4	333.8	666.1	667.6	1,344.5
Operating expenses					
Maintenance	-9.9	-30.1	-36.0	-39.5	-96.8
Operations and administration	-50.2	-47.0	-106.0	-109.7	-220.5
Ground rents	-8.9	-10.6	-17.9	-21.2	-30.4
Property tax	-14.3	-26.3	-41.6	-53.2	-109.3
Depreciation	0.0	-0.1	-0.1	-0.3	-0.5
Property management expense	-83.3	-114.1	-201.6	-223.9	-457.5
Other operations	-19.2	-17.9	-37.1	-35.9	-72.3
Operating expenses	-102.5	-132.0	-238.7	-259.8	-529.8
Gross profit	231.9	201.8	427.4	407.8	814.7
- of which Property management	229.5	199.2	422.7	403.0	801.0
- of which Other operations	2.4	2.6	4.7	4.8	13.7
Central administration	-6.9	-7.3	-13.8	-13.7	-30.6
Operating profit before changes in value	225.0	194.5	413.6	394.1	784.1
Changes in value, investment properties	570.0	500.0	570.0	500.0	1,200.0
Operating profit	795.0	694.5	983.6	894.1	1,984.1
Financial income and expense	-23.7	-37.0	-56.1	-64.6	-131.9
Profit after financial income and expense	771.3	657.5	927.5	829.5	1,852.2
Tax	-217.0	-184.4	-263.5	-233.6	-518.3
Profit for the period	554.3	473.1	664.0	595.9	1,333.9
Average number of outstanding shares after buy-backs during the period	206,265,933	206,265,933	206,265,933	206,265,933	206,265,933
Profit per share for the period before and after dilution, SEK	2.69	2.29	3.22	2.89	6.47

CONSOLIDATED BALANCE SHEETS – SUMMARY

SEK m	June 30, 2006	June 30, 2005	December 31, 2005
Investment properties	16,934.9	15,533.8	16,276.0
Other fixed assets	54.4	69.0	69.1
Total fixed assets	16,989.3	15,602.8	16,345.1
Current assets	85.5	70.1	143.4
Total assets	17,074.8	15,672.9	16,488.5
Equity	9,020.2	7,820.7	8,614.7
Non-current interest-bearing liabilities	2,600.0	2,890.0	2,590.0
Other liabilities	0.1	0.1	2.0
Pension provisions	5.5	5.2	5.6
Deferred tax liability	4,044.3	3,561.8	3,838.1
Total non-current liabilities	6,649.9	6,457.1	6,435.7
Other current interest-bearing liabilities	940.0	780.0	935.0
Other liabilities	464.7	545.0	433.0
Provisions	0.0	70.1	70.1
Total current liabilities	1,404.7	1,395.1	1,438.1
Total equity and liabilities	17,074.8	15,672.9	16,488.5

PLEGGED ASSETS AND CONTINGENT LIABILITIES

SEK m	June 30, 2006	June 30, 2005	December 31, 2005
Pledged assets			
Mortgages	1,816.3	1,716.3	1,716.3
Endowment insurance	3.5	3.3	3.6
Total pledged assets	1,819.8	1,719.6	1,719.9
Contingent liabilities	None	None	None

CHANGES IN EQUITY

SEK m	January- June 2006	January- June 2005	January- December 2005
Equity, opening balance	8,614.7	8,139.8	8,139.8
Adjustment for change in accounting principle, financial instruments	-	-41.0	-41.0
Adjusted equity, opening balance	8,614.7	8,139.8	8,139.8
Changes in capital:			
Change in hedge reserve for the period	56.3	-67.7	9.8
Tax attributable to the hedge reserve	-15.7	18.8	-2.7
Total changes in capital, reported directly against equity, excl. dividends	40.6	-48.9	7.1
Profit for the period	664.0	595.9	1,333.9
Total changes in capital	704.6	547.0	1,341.0
Dividends	-299.1	-825.1	-825.1
Equity, closing balance	9,020.2	7,861.7	8,655.7

CONSOLIDATED CASH FLOW STATEMENT – SUMMARY

SEK m	January- June 2006	January- June 2005	January- December 2005
Profit after financial income and expense	927.5	829.5	1,852.2
Adjustment for items not included in cash flow			
- Changes in value, investment properties	-570.0	-500.0	-1,200.0
- Depreciation/Impairments	1.9	1.6	3.9
- Change, other provisions	-48.5	-	0.7
- Other changes	-0.1	0.3	-
Tax paid	-92.6	-50.7	-86.6
Cash flow from current operations before changes in working capital	218.2	280.7	570.2
Increase/decrease in operating receivables	-6.1	-1.7	-6.1
Increase/decrease in operating liabilities	84.2	41.7	15.0
Cash flow from current operations	296.3	320.7	579.1
Property investments	-88.9	-33.8	-76.0
Investments in equipment	-3.3	-1.5	-3.4
Amortization - non-current liabilities	16.1	14.0	13.9
Cash flow from investments	-76.1	-21.3	-65.5
Loan raised	195.0	565.0	740.0
Amortization of loan liability	-180.0	-30.0	-350.0
Dividend paid	-299.1	-825.1	-825.1
Cash flow from financing	-284.1	-290.1	-435.1
Cash flow for the period	-63.9	9.3	78.5
Liquid funds at the beginning of the period	92.8	14.3	14.3
Liquid funds at the period-end	28.9	23.6	92.8

PROPERTY MANAGEMENT – PROFIT PER BUSINESS AREA (COMPARABLE HOLDINGS)

SEK m	Stockholm City East Business Area		Stockholm City West Business Area		NK Business Area		Gothenburg Business Area		Total	
	Jan-Jun 2006	Jan-Jun 2005	Jan-Jun 2006	Jan-Jun 2005	Jan-Jun 2006	Jan-Jun 2005	Jan-Jun 2006	Jan-Jun 2005	Jan-Jun 2006	Jan-Jun 2005
Net revenue	196,5	194,7	210,6	230,7	144,0	131,0	73,2	70,5	624,3	626,9
Property costs	-57,6	-66,4	-69,9	-80,1	-53,3	-56,7	-20,8	-20,7	-201,6	-223,9
Gross profit	138,9	128,3	140,7	150,6	90,7	74,3	52,4	49,8	422,7	403,0

FINANCIAL RESULTS – SUMMARY

SEK m	Jan-Mar 2006	Jan-Mar 2005	Apr-Jun 2006	Apr-Jun 2005	Jan-Jun 2006	Jan-Jun 2005
Income	331.7	333.8	334.4	333.8	666.1	667.6
Costs	-136.2	-127.8	-102.5	-132.0	-238.7	-259.8
Gross profit	195.5	206.0	231.9	201.8	427.4	407.8
Central administration	-6.9	-6.4	-6.9	-7.3	-13.8	-13.7
Changes in value, properties	-	-	570.0	500.0	570.0	500.0
Net financial income/expense	-32.4	-27.6	-23.7	-37.0	-56.1	-64.6
Tax	-46.5	-49.2	-217.0	-184.4	-263.5	-233.6
Profit for the period	109.7	122.8	554.3	473.1	664.0	595.9

KEY RATIOS

	June 30, 2006	June 30, 2005	Full year 2005	Full year 2004	Full year 2003	Full year 2002
Property-related						
Rentable floor space, sq.m.	407,512	407,380	407,694	407,375	437,994	436,261
Rental vacancy level, %	8.5	8.2	7.1	8.2	8.1	9.3
Floor space vacancy level, %	10.1	9.6	8.7	9.5	8.7	9.2
Fair value, SEK billion	16.9	15.5	16.3	15.0	15.1	-
Financial						
Return on equity, %	10.3	10.3	15.9	9.8	7.7	7.1
Return on capital employed, %	10.9	10.9	16.5	9.7	7.4	7.6
Equity/asset ratio, %	52.8	49.9	52.2	53.8	43.8	43.7
Interest coverage ratio, times	7.0	5.9	5.7	3.5	3.2	3.2
Data per share						
Profit for the period, SEK	3.22	2.89	6.47	3.74	1.78	1.60
Equity, SEK	43.73	37.92	41.77	39.46	23.23	22.68
Properties, fair value, SEK	82.10	75.31	78.91	72.72	73.21	-
NAV, SEK	56.00	49.00	53.00	50.00	43.00	-
No. of outstanding shares, thousand	206,266	206,266	206,266	206,266	206,266	211,272
No. of issued shares, thousand	211,272	211,272	211,272	211,272	211,272	211,272

The figures for 2002-2003 have not been recalculated according to IFRS. For these years, the valuation of properties and financial instruments were based on acquisition values.

Stockholm, August 24, 2006

Ivo Stopner
President

REVIEW REPORT

I have reviewed the interim report for the period January 1 – June 30, 2006, for Hufvudstaden AB (publ). The Board of directors and the managing director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. My responsibility is to express a conclusion on this interim report based upon my review.

Orientation and scope of the review

I conducted my review in accordance with the Standard on Review Engagements SÖG 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable me to obtain a level of assurance that would make me aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the accompanying interim report is not, in all material respects, in accordance with IAS 34 and the Annual Accounts Act.

Stockholm, August 24, 2006

Bo Ribers

Authorized Public Accountant

DEFINITIONS

Annual rent. Gross rent calculated on an annual basis, excluding the turnover-based rent supplement. Vacant premises are reported at the market rent.

Capital employed. Total assets reduced by non-interest-bearing liabilities and deferred tax liabilities.

Central administration. Costs for Group management and Group staff functions, costs for maintaining the Company's stock exchange listing and other costs common to the Company.

Equity per share. Equity in relation to the number of outstanding shares at the period-end.

Equity/assets ratio. Equity in relation to total assets at the period-end.

Fair value. The estimated market value of the properties, which is determined based on a direct yield valuation.

Floor space vacancy level. Vacant floor space in square metres in relation to the total rentable floor space.

Golden Triangle. The central business district in Stockholm, between Stureplan, Norrmalmstorg and Nybroplan and bordered by Birger Jarlsgatan, Norrlandsgatan and Hamngatan.

Interest coverage ratio. Profit after financial income and expense excluding unrealized changes in value plus interest expense minus interest contributions in relation to the interest expense minus interest contributions.

Investments. Expenses related to value-enhancing improvements which entail future financial benefits are capitalized. Rebuilding costs of a maintenance nature are charged to profit.

Net liabilities. Interest-bearing liabilities less interest-bearing assets.

Profit per share. Profit for the period in relation to the average number of outstanding shares during the period.

Property tax supplement. Property tax payments received from tenants.

Rental vacancy level. Vacant floor space at an estimated market rent in relation to the total annual rent.

Return on capital employed. Profit before appropriations and tax plus interest expense minus interest contributions in relation to the average capital employed. In the interim accounts the yield is calculated on a full-year basis without taking into account seasonal variations that normally arise in business operations and with the exception of changes in value.

Return on equity. Profit for the period in relation to the average equity. In the interim accounts the yield is calculated on a full-year basis without taking into account seasonal variations that normally arise in business operations and with the exception of changes in value.

Tax. Total tax for the Group comprises both current tax and deferred tax.