

WALLENSTAM ANNUAL REPORT 2012

It's all about responsible development

CALENDAR

Annual General Meeting, April 23, 2013
Interim report, 1st quarter, April 23, 20113
Interim report, 2nd quarter, August 7, 20113
Interim report, 3rd quarter, November 6, 20113
Fourth quarter report 2013; February 19, 2014

Information regarding Wallenstam's business operations, financial reporting and press releases can all be found at wallenstam.se.

Wallenstam AB (publ) co. reg. no. 556072-1523
info@wallenstam.se www.wallenstam.se

Telephone +46 31 20 00 00

Gothenburg:

SE 401 84 Gothenburg
Street address Kungsporsavenyen 2

Stockholm:

Box 19531, SE 104 32 Stockholm
Street address Birger Jarlsgatan 64

Layout: WBL
Production: Natvik Information AB
Photos, pages 5, 29, 39, 45, 49: Patrik Svedberg
Photos, pages 6, 8, 10, 11: Dan Holmqvist
Photo, page 14 Inger Wetter
Photo, page 33: (top) Reine Johnsson
Photo, page 35: Tomas Södergran
Unattributed photographs are Wallenstam's own.
Printed on Munkens Polar, cover 240g, insert 130g
Repro and print: Sandstens Tryckeri

Wallenstam 



Wallenstam 

WALLENSTAM 2012



“Vigorous construction and a high rate of investment. That’s our 2012 in a nutshell. A continued, steady increase in high-volume projects ensures an increase in the value of the company and helps make cities sustainably attractive.”

HANS WALLENSTAM, CEO

DEDICATION TO LIVING

Sustainable living and construction have been at the heart of Wallenstam since the company's foundation in 1944. Our vision is to be a leading city developer and the market-leading property owner in selected big city regions.

Today we provide just over 9,000 families a broad selection of apartments in Gothenburg, Stockholm and Helsingborg. We also manage commercial properties and act as a receptive partner for around 1 000 companies in the Gothenburg area.

RESPONSIBILITY FOR PROGRESS

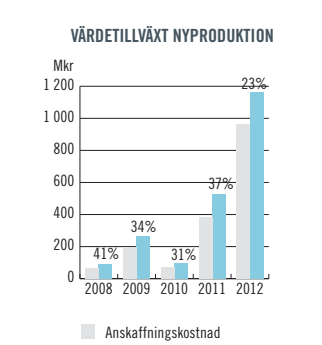
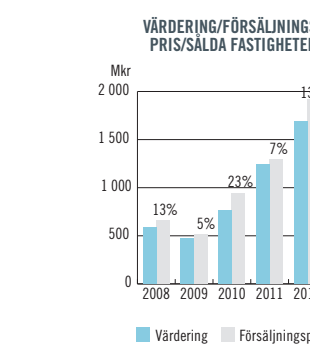
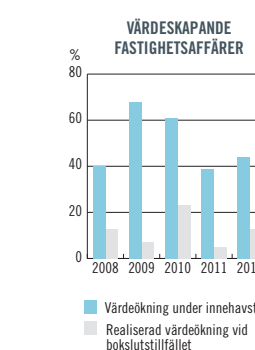
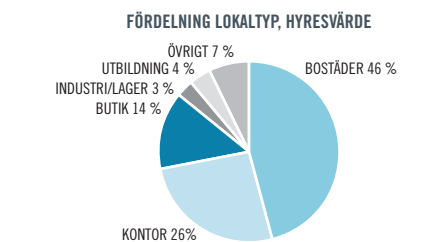
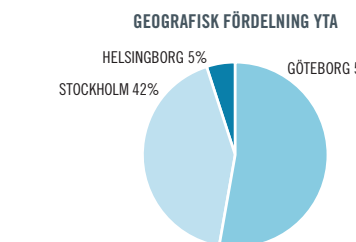
We build and develop with a focus on security, sustainability, smart floor plans and reasonable monthly costs for the customer. In our view city development is just as much about developing our existing properties as it is about new construction – a combination that creates value for the company, our owners and cities.

We aim to build 2,500 apartments under the current business plan, which covers 2008-2013. So far just over 1,700 apartments have started construction and a further 1,300 are planned for 2013.

RESPECT FOR PEOPLE AND THE ENVIRONMENT

Sustainable development is part of our day-to-day work. We work in close collaboration with cities to create safe, pleasant areas that people love to live in, work in and visit. We invest in energy-efficient construction and generate our own green electricity by means of our 50 wind turbines and hydro stations. Constant safety and security efforts in our areas, the sponsoring of broad youth sports programmes and donations to relief organizations that combat alienation are some of the ways we seek to contribute to a better society.

- NUMBER OF PROPERTIES: APPROXIMATELY 300
- ESTIMATED RENTAL VALUE 2013: SEK 1.6 BILLION
- PROPERTY VALUE: SEK 28 BILLION
- TOTAL LETTABLE AREA: 1,161,075 SQ M
- OCCUPANCY RATE, LETTABLE AREA: 98 PERCENT



VISION, BUSINESS CONCEPT AND GOAL

2

OUR PROPERTY HOLDING

22

ADMINISTRATION REPORT

52

2012 at a glance, 2012 quarterly	see tab
Operations Overview	see inside tab
Vision, Business Concept and Goal	2
Strategies and Core Values	4
A word from the MD	6
A word from the Chairman	8
Group Management and Auditor	10
Board of Directors	11
Organization and Employees	
Environmental and Social Responsibility	15

PROPERTY HOLDING, MARKET AND PROJECTS

Our markets	19
Our property holding	22
Property overview	26
A desire to develop	37
Region Gothenburg/Helsingborg	30
Region Stockholm	34
Wallenstam NaturEnergi AB	38
Financial Strategy	40
Opportunities and Risks	42
The Wallenstam Share	46
Five-year Summary	50

FINANCIAL REPORTS

Administration Report	52
Consolidated Income Statement	58
Accounting Principles and Notes, Consolidated Accounts	62
Parent Company Accounts	81
Accounting Principles and Notes, Parent Company Accounts	85
Auditor's Report	93
Corporate Governance Report	94

PROPERTY LIST

Stockholm	100
Gothenburg	102
Helsingborg	106
Entire Wallenstam Group	107
Property Sales, Acquisitions and Completed New Construction	107
GRI Index	108
Welcome to the AGM	109
Glossary	109
Calendar	see tab
Definitions	see tab

VISION, BUSINESS CONCEPT AND GOAL

Wallenstam strives to build, manage and develop sustainable properties in Gothenburg, Stockholm and Helsingborg.

VISION

To be a leading city developer and market-leading property owner in selected big-city regions.

BUSINESS CONCEPT

To buy, build, develop and sell properties that are sustainable in business and human terms in selected big city regions.

GOAL

In our current business plan for the period 2008-2013, our overarching

goal is to achieve a net asset value of SEK 100 per share by the end of 2013. In addition there are operational goals— so-called guiding principles – that are important tools in helping us achieve our overarching goal.

TARGETING

Our goal and guiding principles have in turn been supplemented with internal key ratios that contribute to the company’s further progress. Examples are return on investments, administration expenses as a percentage of sales, customer satisfaction index and surplus ratio.

GOAL, 2013

NET ASSET VALUE

Net worth per share must reach SEK 100.

GUIDING PRINCIPLES/OPERATIONAL GOALS

EQUITY/ASSETS RATIO

Equity/assets ratio to exceed 25 per cent annually.

OCCUPANCY

The commercial portfolio occupancy rate must exceed 95 per cent every year.

NEW CONSTRUCTION

During the period 2,500 new apartments will be built with an effective yield in excess of 7 per cent.

ENERGY PRODUCTION

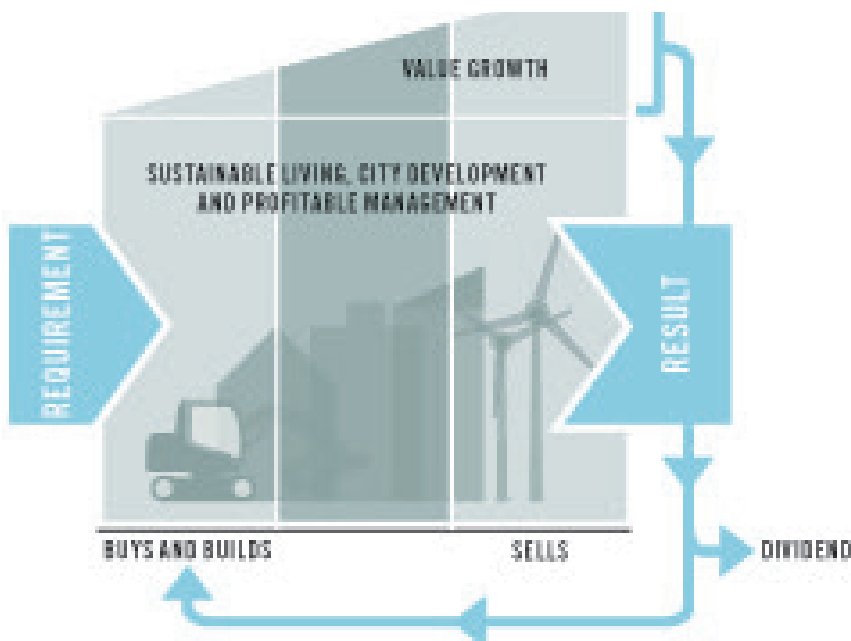
Wallenstam will produce energy from renewable sources sufficient for its own and its customer’s needs calculated in kWh per month.

PROFITABILITY

A continued positive earnings trend in operations.

BUSINESS PROCESS/BUSINESS MODEL:

Wallenstam buys, builds and develops properties for people and businesses based on the requirements of its customers, the community and shareholders. The properties are developed and managed sustainably and profitably to generate growth in value. Earnings are re-invested and used to develop the business further. Shareholders receive a share of the profits in the form of dividends.



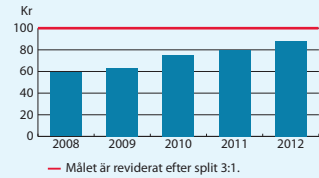
REMARKS

The net asset value goal summarizes the outcome of our efforts toward profitable new construction, efficient administration, a motivated letting organization, value-creating investments and successful business operations. Together with a focus on properties with positive trends this helps create good appreciations in value for the company.

The key ratio also provides a good indication of how our operation is valued compared to the share price.

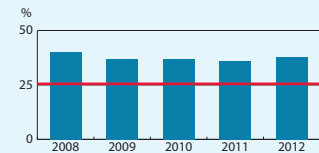
The SEK 88 per share outcome on December 31, 2012 was primarily the effect of the year's profitability, property transactions, a restructuring of the property holding and a high rate of new construction.

RESULTS



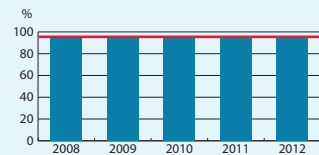
The equity/assets ratio demonstrates our stability and ability to survive in the longer term. It also describes how our capital base must be adapted to operational risk taking.

A good earnings trend and cost control during the year resulted in an equity/assets ratio of 38 per cent on December 31, 2012.



A high, stable occupancy rate provides a greater ability to focus on customer requirements and wishes regarding property development.

As of December 31, 2012 the occupancy rate for commercial premises was 95 per cent – 1.5 percentage points better than the average for commercial properties in Gothenburg.

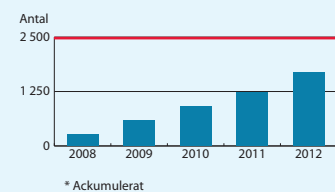


We build quality apartments in good locations where demand is high, which generates good yields and good appreciation.

So far just over 1,700 apartments have started construction under the current business plan, and a further 1,300 are planned for

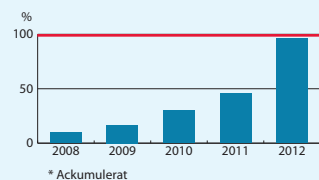
2013.

During the year two declarations of intent were agreed with Helsingborg and Uppsala in respect of the future production of 1,600 apartments.



Immediately after the 2013 New Year, Wallenstam became the only property company in Sweden to be self sufficient in renewable energy for its own and its customer's needs on a monthly basis. Wallenstam had 47 wind turbines and three hydro stations in operation with an installed output of 96 megawatts.

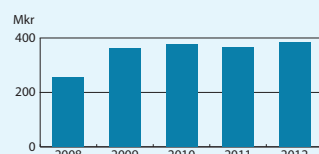
To keep abreast of upcoming new home production, current construction of wind farms will continue according to plan.



Operational earnings is an internal measurement that covers gains or losses from property management including the sale of apart-

ments.

Operational earnings for 2012 amounted to SEK 383 million.



STRATEGIES AND CORE VALUES

STRATEGIES

Operational strategies have been drawn up in six key areas that all have a natural connection to our goals and guiding principles.

Business strategy – Wallenstam bases its operations on action plans for purchases, new construction, property development, product development, customer care and property sales.

Share holder strategy – Wallenstam looks after shareholder interests by testing every relevant share-related instrument on the market in order to maintain a capital structure optimal for the company.

Property management strategy – Property management is based on customer requirements. Wallenstam uses action plans to achieve its goals for quality, security, social responsibility and economy.

Sustainability strategy – Wallenstam strives for sustainability for individuals and companies. There are concrete action plans to reduce environmental impact. Wallenstam will reduce its energy consumption and become self-sufficient in renewable electricity.

Organizational strategy – The Wallenstam organization is based on customer requirements. Wallenstam runs operations by region and in Wallenstam NaturEnergi, all of which have individual responsibility under established goals. Specialized central staff functions support operations.

Personnel strategy – Wallenstam meets market requirements through its positive, versatile and customer-focused personnel. Wallenstam ensures the ongoing development, training and well-being of its personnel.

CORE VALUES

Systematic efforts to disseminate a distinct image of Wallenstam among its shareholders, customers, politicians, the general public and other decision makers is an ongoing, day-to-day process. We know from experience that consideration for, and commitment to, a city's development are necessary if we are to contribute in the best way and gain the opportunity to work on interesting projects. Therefore we attach great importance to the way our brand is protected and perceived by the world at large.

Our core values are:

- Taking active responsibility for progress.
- Showing respect for people and the environment.
- Having a deep, genuine dedication to housing choice.

COMMON OUTLOOK

Our core values provide guidelines for our work and strengthen the organization's team spirit. Our common outlook resulted in a number of concrete projects during 2012. We have around 700 apartments under construction and commissioned 22 wind turbines. In addition to quality-enhancing renovations both in and around our properties, our dedication and responsibility for progress has found an expression in declarations of intent for new construction in Helsingborg and Uppsala. And on an even happier note, two of our new construction projects received awards for architecture and their focus on urban design.

ASSET-CREATING FACTORS

Wallenstam's asset-creating factors consist of a dynamic business process in which sustainable living, urban development and profitable property management for the basis for ap-

preciations in value and the constant advancement of the company. The combination of strategies, goals, guiding principles and well-embedded core values enables us to run and advance our business in a manner that creates value for owners, customers, employees, investors and other interested parties.

Parameters that affect the development of the company to varying degrees are:

- *Attractive properties and good property management* – An attractive property holding and good property management result in satisfied tenants, who in turn ensure high occupancy rates, stable rental incomes and good business opportunities for the company.
- *Access to land* – Wallenstam operates in three attractive cities with significant migration where there are enormous housing shortages. Access to land in the right locations is a crucial factor for safeguarding new construction.
- *Market situation* – Property values are affected by on market conditions that change over time. We build properties in attractive locations where demand is high, which generates good yields and good appreciation.
- *Secure financing* – capital is a vital resource for operations and access to it is crucial if we are to develop and expand to the desired extent.
- *Sound company culture and skills* – the ability to attract and employ the right personnel and maintain a congenial company culture is an important factor for continued successful development.



OUR CORE VALUES ARE:

TAKING ACTIVE RESPONSIBILITY FOR PROGRESS

During our 2013 business plan we have so far broken ground for 1,700 new apartments, and we are planning on beginning construction on a further 1,300 this year.

SHOWING RESPECT FOR PEOPLE AND THE ENVIRONMENT

Just after the 2013 New Year, with more than 50 wind turbines and hydro stations in operation, we became the first property company in Sweden to be self sufficient in renewable energy.

TO HAVE A DEEP, GENUINE DEDICATION TO HOUSING CHOICE

We have been building homes based on market requirements and wishes since 1944. In 2012 we welcomed new tenants to our first passive house with 196 rental apartments in Haninge.



“Our entire investment philosophy is about building and managing properties in the right locations, in the right markets where people want to live and work. I have every confidence in that market position.”

A WORD FROM MD HANS WALLENSTAM

Quality properties in sought-after locations and an organization focused sharply on growth are our primary success factors. During 2012 we concentrated our property holding further and enjoyed high rates of investment and new construction.

In the next few years growth in Sweden will be relatively low. On the other hand regional differences will be considerable. This will be very apparent in our industry with a major difference in property values depending on locations. Our entire investment philosophy is about building and managing properties in the right

locations, in the right markets where people want to live and work. I have every confidence in that market position.

INVESTMENT OPPORTUNITIES AND GROWTH

By providing new homes we are not only able to contribute to the development potential of various areas, but also benefit from it. Based on market requirements we do more than just build homes – we develop entire city districts and areas. We provide added value and add to the whole by building such things as pre-schools and cultural arts centres; we prioritize security and improve the outdoor

environment. For us city development is just as much about ensuring future growth and creating good investment opportunities for the communities we work in as it is for our company.

I am proud of the trail we've blazed as a company, from being a challenger within the construction industry ten years ago to become a major player today. During the year we even expanded a little outside our regions and we took the decision to invest in new construction in Uppsala, which is an exciting challenge.

RESPONSIBILITY FOR ENVIRONMENTAL GOALS

A concrete example of social respon-

sibility that goes hand in hand with commercial benefit is our investment in our own renewable wind powered electricity. In 2005, when we investigated the opportunities for impacting our energy costs there was no other acceptable alternative than an investment that was also profitable in environmental terms. We are now the only property company that is self sufficient in renewable wind powered electricity on a monthly basis, which is a truly magnificent achievement by our organization. The wind power industry in general has entered a recession, and this has provided us with opportunities. Because we have achieved our guiding principle of being self-sufficient in renewable energy we have switched from building wind farms to become more of an asset management organization. When demand increases prices will follow suit and I hope, especially with an eye to the future, that Sweden achieves its national goals.

OUR 2012

I am extremely pleased with our earnings trend for the year. We can see great results from our ongoing restructuring with a greater proportion of new properties in the holding, which brings positive changes in value, increased rental income and lower operating expenses.

One of the biggest events was the sale of six commercial properties to Platzer for SEK 950 million, our biggest sale ever. Also important was the value growth we generated through the concentration of our commercial properties in combination with well-functioning, profitable new construction. I would also like to mention the Administrative Court of Appeal's longed-for and long-anticipated ruling regarding the Guldmyran tax matter – a ruling that will have a positive impact on the entire industry.

FINANCIAL STRENGTH

Despite major investment volumes during the year we succeeded in raising our equity/assets ratio. We have a sound financial basis for continued growth and are not planning to slacken our pace.

GOALS AS MEANS OF CONTROL

Our net asset value enjoyed brilliant growth and increased step by step under the 2008–2013 business plan. We are now on the final stretch sprinting toward a net asset value of SEK 100 per share at the finishing line. I must emphasize here that the goal is a means of control for the organization and not a forecast, in the same way as our guiding principles are natural control mechanisms for continued good development.

WALLENSTAM SHARE ON THE WAY UP

Among its industry peers the Wallenstam share trend for the past ten years has been at the top, and over time this is also our ambition. Since 2008, when the current business plan began, share value after splits etc., has increased by 97.5 per cent. This is a value trend we can feel especially proud of!

We are currently proceeding at full speed toward our goal and hopefully this will be reflected in the share price. Our synthetic options scheme for our personnel means that shareholders and employees alike strive to achieve the same goals.

THE FUTURE

The product we provide is in great demand, but we may under no circumstances rest on our laurels. We seek to continue being a pillar of support in the community by doing our bit for a better society. We will continue these efforts by adding more homes, developing and managing properties

in a sustainable manner, becoming involved in our areas and actively combating alienation.

The challenges we face ahead are in continuing to deliver good quality at the right price and in generating projects at a good pace in harmony with the communities where we work. This requires us to stay on our toes, step up the pace, continue to deliver the same, good level of service and remain creative. Having said that, I would also like to emphasize that everyone at Wallenstam does a fabulous job. Now that we're on the final stretch and getting ready for a new business plan we must above all continue with the same enthusiasm all the way to the finishing line.



Hans Wallenstam
MD



“

“For my part I see taking part via my work on the Board in in the strategic development of a company whose product is in constantly increasing demand, as a great privilege.”

A WORD FROM CHRISTER VILLARD, BOARD CHAIRMAN

Wallenstam's clear direction is one of the company's greatest strengths. The organization's motivation and focus on progress provides us board members with a welcome extra dimension to our work.

CLEAR STRATEGIC FOCUS

In working with the vision of becoming one of the leading city developers and a market leading property owner in selected big city regions, Wallenstam has chosen to concentrate its operations to Stockholm, Gothenburg and Helsingborg. A direction and strategy that over the years have proved to be the company's foremost success factors. Migration

to the big city regions is huge and there are manifest housing shortages. It is estimated that every day two bus loads of new inhabitants move to the Stockholm area alone.

For my part I see taking part via my work on the Board in in the strategic development of a company whose product is in constantly increasing demand, as a great privilege.

BOARD COMPOSITION

The composition of the Board has remained the same for a number of years. It is a relatively small Board consisting of five people who together represent a broad, deep expertise in

areas important to Wallenstam. Each of us takes an active part and keeps well informed about operations.

From my perspective some of the success factors required for a good, effective board work are good board composition, great commitment, close dialogues with company management and a shared, well-functioning personal chemistry. I'm happy to declare that all of the members of Wallenstam's Board have those qualities.

Board work during the year, as in previous years, has chiefly concerned strategic issues and major business decisions.

CORPORATE GOVERNANCE

Wallenstam's reorganization into two regions and Wallenstam NaturEnergi as an independent business area has created a simple, clear, natural way of supervising operations.

In addition to board meetings and other meetings during the financial year, members receive continuous information which not only provides good overall insights into operational activities, financial control and business development, but also into responsible entrepreneurialism from a financial, social and environmental perspective.

The Board's work naturally abides by the Swedish corporate governance code. We have decided to let the full Board act as the audit committee. In our opinion there is good reason for the Board as a whole to gain such insights as this provides every member with a more deeply rooted understanding of any issues that may arise.

WALLENSTAM AND THE WORLD AT LARGE

The global economy continued to be unstable during 2012. Against that background Sweden coped well and enjoys an economy that is relatively strong.

Falling interest rates are a direct effect of the prevailing economic cycle, and this benefits Wallenstam and other property companies whose operations require significant financing. Wallenstam's investment volumes have been growing for a number of years due to a high pace and major focus on new production and development – things which themselves create value for the company and shareholders alike. Following their completion, properties built generate surplus value from day one and help provide a commodity in acute short supply in Wallenstam's markets – homes!

What's more, Wallenstam repre-

sents something unequalled in our industry. In addition to building and managing quality properties in attractive locations, the buildings are supplied with renewable electricity from the company's own wind farms. This is unique. Sustainable development lies at the heart of what we do. During the year we chose to invest in a minor share of a company that is on the brink of developing the next generation of solar cells on an industrial scale. An exciting investment in the future!

STABLE RESULTS

Earnings for 2012 were, as in previous years, stable and developed in line with our expectations. This means the Board will propose a dividend of SEK 1.25 per share at the AGM, which is a little higher than last year. Wallenstam has consistently proven over many years that it is able to deliver. The majority of capital is reinvested in the business for continued development.

DEVELOPMENT THROUGH EVALUATION

For many years the Board has carried out an internal evaluation of its work. In 2012 we chose to complement this with an external evaluation. Based on the outcome of this, I can declare that our work in all material respects functions well. We have room to breathe and mutual respect for each other's skills and experience. A culture that also characterizes Wallenstam in general.

TOMORROW'S OPPORTUNITIES AND CHALLENGES

Wallenstam is a company that focuses on the future about to enter the final year of its current business plan. One of the future challenges we face if we are to continue building more and better homes in our areas is the availability of land. This is a critical success factor for our future production

portfolio. We are able and willing to build more but the external processes that we have no influence over take time. But despite this it is with great satisfaction that I am able once again to declare that Wallenstam stands firmly, securely and with good future prospects. While the goals and guiding principles in our current business plan may be ambitious, the willingness, good humour, creativity and ambition of our organization lead me to look forward to an exciting year full of possibilities!



Christer Villard
Chairman

GROUP MANAGEMENT AND AUDITOR



From the top left: Elisabeth Vansvik, Ulf Ek, Benny Olsson, Thomas Dahl, Mathias Aronsson and Hans Wallenstam.

HANS WALLENSTAM

MD, Wallenstam AB
Born 1961, employed since 1986
Education: Bachelor of Science (Economics)
Previous executive positions at Wallenstam:
Finance Director, MD Wallenstam i Göteborg AB
Shareholding in Wallenstam: 17,250,000 A shares,
22,076,500 B shares** and 45,000 synthetic options.

MATHIAS ARONSSON

Deputy MD Wallenstam AB in charge of region
Stockholm.
Born 1972, employed since 1996
Previous executive positions at Wallenstam:
MD Wallenstam Stockholm AB, Regional
Director Stockholm Wallenstam Bostad AB, MD
Wallenstam Bostad AB
External assignments: Board member, Bofrämjan-
det and Nordisk Byggdag.
Shareholding in Wallenstam: 113,500 B shares and
45,000 synthetic options.

BENNY OLSSON

Deputy MD in charge of the Project Department
in Stockholm and Wallenstam NaturEnergi
Born 1945, employed since 1988
Education: Structural engineer
Previous executive positions at Wallenstam:
Construction and Property Management Director,
Wallenstam i Göteborg AB, MD, Wallenstam i
Göteborg AB,
MD Wallenstam Lokaler AB, Construction
Director, MD, Wallenstam Bostad AB
Shareholding in Wallenstam: 357,407 B shares* and
45,000 synthetic options.

THOMAS DAHL

Deputy MD Wallenstam AB in charge of region
Gothenburg/Helsingborg.
Born 1961, employed since 1988
Education: Management law
Previous executive positions at Wallenstam:
Property Director at Wallenstam i Göteborg
AB, Property Director at Lennart Wallenstam
Byggnads AB, Public Relations & Marketing
Director, MD, Wallenstam Företag AB
External assignments: Board member, Fastighet-
sägarna Göteborg region 1 and Fastighetsägarna
Sverige.
Shareholding in Wallenstam: 207,950 B shares*
and 45,000 synthetic options.

ULF EK

Finance Director
Born 1949, employed since 2004
Education: MBA
Previous executive positions at Wallenstam:
Finance and Public Relations Director
External assignments: Board member, Läns-
försäkringar in Gothenburg and Bohuslän County.
Shareholding in Wallenstam: 36,000 B shares* and
30,000 synthetic options.

ELISABETH VANSVIK

Communications Director
Born 1970, employed since 2002
Education: M.A., media and communications
science
Previous executive positions at Wallenstam:
Communications Director, Wallenstam AB
External assignments: Board member, Barn i Nöd.
Shareholding in Wallenstam: 1,347 B shares and
15,000 synthetic options.

AUDITOR

BJÖRN GRUNDVALL

Auditor
Born 1955
Elected auditor in 2012
Other assignments Kappahl AB, New Wave Group
AB, Artimplant AB, Götenehus Group AB, Sapa AB,
Nefab AB and 7th AP Fund and assignments from
Nasdaq OMX Stockholm as an exchange auditor.

* Shareholding also includes shares owned via
companies.

** Shareholding also includes shares owned via compa-
nies including family members.
The above information refers to circumstances at the
New Year.

BOARD OF DIRECTORS



From left to right: Christer Villard, Agneta Wallenstam, Erik Åsbrink, Anders Berntsson and Ulrica Jansson Messing.

CHRISTER VILLARD

Chairman

Born 1949, bachelor of laws

Board member since 1995

Previous experience from various executive positions e.g. MD at Aragon Fondkommission, Häglöf and Ponsbach Fondkommission AB, Kaupthing Bank Sverige AB, RetriVA AB and Deputy MD at Götatabanken and World Bank advisor to governments of Lithuania and Indonesia.

Other assignments: Board chairman, Aptic AB, Drottningholmsteaterns vänner, Länsförsäkringar Stockholm, Segulah III, Segulah IV and Stockholms Köpmansklubb. Board member, AB Segulah and Länsförsäkringar Bank.

Shareholding in Wallenstam: 80,000 B shares

ULRICA JANSSON MESSING

Vice Chairman

Born 1968, upper secondary qualification in Social science

Board member since 2008

Previous experience from Hassela behandlingshem, member of parliament and cabinet minister the Ministries of Labour, Culture and Enterprise, Energy and Communications.

Other assignments: Chairman of Astrid Lindgrens Värld, vice chairman at ACR and board member at Länsförsäkringar Livbolag.

Shareholding in Wallenstam: 221,860 B shares*.

ANDERS BERTSSON

Board member

Born 1954, bachelor of laws

Board member since 1997 (deputy 1981-1996)

Previous experience working at Handelsbanken AB and as deputy MD at Wallenstam AB 1979-2006 and a number of other board assignments in the real estate industry.

Other assignments: Board chairman at Dadbro Holding AB. Board member, House of Dagmar AB.

Shareholding in Wallenstam: 10,424,000 B shares

AGNETA WALLENSTAM

Board member

Born 1952, educated in theology, ethnology, archaeology and social anthropology. Master of Cultural Anthropology

Board member since 2010

Previous experience working as a pastor and parish director for a number of parishes since 1987.

Other assignments: Pastor, Bethlehem Church, Gothenburg

Shareholding in Wallenstam: 14,502,000 B shares*.

ERIK ÅSBRINK

Board member

Born 1947, B.A. and bachelor of science (Economics)

Board member since 2000

Previous experience includes Undersecretary of State at the Finance Department, Chairman of Riksbanksfullmäktige, Minister for Taxes, MD at Vasakronan, Finance Minister and member of the Ecofin Council and a number of board assignments and chairmanships in several tax investigations and Förtroendekommissionen (the trust commission).

Other assignments: Board chairman at Alecta, Stockholm School of Economics, LightLab Sweden and Svensk Hypotekspension. Board chairman at Bemanningsföretagens Auktorisationsnämnd. Board member, Bilspeditioners Transportörförening and Stiftelsen Cancercentrum Karolinska. International advisor to Goldman Sachs and senior advisor to Ernst&Young.

Shareholding in Wallenstam: 1,500 B shares

* Including family members.

The above information refers to circumstances at the New Year.

ADMINISTRATION REPORT

The Board of Directors and the Managing Director of Wallenstam AB (publ), Swedish company registration number 556072-1523, herewith submit the annual accounts and consolidated financial statements for 2012. The previous year's figures are shown in parentheses.

THIS IS WALLENSTAM

Wallenstam was founded in 1944 to become a company that today builds, develops and administers properties for sustainable living and the pursuit of business in Stockholm, Gothenburg and Helsingborg. Ownership is focused on residential properties all regions, and also commercial properties in Gothenburg. In all Wallenstam has around 9,000 apartments and 1,000 commercial tenants. Wallenstam also invests in green energy with the aim of achieving energy self sufficiency by 2013. The Wallenstam B share is quoted on the Nasdaq OMX Stockholm, Large Cap.

BUSINESS CONCEPT

Wallenstam's business concept is to buy, build, develop and sell properties that are sustainable in business and human terms in selected big city regions.

OPERATIONAL GOALS

Wallenstam conducts operations based on business plans, objectives and strategies. The current business plan was adopted in 2008 and runs until the end of 2013. The overarching goal, which was recalculated after a 3:1 share split, is:

- *Net worth per share must reach SEK 100.*

In order to achieve the goal the following guiding principals have been adopted:

- Equity/assets ratio must exceed 25 per cent every year.
- The commercial portfolio rental level must exceed 95 per cent every year.
- During the period 2,500 new apartments will be built which must have an effective yield in excess of 7 per cent.
- Wallenstam must produce renewable energy sufficient for its own and its customers' needs based on kWh per month.
- The positive earnings trend must continue.

OPERATIONS AND ORGANIZATION

The Board of Directors has its registered office in Gothenburg, and the head office street address is Kungsporsavenyen 2. A total of 185 individuals (194) were employed by the Group as of December 31, 2012. Operations were run in three business areas – properties in the Gothenburg/Helsingborg region, properties in the Stockholm region and renewable energy through Wallenstam NaturEnergi. The administrative support functions provide the business areas with skills and expertise in economics, finance, IT, law, communications, customer service, personnel, taxes and transactions.

The two property regions also include responsibility for leasing and management of housing, commercial premises and construction work. The Group's commercial properties are located primarily in Region Gothenburg/Helsingborg. The property

holding comprises a total of 1,161,075 sq m distributed over approximately 300 properties in Stockholm, Gothenburg and Helsingborg. Property value amounted to SEK 27.7 billion; the proportion of housing was 53% of lettable area with the remainder taken up by commercial properties and parking. The residential property holding consists of just over 9,000 apartments and is fully let. Commercial properties are located primarily in Gothenburg where Wallenstam manages around 450,000 sq m of centrally located floor space at an occupancy rate of 95 per cent (95).

NaturEnergi's production of renewable energy has now reached a relatively large volume and will therefore be reported individually from January 1, 2012. NaturEnergi's primary task is to ensure Wallenstam has energy production from renewable energy, wind power development and hydro power sufficient to cover its own and its customers' needs. To achieve this and to cover future new construction an installed output of around 100 MW will be necessary. At the end of December our installed output was 96 MW.

RESPONSIBLE ENTREPRENEURIALISM

Wallenstam's sustainability initiatives are based on a common Group policy and are reported according to the Carbon Disclosure Project (CDP), the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI index) and Hållbart värdeskapande (sustainable value creation). The overarching sustainability goals to be achieved by the close of the business plan are:

- Energy production from renewable sources sufficient for its own and its customer's needs calculated in kWh per month.
- A reduction in the company's total energy and water consumption (heating, cooling, electricity and water) by 15 per cent without a negative impact on the environment.

At the end of 2012 the installed output of renewable energy was 96 per cent (46) of the self-sufficiency requirement according to our original goal of 100 MW. Energy consumption was reduced by 14 per cent (11) and water usage by 10 per cent (9). By owning and operating wind turbines and electrical installations, the Group conducts operations that are notifiable and subject to authorization in accordance with the Swedish Environmental Code. The Group holds all licences required for current operations. We are also working on security-enhancing initiatives for our tenants; we contribute toward accommodation for the young and homeless, arrange activities such as school homework and free football training, we support organizations that work with drug problems and social exclusion such as BRIS (Children's Rights in Society), Barn i Nöd (Swedish International Help for Children), the refugee Mission in Gothenburg and other charities.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Wallenstam had an extremely busy 2012. We completed several good transactions and continued to grow our property holding through new construction and conversions. During the year NaturEnergi increased its capacity in part by commissioning wind power projects and also through the acquisition of wind farms already in operation. New projects were begun and others were divested during the year.

A contract was signed with Handelsbanken Capital Markets for a SEK 1 billion commercial papers programme. Participating issuing houses are Handelsbanken Capital Markets and Swedbank Markets. The programme provides the Group with an additional financing alternative.

Nine properties were acquired for SEK 0.6 billion (1.9). The acquisitions included six centrally located properties in Gothenburg, of which five are commercial. Meanwhile, 15 properties were sold for SEK 1,926 million (1,298), all in all at prices above the previous year-end valuation. The disposals included 13 properties in Gothenburg and two in Stockholm. Sales include six commercial properties in Gothenburg to Platzer, one of our biggest ever.

The investment offensive in new construction continues. Around 1,700 apartments have begun thus far under the current business plan. At year end around 700 apartments were under construction, of which 480 in Stockholm and 240 in Gothenburg. Altogether investments in new construction and reconstructions amount to SEK 1,193 million (1,125).

In September we signed an agreement with Oscar Properties in respect of a joint project for the new construction of around 230 housing cooperative homes in central Tyresö with construction estimated to start in the first quarter of 2013. During the year we also signed declarations of intent with the City of Helsingborg for the production of around 100 homes per year during a six-year period, and with the City of Uppsala regarding new construction of around 200 apartments per year for five-years.

Investments in renewable energy continued according to plan, totalling SEK 615 million (414). Around ten installations were commissioned during the year, ten turbines already in operation were acquired and a few projects sold. Following the year's completed transactions and commissionings, Wallenstam had three hydro stations and 47 wind turbines in operation as of December 31, 2012, with a total installed output of 96 megawatts, compared to the 46 megawatts at the beginning of 2012. During the year we reduced the value of some wind turbines acquired during a time when pricing on the electricity market was higher than it is currently. If market conditions improve, these impairments may be reversed. Although the current market situation is tough, it provides us with the opportunity to make acquisitions at good price levels. Immediately after the New Year we became self sufficient in renewable energy for our own and our customers' needs.

In the middle of the year Wallenstam acquired newly shares in Platzer for SEK 150 million to become the fourth largest shareholder with around 9 per cent.

During the year Wallenstam attracted good publicity through awards, among others the Nacka City Building Award, 2012 conferred annually to focus attention on good examples of urban design. We received further praise when our Kungholmsporten new construction project in Stockholm was awarded the Svensk Betong Architecture Prize. We also won an award for the best annual report in the Listed Company of the Year competition arranged by Aktiespararna and Kanton.

GROUP EARNINGS

Profit after tax in 2012 totalled SEK 1,927 million (736), equivalent to earnings per share of SEK 11.3 (4.3). In addition to gains from normal property management operations, earnings were affected in part by changes in the value of properties totalling SEK

1,406 million (907), and partly by a non-recurring receipt of SEK 392 million resulting from a revaluation of deferred tax liability as Swedish corporation tax has been reduced to 22 per cent. Rental income and the operating surplus showed positive trends and property management earnings amounted to SEK 375 million (342). Increased average borrowing entailed somewhat higher interest expenses than the previous year but the increase was limited by this year's lower average interest rate of 3.5 per cent (3.9).

Changes in value in interest related derivative instruments affected earnings by SEK -70 million (-324). Comprehensive income amounted to SEK 1,930 million (742).

RENTAL INCOME

The Group's rental income (net) increased to SEK 1,576 million (1,532), of which SEK 1,082 million (1,022) consisted of rental income from Gothenburg/Helsingborg and SEK 487 million (505) was from Stockholm. All in all rental income was affected by completed negotiations, new rentals, property sales, acquisitions and finished projects. Wallenstam's residential property holding is fully let. This year's rent negotiations resulted in an average rise of 2.79 per cent in Gothenburg, 2.20 per cent in Helsingborg and 2.93 in Stockholm. Rent levels for Wallenstam's commercial premises have risen by around 2 per cent compared to the previous year. We are experiencing stable demand for commercial properties especially in central locations where the majority of our holding is situated. Rent levels are stable and the occupancy rate for commercial properties in respect of floor space amounted to 95 per cent on closing day.

OPERATING EXPENSES AND OPERATING SURPLUS

Operating expenses amounted to SEK 503 million (529). Efficient management, optimized energy consumption and a changed property holding with newer buildings contribute to reduced operating expenses. The operating surplus increased to SEK 1,073 million (1,003), an improvement of 7 per cent over the previous year.

Seasonal effects at Wallenstam consist mainly of variable operating costs, which are usually greatest during quarters one and four when expenses for heating and property maintenance are often higher.

MANAGEMENT COSTS AND ADMINISTRATION EXPENSES

Management and administrative expenses amounted to SEK 237 million (201). This includes costs for Wallenstam's synthetic options scheme. The scheme runs until the end of June 2013 and will involve an estimated total cost of SEK 69 million in the event of a maximum payout. SEK 39 million has been expensed thus far, of which SEK 20 million (3) was charged to the year's earnings.

VALUE TRENDS, PROPERTIES

The transaction volume on the Swedish property market during 2012 amounted to SEK 97 billion according to assessments by Jones Lang LaSalle. This corresponds to a reduction of 7 per cent compared to the same period in 2011.

During the period Wallenstam sold properties totalling SEK 1,926 million (1,298). The sales were concluded at prices that on average exceeded the latest year-end valuation by around 13 per cent (5) taking into account investments for the year. This means that in relation to the amount invested totalling SEK 1,347

million Wallenstam will realize a profit of SEK 579 million, or 43 per cent, in connection with these sales. The divested properties were held for an average of 14 years, corresponding to an annual average value growth of 3.1 per cent. The major part of this growth was reported on an ongoing basis in the consolidated income statement throughout the period of ownership as a component of the item Change in value, investment properties. Value changes in Wallenstam's property holding as of December 31, 2012 amounted to SEK 1,406 million (907), of which realized changes in value amounted to SEK 208 million (58). The year saw an increased interest in commercial properties in the Gothenburg region, whence an increase in values. We noted this especially in our own completed transactions. In addition to demand, the increase in value is also a result of this year's rent negotiations, and from reconstruction and new construction projects that have meant better operating surpluses. Furthermore, the company's deliberate strategy of concentrating attractive buildings in popular locations means long-term value growth.

Estimated market values for new construction projects are charged initially with a risk supplement to the required rate of return of 0.5 percentage points compared to an investment property in the same location. This is done because of the uncertainty that exists in regard to budgeted expenditures e.g. for final production expenses and initial operations in these properties. After a period in operation when actual conditions are known the required rate of return is tested anew.

VALUE TRENDS, INVESTMENT PROPERTIES

SEK million	2012	2011
Change in rate of return value	479	-
Capitalization of change in operating surplus	524	704
Future investment requirements	- 98	-16
Completed projects	293	162
<hr/> Realized changes in value, properties	<hr/> 208	<hr/> 58
Changes in value of investment properties	1,406	907

OTHER INCOME AND EXPENSES

The year's earnings were charged with impairments for some of our wind turbines totalling SEK 100 million. Other revenues were affected positively from gains from wind power projects sold totalling SEK 10 million, and housing cooperative shares for SEK 8 million. In addition there were net revenues and expenses from the sale of electricity of SEK 46 million.

FINANCIAL INCOME AND EXPENSES

Income from financial items amounted to SEK 41 million (37) and financial expenses to SEK 573 million (526), of which SEK 547 are interest expenses. Wallenstam uses interest rate derivatives to achieve a desired interest maturity structure. If the contractual price differs from the market price of derivatives, the difference in value is reported in the income statement. This does not affect Wallenstam's interest expenses but makes their reporting more volatile as the difference to the market value influences reporting on an ongoing basis.

During the second half of the year the market level for long-term interest rates continued to fall which resulted in increased expenses for derivatives without affecting the Group's average

interest. There are advantages to falling interest rates. New financing is taken out at lower interest rates, which boosts property management earnings. Falling rates can also affect the value of properties positively in cases where they also lead to reduced required rates of return. During the year liabilities for our derivatives portfolio increased and charged earnings with SEK 70 million (324). In addition to interest derivatives, earnings were affected by expenses for electricity futures of SEK 2 million. Financial expenses were further charged with an impairment loss in other holdings totalling 22 million (0).

TAXES

Reported tax for the year amounts net to SEK 326 million (-187) of which deferred tax constitutes SEK 327 million (-186) and current tax SEK -1 million (-1). The tax expense for other comprehensive income is SEK -1 million (-2). Tax for the year was affected by a non-recurring receipt of SEK 392 million resulting from a revaluation of deferred tax liability as Swedish corporation tax has been reduced to 22 per cent. Tax for the year was further affected by an adjustment to the previous year's tax totalling SEK 122 million as an earlier provision was reversed following information from the National Tax Board. In cases where sales of properties have taken place through sales of shares in subsidiaries, provisions for tax liabilities for the properties sold were also reversed. In the case of this year's property divestments via subsidiaries, previous provisions of SEK 186 million for tax liabilities were reversed. These non-recurring items affect taxes positively by SEK 700 million, from which is deducted income tax expenses including capital gains taxes totalling SEK 374 million, giving a positive net effect of SEK 326 million.

In addition to income tax expenses, the Group is also affected by other tax expenses where the Group's biggest tax expenditures consist primarily of VAT expenses – for which we have a limited right of deduction as a property company – and property tax, stamp duty and personnel-related taxes and charges. In 2012, Wallenstam's expenses for these taxes amounted to around SEK 400 million. Expenses for these other taxes are reported among operating expenses under property management earnings and investments in building operations.

On January 8, 2013, the Administrative Court of Appeal ruled in favour of Wallenstam in a tax dispute. For further information, refer to the section entitled Tax matter.

WALLENSTAM'S BUSINESS SEGMENTS

Wallenstam purchases, builds, develops and sells properties that are sustainable in business and human terms in selected regions. We also produce and supply renewable energy through Wallenstam NaturEnergi. Operations are conducted in three business areas, Gothenburg/Helsingborg, Stockholm and Wallenstam NaturEnergi.

Gothenburg/Helsingborg and Stockholm

All of the cities in which Wallenstam is present are characterized by extensive demand for rental properties and low rates of construction. Only a small proportion of apartments become vacant as a result of relocations. Our property holding in Gothenburg consists of just over 3,000 apartments and around 1,000 commercial customers who rent of-

office space and retail stores mostly in inner city locations. The residential property holding in Helsingborg totalling around 700 apartments is centrally located. Wallenstam manages just over 5,700 apartments in Stockholm and the major part of our new construction is currently in this area.

NaturEnergi

Operations within Wallenstam NaturEnergi consist of both the generation and trade in renewable energy. The objective, which is to produce sufficient energy from renewable sources by year end 2013 to meet our own and our customer's needs calculated in kWh per month, was achieved immediately following the 2013 New Year. At the end of December the installed output was 96 MW. During 2012 180.1 GWh (116) were generated. Electricity is sold to Wallenstam tenants and external customers at either fixed or variable prices. To protect our income against fluctuations in the spot price we are able to hedge the electricity price on the financial market through various financial instruments and electricity derivatives with varying maturities.

THE GROUP'S FINANCIAL POSITION

Properties

The estimated market value of properties amounted to SEK 27,680 million (26,296); refer to notes 13 and 17. Wallenstam's properties are valued quarterly by an internal valuation team and their evaluation is approved by the Board of Directors. In evaluating the properties the following is taken into consideration:

- An analysis of concluded and unconcluded property transactions.
- An evaluation of the required rates of return in each market.
- An evaluation of each property's specific circumstances regarding e.g. condition and location.
- An analysis of rental levels, contract lengths, and vacancy and rental trends.
- An analysis of existing tenants.
- Credit market conditions.

During the period we invested SEK 1,810 million (3,033) in properties, of which acquisitions amounted to SEK 617 million (1,908), while new construction and conversions totalled SEK 1,193 million (1,125). By December 31, 2012 we had started new construction of almost 1,700 apartments under the current business plan. Current major new construction and conversion projects are Ture No 8, Segelflyget and Tuletorget in Stockholm and Gräset, Knölnaten and Lilla Drottningen in Gothenburg.

NaturEnergi

We have invested SEK 615 million (414) in wind and hydroelectric power during 2012. Net investments for finished turbines and new turbines under construction after depreciations and impairment charges amounted at year end to SEK 1,906 million (1,548). Projects in progress at year end were Gunnarby near Uddevalla, which is expected to come on stream during the first half of the year. When preparing the annual accounts an impairment totalling SEK 100 million was made against the value of four of our wind farms. These were acquired when purchase prices were significantly higher due to a higher EUR exchange rate at the same time as pricing on the electricity market was significantly more favourable than at present. If market conditions change, these im-

pairments may be reversed.

EQUITY AND NET ASSET VALUE

Shareholders' equity amounted to SEK 11,893 million (10,295), equivalent to SEK 70 per share (60). The equity/assets ratio stands at 38 per cent (36). Shareholders' equity was influenced by comprehensive income for the year, dividends and buy-backs. Net asset value, which describes the Group's total value, includes equity and deferred tax liability, is estimated at SEK 88 per share (80). Adjustments to equity with additions for a deferred tax liability are made to better reflect the net asset value as the effective tax rate is significantly lower than the nominal rate. The deferred tax liability refers mainly to differences between reported values and fiscal residual values in Group properties. The government's decision on a reduction of corporation tax to 22 per cent has affected Wallenstam's net asset value negatively by SEK 1.00 per share since it is only a revaluation of deferred tax assets that has any effect on net asset value.

SEK/share	2012	2011
Equity	70	60
Deferred tax liability	18	20
Net asset value per share	88	80

NET INDEBTEDNESS

The Group reports a net tax liability of SEK 2,006 million (2,327). It consists in part of a deferred tax asset of SEK 1,131 million (1,086) and a deferred tax liability of SEK 3,137 million (3,413). The deferred tax asset refers primarily to the value of loss carry-forwards in Group companies. The deferred tax liability consists mainly of differences between carrying amounts and fiscal residual values in Group properties.

LIABILITIES TO CREDIT INSTITUTIONS

Wallenstam's loan portfolio increased to SEK 16,042 million (15,293). The loans are secured against traditional mortgage deeds in properties and wind turbines. The loan-to-value ratio is 52 per cent (53). The loan portfolio has increased due to property acquisitions, new construction and reconstruction projects and investments in wind turbines; 46 per cent (50) of the loans have fixed-interest terms longer than one year. The average remaining fixed-interest term is 34 months (33). As of closing day, average interest amounted to 3.51 per cent (3.92). Of interest bearing liabilities, loans with long capital tied up terms are calculated to be in the region of 9 per cent (25) of the total portfolio.

AVAILABLE LIQUID ASSETS

Available liquidity, including unutilized bank overdraft facilities, amounted to SEK 594 million (435) on closing day.

OPPORTUNITIES AND RISKS

Wallenstam has defined risks and uncertainty factors in the following areas: operations, the surrounding world and financing. In accordance with IFRS, management makes assumptions, estimations and assessments that affect the content of financial statements. Actual outcomes may differ from these estimations and assessments if other assumptions are made, which is also made clear in accounting principles.

Operations

Operational risks are those related to our core activities, business development and property management. When we build new housing we do so in good locations where demand is high and which provide good rates of return and excellent value growth. Cash flow is strong, which combined with properties in prime locations, a high occupancy rate, excellent tenants and a good rental agreement structure in the commercial holding means the risk of major future vacancies is considered to be low. Residential rental income is comparatively secure and predictable. Our production of wind power is weather dependent. In the case of electricity trading, supply and demand are the most important as they determine price. Demand is affected chiefly by market conditions, weather and temperature trends. We follow-up expenses pro-actively and do not envisage any risk of major declines in cash flow.

Surrounding world

External risks are chiefly those that lie outside our scope of operations such as changing market conditions. Property values are affected by our own property management activities and general market conditions. Small changes in the required rate of return can result in major changes in value. Wallenstam operates in three areas where there are significant housing shortages. Commercial properties are located chiefly in central Gothenburg. A change of +/-0.25 percentage points in required rates of return is equivalent to approximately SEK 8.00 per share. Properties sold during 2012 resulted in sales prices that on average exceeded the previous year-end valuations with regard to that year's investments by around 13 per cent (5). As of December 31, 2012, the estimated market value amounted to SEK 27.7 billion. A change in value of plus/minus 10 per cent is equivalent to a change in value of around SEK 2.7 billion and a change in net asset value of around SEK 16.00 per share. The structure of the property holding, attractive locations and a high occupancy rate add up to a low overall risk profile. External risks in the NaturEnergi business area are primarily connected with political decisions and general business cycle conditions including the supply and demand for electricity.

Financing

Financial risks refer to an inability to satisfy demand for the necessary amount of capital, which is an essential operational resource. Financial risks are limited through our finance policy which controls the company's actions on the credit market, loan portfolio structure and distribution between the number of lenders. We work chiefly with conventional loans and mortgages secured against property. The financing of wind farms is secured through the transfer of leases and the pledging of shares in wind-power companies and their assets.

Tax matter

In its ruling from January 8, 2012, the Administrative Court of Appeal decided in Wallenstam's favour regarding the revaluation of a company in the Wallenstam Group as a result of sales of subsidiaries during 2006-2007. The revaluation would have amounted to SEK 1,436 million and entailed a tax demand for SEK 402 million, but this was rejected in the appeal court ruling. The ruling will have no impact on the company's reported earnings and position.

WORK OF THE BOARD OF DIRECTORS DURING THE YEAR

Wallenstam's Board of Directors has five members. During 2012 the Board held five minuted meetings in addition to day-to-day contacts. The Board's most important duty is to take decisions on strategic issues. In general the Board handles issues of significant importance for the Group. The main issues during the year were property transactions, and investments in new construction and renewable energy. During the year an evaluation of the Board of Directors' work deemed that the Board of Directors performs its duties extremely well.

GUIDELINES FOR DETERMINING SALARIES FOR SENIOR EXECUTIVES

The Board of Directors of Wallenstam AB (publ) proposes that the following guidelines for determining salaries and other remunerations to senior management in the company will apply to agreements entered into during the period between the 2013 AGM and the conclusion of the 2014 AGM. The guidelines include the Managing Director and other individuals in the in Wallenstam AB.

- **Fixed salary** – Senior executives must be offered fixed salaries on prevailing market terms and which are based on the employee's area of responsibility and performance.
- **Pension benefits** – Senior management must be offered pensions on prevailing market terms chiefly in the form of defined contribution pension agreements.
- **Non-monetary benefits** – Senior executives must be offered customary non-monetary benefits such as cars, mobile telephones and company health care, to facilitate the performance of their work. Additionally, benefits in the form of accommodation may also be offered in individual cases.
- **Variable remuneration** – In addition to fixed salaries, variable remunerations that reward goal-oriented performance may also be offered. Variable remunerations must seek to promote the long-term creation of value within the Group. Such variable remuneration must be paid in the form of salary and may not exceed the fixed remuneration for the position concerned for the period to which the remuneration pertains. Payments in respect of the above incentive programme are not be pensionable.
- **Share-related remuneration** – Senior executives may be offered incentives in the form of so-called synthetic options if such an offer is available to all personnel employed indefinitely in the company.
- **Period of notice and severance pay** – A reciprocal period of notice of six months will apply to senior executives. Severance pay, including salary during the period of notice, should not exceed 24 monthly salary payments.

The Board retains the right to deviate from the guidelines if there are particular reasons for this in individual cases.

PARENT COMPANY

The parent company's primary operations are the performance of Group-wide services, in addition to which the parent company owns a small number of properties. Total sales for the year amounted to SEK 348 million (331), of which rental income constituted SEK 76 million (77). During the year, long-term market interest rates in particular fell, which affected the value of interest derivatives negatively. In total, earnings were affected by value changes of SEK -70 million (-422) in financial interest rate de-

relative instruments. Earnings after tax amounted to SEK 3,054 million (-416), as did comprehensive income. Earnings for the period include dividends from subsidiaries of SEK 3,150 million (83). Investments in fixed assets during the period amounted to SEK 15 million (23). Parent company external loans amounted to SEK 5,876 million (7,117) on closing day. A total of 183 individuals (194) were employed by the parent company as of December 31, 2012

TRANSACTIONS WITH RELATED PARTIES

Wallenstam's related parties consist chiefly of Group companies. Board members, company management and families and the companies they control are also related parties. Wallenstam's transactions with related parties consist chiefly of administrative fees and the rent of premises from Group companies. Companies related to Wallenstam Board members rent premises on prevailing market terms. All in all these do not amount to significant sums for Wallenstam or its counterparties. A related-party transaction took place when Wallenstam sold a detached house in Gothenburg to the Deputy MD in charge of the Gothenburg/Helsingborg regions and member of company management, at market price.

At the end of the year a construction contract was signed in which a member of Wallenstam's Board is an indirect owner and where a related party is a board member. The contract was agreed on prevailing market terms.

THE WALLENSTAM SHARE

The Wallenstam B share is quoted on the Nasdaq OMX Stockholm, Large Cap. An increase in share capital through a bonus issue was approved at the Wallenstam AGM on April 25, 2012. Wallenstam's share capital increased by SEK 57.3 million through the transfer of retained earnings. In accordance with an AGM resolution the bonus issue will take place without the issue of new shares, and the number of registered shares totalled 172,000,000.

During 2012 the Wallenstam share price increased by 23.5 per cent. The OMX Stockholm Real Estate and OMX Stockholm PI property indices grew by 13 per cent and 12 per cent respectively during the same period. At the end of the period the Wallenstam share price was SEK 79.35 (63.50) and the market value was SEK 13,648 million (10,922) calculated by the number of registered shares. The net asset value per share increased to SEK 88 (80), and equity per share to SEK 70 (60). The share's highest price during the year was SEK 79.75 and its lowest SEK 60.25. A total of 24.9 million (35.6) Wallenstam shares changed hands at a total value of SEK 1,715 million (2,826). Average daily turnover totalled around 99,800 share (141,000).

Wallenstam has a mandate from the AGM to buy back shares. During 2012, 1,800,000 shares were repurchased at an average price of SEK 69.83. The company holds 2,000,000 treasury shares.

EVENTS AFTER THE END OF THE REPORTING PERIOD

In the beginning of 2013 the Administrative Court of Appeal ruled in Wallenstam's favour in the Guldmyran case.

On January 25 the ground was formally broken for the first time for two new properties at Tuletorget in Sundbyberg. Sales of the 180 apartments in the two sixteen-storey buildings are

planned to start in the summer of 2014 for possession in the last quarter of the same year.

Immediately after the New Year we also became self sufficient in renewable energy for our own and our customers' needs. Following an acquisition in the beginning of the year Wallenstam now has a combined total of 52 wind turbines and hydro stations in operation with an installed output of 100 MW. This means the installations produce the same amount of energy each month as the company's own buildings and customers consume.

We are also collaborating with Nacka municipality regarding Älta and have signed a declaration of intent and a programme agreement for future development rights based on a shared vision.

THE FUTURE

Wallenstam's financial goal is to achieve a net asset value per share of SEK 100 by year-end 2013. An ambitious new housing construction programme, an efficient construction process and well-chosen locations all contribute to good value growth. We will continue our aggressive tempo during 2013 and plan to invest the equivalent of SEK 2 billion, of which around half is for new construction. We plan to start construction of around 1,300 apartments in addition to reconstructions and renovations in the existing property holding. The chosen strategy of an attractive property holding concentrated in Stockholm, Gothenburg and Helsingborg provides a stable foundation for future growth.

DIVIDEND POLICY

Reported earnings must in the first instance be re-invested in operations to enable continued development of the Group's core business and thus create increased growth in value. The ambition is also for operations to provide a stable level of dividends over the long term. However, the distributable amount may never exceed realized profit after tax. When determining the size of the dividend, consideration must also be given to the Group's investment requirements, its position in general and the ability of the Group to develop while maintaining its financial strength and freedom of action.

The Board of Directors will propose that the Annual General Meeting approve the following:

PROPOSED ALLOCATION OF PROFIT

The following earnings are at the disposal of the Annual General Meeting:

Profit brought forward	2,111,833,699
Profit for the year	3,053,605,424
SEK	5,165,439,123
Shareholder dividend SEK 1.25 per share	212,500,000
To be carried forward	4,952,939,123
SEK	5,165,439,123

The Board of Directors proposes that a dividend of SEK 1.25 per share be distributed. The number of shares with dividend rights may be lower by the time of the AGM due to an increase in the company's holding of repurchased shares.

STATEMENT BY THE BOARD OF DIRECTORS ON THE PROPOSED DIVIDEND

Group equity has been calculated in accordance with the IFRS standards adopted by the EU and their interpretation (IFRIC), and in accordance with Swedish legislation through the implementation of Swedish Financial Accounting Standards Council recommendation RFR 1. Parent company equity has been calculated in accordance with Swedish legislation and the implementation of Swedish Financial Accounting Standards Council recommendation RFR 2.

The proposed dividend is in line with the dividend policy established by the Board in that the distributed amount does not exceed realized profit after tax. When determining the size of the dividend, the Board also considered the Group's investment requirements, its equity/assets ratio, its position in general and the ability of the Group to develop while maintaining its financial strength and freedom of action.

The proposed dividend to shareholders reduces the company's equity/assets ratio from 30 per cent to 29 per cent. The Group's equity/assets ratio is not affected by the proposed dividend and remains unchanged at 38 per cent. The equity/assets ratio is adequate considering that the company's and the Group's operations continue to be run profitably. Liquidity in the company and Group are considered sustainable at a similarly adequate level.

Derivative instruments and other financial instruments were appraised at fair value according to Chapter 4, Section 14a of the Swedish Annual Accounts Act (1995:1554). In doing so a deficit value of SEK 390 million after tax became evident, and which has affected equity by the same amount.

It is the view of the Board that the proposed dividend will not prevent the company and other Group companies from fulfilling their obligations in both the short and long terms or from carrying out necessary investments. The proposed dividend can thus be justified in respect of the provisions of the Companies Act (2005:551), Chapter 17, section 3, paragraphs 2–3 (the prudence rule).

For additional information on the profits and financial position of the Company and the Group on the closing day as well as financing and capital utilization during the year, refer to the following income statement, balance sheet, statements of cash flow and associated notes. All amounts are in SEK million unless otherwise indicated.

CONSOLIDATED INCOME STATEMENT

SEK million	Note	2012	2011
Rental income	6	1,576	1,532
Operating expenses	7	-503	-529
Management costs and administration expenses	7, 8, 11	-237	-201
Other operating income	12	331	161
Other operating expenses	12	-368	-134
Change in value of investment properties	13	1,406	907
Operating profit		2,205	1,736
Financial income	14	41	37
Financial expenses	14	-573	-526
Change in value of derivative instruments	14	-72	-324
Net financial items		-604	-813
Profit before tax	4	1,601	923
Current tax	15	-1	-1
Deferred tax	15	327	-186
Profit for the year		1,927	736
Other comprehensive income			
Change in value of derivative instruments reported as cash flow hedges		2	3
Translation difference		2	5
Tax attributable to other comprehensive income	15	-1	-2
Comprehensive income		1,930	742
Distribution of earnings for the year			
Attributable to minority interest		0	0
Attributable to holders of parent company shares		1,927	736
Per share data			
Profit after tax, SEK, (no dilution effects exist)		11.3	4.3
Dividend, SEK (proposed 2012)		1.25	1.20
Average number of outstanding shares at year end, thousand.		171,084	171,908

CONSOLIDATED BALANCE SHEET

SEK million	Note	31/12/12	31/12/11
ASSETS			
FIXED ASSETS			
Intangible assets			
Activated expenses, computer software	16	8	9
Total intangible assets		8	9
Property, plant and equipment			
Investment properties	17	27,680	26,296
Wind power and hydroelectric plants	18	1,906	1,548
Equipment	19	43	46
Total Property, plant and equipment		29,629	27,891
Financial fixed assets			
Other non-current holdings of securities	20	402	249
Non-current receivables	20	398	354
Financial derivative instruments	3	2	3
Total financial assets		802	606
Total assets		30,439	28,505
CURRENT ASSETS			
Current intangible assets	21	49	23
Trade receivables	22	17	18
Other receivables	23	231	220
Prepaid expenses and accrued income	24	95	62
Financial derivative instruments	3	0	1
Participations	25	188	52
Cash and bank balances	26	194	86
Total current assets		774	461
TOTAL ASSETS		31,213	28,967
EQUITY AND LIABILITIES			
EQUITY			
	27		
Share capital		172	115
Other capital contributed		357	357
Other reserves		-3	-6
Profit brought forward		11,364	9,829
Total equity		11,893	10,295
NON-CURRENT LIABILITIES			
Provisions for deferred tax	28	2,006	2,327
Other provisions	29	28	18
Liabilities to credit institutions	2, 3	1,490	3,766
Financial derivative instruments	3	492	421
Other liabilities		63	57
Total non-current liabilities		4,079	6,589
CURRENT LIABILITIES			
Liabilities to credit institutions	2, 3	14,552	11,527
Financial derivative instruments	3	9	16
Accounts payable	3	182	144
Other liabilities	3	180	42
Accrued expenses and prepaid income	30	318	354
Total current liabilities		15,241	12,083
TOTAL EQUITY AND LIABILITIES		31,213	28,967
PLEDGED ASSETS	31	16,986	16,723
CONTINGENT LIABILITIES	32	6	4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK million	Note 27	— Attributable to the parent company's shareholders —					Total equity
		Share-equity	Other capital contributed	Other reserves	Profit brought forward	Minority interests	
OPENING EQUITY 01/01/2011		118	357	-12	9,319	0	9,782
Profit for the year		-	-	-	736	-	736
Other comprehensive income							
Change in value of cash flow hedges, financial instruments		-	-	3	-	-	3
Translation difference		-	-	5	-	-	5
Tax attributable to other comprehensive income		-	-	-2	-	-	-2
Transactions with shareholders							
Dividends to shareholders		-	-	-	-200	-	-200
Reduction of share capital		-3	-	-	3	-	-
Repurchase/sale of own shares (incl. expenses)		-	-	-	-29	-	-29
Closing equity 31/12/2011		115	357	-6	9,829	0	10,295
OPENING EQUITY 01/01/2012		115	357	-6	9,829	0	10,295
Profit for the year		-	-	-	1,927	-	1,927
Other comprehensive income							
Translation difference		-	-	2	-	-	2
Change in value of cash flow hedges, financial instruments		-	-	2	-	-	2
Tax attributable to other comprehensive income		-	-	-1	-	-	-1
Transactions with shareholders							
Dividends to shareholders		-	-	-	-206	-	-206
Displacement of equity		-	-	-	-3	3	-
Increase in equity (bonus issue)		57	-	-	-57	-	-
Repurchase/sale of own shares (incl. expenses)		-	-	-	-126	-	-126
Closing equity 31/12/2012		172	357	-3	11,364	3	11,893

CLASSIFICATION OF EQUITY

Share capital

The item Share capital includes the registered share capital for the parent company. Share capital consists of 17,250,000 A shares (quota value SEK 1.00) and 154,750,000 B shares (quota value SEK 1.00)

Other capital contributed

Other capital contributed includes the total amount from the transactions Wallenstam AB has had with the shareholder circle. The transactions that took place were issues at a premium. The amount included in other capital contributed therefore corresponds wholly to capital received above the nominal amount of the issue.

Other reserves

Other reserves consist in their entirety of changes in the value of financial derivative instruments reported as hedges and translation differences.

Profit brought forward

Profit brought forward is equivalent to the total accumulated profits and losses generated in the Group, less dividends paid and repurchased shares.

Capital management

Group equity amounted to SEK 11,893 million (10,295) at year end. Return on equity totalled 18 per cent (7). The Group's financial strategy is based on the creation of satisfactory financial conditions for operations and development. At the end of 2012 the equity/assets ratio was 38 per cent (36).

Wallenstam's basic principle prescribes that reported profit in the first instance be re-invested in the company for continued development of the property holding and increased growth in value. However, the distributable amount must never exceed realized profit after the standard tax rate. The Board of Directors proposes a dividend of SEK 1.25 per share (1.20) for 2012. Calculated on 170,000,000 outstanding shares the proposed dividend amounts to approximately SEK 212 million. Wallenstam is implementing share repurchasing as a means to modify the company's capital structure. No changes to the Group's principles for capital management took place during the year.

CONSOLIDATED STATEMENT OF CASH FLOW

SEK million	Note	2012	2011
Cash flow from operating activities	33		
Operating profit		2,205	1,736
Change in value of investment properties		-1,406	-885
Earnings from the sale of wind farm projects and HA shares		-18	-22
Other non-cash flow influencing items		162	42
Interest payments and interest subsidies received		50	34
Interest paid		-561	-514
Taxes paid		-1	-2
Cash flow before change in working capital		431	388
Change in working capital			
Current receivables		-308	-37
Current liabilities		153	-39
Change in working capital		-155	-76
Cash flow from operating activities		276	312
Cash flow from investing activities			
Acquisition of properties		-517	-1,908
Investments, buildings		-1,193	-1,125
Acquisition of fixtures and fittings, wind turbines and intangible assets		-565	-423
Divestments of properties, plant and equipment		1,803	1,294
Cash flow from investing activities		-472	-2,162
Cash flow from financing activities			
Non-current liabilities raised		1,884	2,726
Amortization, non-current liabilities		-1,111	-874
Dividend paid		-206	-200
Repurchase of own shares		-126	-29
Investment financial fixed assets		-167	-578
Amortization of financial assets		30	242
Cash flow from financing activities		304	1,286
Changes to liquid assets		108	-563
Liquid assets at beginning of year		86	649
Cash flow for the year		108	-563
Liquid assets at year end		194	86
Unutilized credit at year end		400	349
Available liquid assets		594	435

ACCOUNTING PRINCIPLES AND NOTES, CONSOLIDATED ACCOUNTS

NOTE 1. Accounting principles

GENERAL INFORMATION

Wallenstam AB (publ) is a Swedish public limited company with its registered office in Gothenburg. The Wallenstam share is listed on the NASDAQ OMX Stockholm, Large Cap. The parent company is Wallenstam AB (publ), company registration number 556072-1523. The company's address is SE 401 84 Gothenburg, and its street address Kungssportsavenyen 2. Group operations are run through subsidiaries. Operations are described in the administration report.

The consolidated annual reports for Wallenstam AB (publ) for the financial year ending December 31, 2012 were approved by the Board of Directors and the Managing Director on February 20, 2013. The reports will be presented to the Annual General Meeting (AGM) on April 24, 2013 for adoption.

The consolidated financial statements have been prepared in accordance with EU-approved International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations valid on December 31, 2012. In addition the Group applies Swedish Financial Reporting Board recommendation RFR 1, Supplementary rules for consolidated financial statements.

The parent company applies the same accounting principles as the Group with the exceptions and additions described in the Swedish Financial Reporting Board's recommendation RFR 2 Reporting for legal entities. This means that IFRS is applied with the exceptions described below in the section entitled Accounting principles and notes, parent company accounts, on page 85.

The most important accounting principles applied by the Group are described below along with a summary regarding future accounting principles that are considered to have an effect on the accounts.

Basis for preparing the consolidated financial statements

The accounting principles described below for the Group have been applied consistently throughout the periods presented in the consolidated financial statements. The accounting principles for the Group have been applied to the reports and consolidated reports of the parent company and all subsidiaries.

The functional currency used by the parent company and as the Group's accounting currency is the Swedish krona (SEK). All amounts are in millions of Swedish crowns (SEK million) unless otherwise indicated.

The consolidated financial statements have been prepared based on historical cost, which means that assets and liabilities are reported at these values with the exception of properties and certain financial instruments and renewable energy certificates, which are measured at fair value.

Estimations made by company management when applying IFRS that can have a significant impact on the financial statements and estimations that can entail significant adjustments to the following year's financial statements are described in more detail below.

Changed accounting principles

No new or changed IFRSs for application from January 1, 2012 have had any significant impact on the consolidated financial statements. For information on new standards, refer to the final paragraph of accounting principles.

ESTIMATIONS AND ASSESSMENTS

In order to prepare the report in accordance with IFRS and good accounting practice, company management must make various assumptions, estimations and assessments about the future. These estimations affect the consolidated financial statements as regards reported assets, liabilities, revenues and expenses, contingent assets, contingent liabilities and other information. These estimations and assessments are based on historical experience and expectations about future events that are considered reasonable under the prevailing circumstances. By their very nature, actual outcomes may differ from these estimations and assessments if other assumptions are made or other conditions exist or arise. Changes in estimations are recognized during the period in which they are made if they affect only that period, or in the period in which they are made and future periods when the changes affect both current and future periods.

Investment properties

Estimations may have a significant impact on the Group's earnings and position, especially within the field of investment property valuation. Estimations

made affect the carrying amount of the item Investment properties in the balance sheet, and the item Changes in value, investment properties reported in the income statement.

Valuations of investment properties require assessments and assumptions about future cash flows and the determination of required rates of return for each individual property. These are forecasts and actual outcomes may differ from assessments made. Wallenstam carries out quarterly valuations of its entire property holding. In order to reflect the uncertainty of assumptions, estimations and assessments made, a so-called valuation range of plus/minus 5 to 10 per cent is specified. Information on uncertainties for significant assumptions and estimations made in the internal valuation are shown in note 17.

Asset acquisition versus business combination

Acquisitions may either be classified as business combinations or asset acquisitions according to IFRS 3. It is an assessment that must be made in each individual case. In cases where the primary purpose is to acquire a company's real estate and where a property management organization and administration is lacking in said company, or is of minor importance to the acquisition, the acquisition is classified as an asset acquisition. Other company acquisitions are classified as business combinations and usually include therefore an independent operation. All transactions for the year were assessed as being asset acquisitions.

Thus no deferred tax attributable to surplus value of the property is reported for asset acquisitions so identified when preparing the acquisition analysis. Instead, any tax reduction reduces the property's reported fair value. This means that even in subsequent valuations and accounts the fair value of the investment property will be reduced by the deferred tax calculated at the time of acquisition. In the case of business combinations, the acquisition of a subsidiary according to the purchase method and deferred tax are reported at the nominal applicable tax rate without discount.

Wind power and hydroelectric plants

Property, plant and equipment are depreciated over the period during which they will generate revenues, i.e. their useful life. If there is an indication that an asset has fallen in value the asset's recoverable value is calculated, which is the higher of the asset's fair value less selling expenses and its value in use. An impairment loss is reported when the asset's recoverable value is lower than its carrying amount. Recoverable value is determined based on management estimates of e.g. future cash flow. When assessing value in use the basis is the starting point of expected future production, which is dependent above all on the weather. In addition, anticipated price levels and demand levels are estimated, both in respect of electricity and renewable energy certificates. Because all trade in electricity also takes place in EUR, an estimation of its anticipated exchange rate trend is included. The useful life of a wind turbine is estimated to be around 25 years, which forms the basis for the investment calculation.

Assumptions made in regard to testing impairment losses including the associated sensitivity analysis are described in note 18.

Deferred tax

Deferred tax is calculated at nominal amounts according to the balance sheet method, i.e. based on the temporary differences that occur between the reported and taxable values of assets and liabilities. The amounts are calculated based on how the temporary differences are expected to be realized and by applying tax rates and regulations adopted or announced by the closing date. Based on the 22 per cent tax rate that will apply from January 1, 2013, the Group's deferred tax assets and deferred tax liabilities were revalued as of December 31, 2012. The actual tax liability is significantly lower due in part to an ability to sell properties in a tax-efficient manner in the form of companies, and in part due to the time factor.

When valuing loss carryforwards an assessment is made of the probability of the loss's being used in the future. Confirmed losses that can be used against future gains with a high degree of security form the basis for calculating deferred tax assets. Wallenstam is of the opinion, considering current tax regulations, that all loss carryforwards can be used against future gains.

NOTE 1. Accounting principles, cont.

Current tax matters

In its ruling from January 8, 2013, the Administrative Court of Appeal decided in Wallenstam's favour regarding the revaluation of a company in the Wallenstam Group as a result of sales of subsidiaries during 2006-2007. For a further description of this tax matter, refer to page 56 in the administration report.

Other items

Other items that include critical estimations are e.g. assessments made in connection with the realization of investment properties, where primarily rent guarantees and promissory notes are to be considered as significant. In the case of rent guarantees an assessment is made of the probability of disbursements and possible investment expenses for the preparation of areas for letting during the remaining guarantee period. In the case of promissory notes an assessment is made of the amount that is expected to flow in.

CONSOLIDATED ACCOUNTS

The consolidated financial statements cover the parent company and all companies in which the parent company directly or indirectly has more than 50 per cent of the voting rights or a controlling influence through other means. A controlling influence involves the right to determine a subsidiary's financial and operational strategies with the purpose of obtaining economic benefits. Consolidated financial statements are prepared according to the purchase method, which means that equity in the subsidiary at the time of acquisition is eliminated in its entirety. Consolidated equity includes only the portion of a subsidiary's equity earned since the acquisition. Profit/loss from companies acquired or disposed of during the year are included in the consolidated financial statements at amounts corresponding to the period of possession. An acquisition analysis is prepared in connection with the acquisition to determine the cost of the participations and the fair value of acquired assets and assumed liabilities and contingent liabilities.

Internal profits from internal transactions between Group companies and intercompany transactions are eliminated when preparing the consolidated financial statements.

When preparing the consolidated financial statements, balance sheets from the Group's foreign operations are translated to the Group's functional currency according to the current rate method, which means translation takes place at the closing date foreign exchange rate. Revenue and expense items are translated at the average exchange rate for the period. Translation differences that occur are reported under other comprehensive income and the accumulated translation difference is included in Group equity among other reserves. The accumulated translation difference is transferred and reported as a component of capital gains or losses when a foreign subsidiary is divested.

The proportion of equity attributable to owners with holdings without a controlling influence is reported as a special item within equity separate from the parent company's owners' equity. In addition special disclosure is made regarding its share of profit/loss for the period.

Participations in subsidiaries

A company is reported as an associated company when Wallenstam holds at least 20 per cent of the votes and max 50 per cent, or a controlling influence over operational and financial governance through other means. Associated companies are reported in the consolidated financial statements according to the equity method. Participations in associated companies are reported in the balance sheet at cost adjusted for changes in the Group's share of the associated companies' net assets, less any reductions in fair value. In the case of transactions between Group companies and associated companies, the proportion of the unrealized gains and losses corresponding to the Group's participation is eliminated.

Transactions in foreign currencies

The consolidated accounts have been prepared in SEK, which is the parent company's and Group's working and reporting currency. Financial assets and liabilities in foreign currency are translated to the closing day exchange rate, at which time realized and unrealized exchange rate differences are taken up as income. Currency profits/losses related to operations are reported under other operating income and expenses respectively. Financial currency profits/losses are reported as financial income and expenses.

Segment reporting

Operational segments are reported in a manner that corresponds to the internal reporting to the highest executive decision maker, Wallenstam's MD. Operations are run and followed-up in the Group's three reporting segments,

i.e. business areas; properties in the Gothenburg/Helsingborg region, properties in the Stockholm region and renewable energy through Wallenstam NaturEnergi.

Reporting principles applicable in segment reporting, note 5, corresponds in all material respects to accounting principles, consolidated accounts, and classification and presentation of the income statement in accordance with note 4.

Statement of cash flows

The statement of cash flows shows changes in cash and cash equivalents and the Group's disposable liquidity for the period. The statement of cash flows is prepared according to the indirect method, which involves adjustment of the operating profit/loss for transactions that do not entail cash receipts or disbursements during the period broken down into the different operational segments –

- Day-to-day operations: Revenues and expenses included in operating profit/loss, interest received and paid, tax paid and change in working capital,
- Investment activities: Acquisition of assets and other types of investments.
- Financing activities: Loans raised and amortized, dividends paid, the repurchase of shares and any new share issues.

Transactions with related parties

Companies related to Wallenstam are the parent company or subsidiaries where Wallenstam has a controlling or significant influence and thus is able to take operational decisions. Other related parties are board members, the Group management and families and companies related to them. In the case of the parent company, transactions with subsidiaries are primarily internal Group services. Transactions with other related parties consist where applicable of rental agreements and remunerations to employees in the form of salaries and pensions. Transactions with related parties take place at prevailing market prices and normal commercial terms and conditions. Regarding the company's transactions with related parties refer to note 8 regarding remuneration for senior executives and to note 10 for other related party transactions.

Classification

Non-current assets and non-current liabilities consist of amounts that are anticipated to be recovered or paid more than twelve months from the closing date. Current assets and liabilities consist of amounts that are anticipated to be recovered or paid within twelve months of the closing date.

INCOME

Income is measured at the fair value of what was received or will be received. The Group reports revenue when the amount can be measured in a reliable manner and it is probable that future economic benefits will flow to the Group.

Rental income

Rental agreements attributable to Wallenstam's investment properties are considered operational leases according to IAS 17. Income includes the fair value of what will be received in the Group's day-to-day operations. Reported incomes refer mainly to rental income and in applicable cases services provided by Wallenstam such as cable TV, electricity and heating are included. The income is reported net of VAT and with deductions for any rebates. Rent paid in advance is reported as prepaid rental income.

Rental income is allocated in accordance with rental agreements and is recognized as income during the rental period concerned. In cases where rental agreements allow reduced rents for a given period balanced by higher rent at another time the latter is allocated in accordance with the agreed arrangement. Rebates provided in the case of infringements on rights of use e.g. during reconstructions and/or in connection with taking possession, are reported in the period they concern. Compensation in connection with the premature cancellation of rental agreements is recognized as income if no obligations toward the tenant remain.

Change in value of investment properties

Investment property is appraised on a continuous basis in accordance with IAS 40 at an estimated fair value, i.e. the price at which a property could be

NOTE 1. Accounting principles, cont.

sold in a transaction between knowledgeable, independent parties each of whom has an interest in the transaction's completion.

Wallenstam's Investment properties are valued in connection with every interim report. Realized and unrealised changes in value are both reported in the income statement.

Realized changes in value refer to changes in value of properties sold during the period while unrealised changes in value refer to other changes in value.

Profit/loss from property sales is reported when the risks and benefits associated with ownership are transferred to the buyer. This takes place on the day of surrendering possession provided that it does not contradict specific conditions in the contract of sale. This also applies to the sale of properties via companies. In the case of property sales via companies, the transaction is reported as gross income in respect of the property price and deferred tax.

Gains/losses from the sale of property is reported as a realized change in value, which consists of the difference between the contracted selling price (less selling expenses and investments incurred up until the day of surrendering possession) and the estimated market value reported at the latest year-end. This means that in connection with a sale it is reported under the previous year's unrealised change in value as realized.

Other operating income

Income from activities outside the Group's principal property operations is reported under Other income. Other operating income is recognized at the time of delivery. Such income comprises chiefly income from the sale of shares in housing cooperatives, revenue from the sale of electricity and renewable energy certificates to external customers, the revaluation of such certificates and income from the sale of fixtures and fittings. The profit/loss from the sale of shares in housing cooperatives is reported when the risks and benefits associated with ownership are transferred to the buyer, which takes place in conjunction with the day of taking possession. Created renewable energy certificates, which are obtained free of charge, are reported as intangible current assets at fair value at the time of receipt and are revalued quarterly; changes in value are reported under Other income. Purchased certificates are initially reported at cost and are then revalued quarterly.

Financial income

Financial income refers to interest income from bank deposits, receivables, financial investments, dividend income, interest subsidies and positive exchange rate differences. Financial income is reported in the period it concerns. Dividends are reported when the shareholder's right to receive payment is approved.

EXPENSES

Operating expenses

Wallenstam's operating expenses consist of expenses incurred in connection with property management such as property upkeep, electricity and fuel expenses, maintenance, leaseholds/tenancies, property tax and other operating expenses. Operating expenses are reported in the period they concern.

Management costs and administration expenses

Wallenstam's management costs and administration expenses consist of the Group's administration expenses such as offices and premises, consultants and marketing expenses, depreciations for fixtures and fittings and personnel expenses including costs for the synthetic options scheme for personnel. Expenses are reported in the period they concern.

Other operating expenses

Acquisition expenses for sold participations in housing cooperatives and sold electricity including renewable energy certificates are reported under Other operating expenses. There is an obligation to deliver renewable energy certificates to the competent authority in the country concerned in connection with electricity sales. This commitment is reported as an expense and a liability. The expense represents the latest reported value as determined by the revaluation method for intellectual property rights. The carrying amount of fixtures and fittings sold is also reported under Other operating expenses.

Financial expenses

Financial expenses refer to interest and other expenses incurred in connection with borrowing. Financial expenses are reported in the period they concern. Interest which arises during the production period of large new constructions or conversions is activated. The activated interest is calculated on the basis of the average weighted borrowing cost for the Group.

Change in value of derivative instruments

Wallenstam uses interest rate derivatives to achieve a desired interest maturity structure. If the agreed price differs from the market price, the difference in value is reported in the income statement. Refer also to notes 2 and 3.

Income tax

Income tax in the income statement is divided into current tax and deferred tax. Taxes reported in the income statement comprise tax on current year earnings, adjustments to tax relating to previous years and changes in deferred tax. Tax effects attributable to items that are reported directly in Other comprehensive income are reported together with the underlying item in Other comprehensive income.

Current tax is calculated based on the applicable tax rate of 26.3 per cent until December 31, 2012. Deferred tax assets and deferred tax liabilities are calculated based on the tax rate that is expected to apply when the asset is recovered or the liability settled, which will be 22 per cent for 2013. The changed tax rate was taken into account when valuing the deferred tax assets and deferred tax liabilities as of December 31, 2012, and the effect is included in the income statement as a change of deferred tax.

ASSETS

FIXED ASSETS

Property, plant and equipment

Property, plant and equipment is reported at cost less accumulated depreciation and impairment losses incurred, except in the case of investment property which is reported at fair value in accordance with IAS 40. Depreciation is carried out on a straight-line basis over the period of use.

Assets covered by impairment tests as described in IAS 36 are intangible assets, wind turbines and fixtures and fittings. Whenever there is an indication that an asset has fallen in value, an evaluation of the asset's reported value is made. In cases where the reported value exceeds the calculated recoverable value the asset is written down to its recoverable value. Impairment losses are reported in the income statement. Previous impairment losses are reversed when the conditions for an impairment loss no longer exist. The reverse is made up at maximum to the asset's cost less estimated depreciation according to plan up until closing date. A reverse is reported in the income statement.

Investment properties

All of Wallenstam's properties are classified as investment properties. Investment properties refers to properties that are held with the objective of generating rental income or an increase in value or both. Investment properties are measured initially at cost, which includes expenditures directly attributable to the acquisition. They are then reported at fair value according to IAS 40, which corresponds to the estimated market value at the time.

Additional expenditures are added to the carrying amount only if it is probable that future economic benefits associated with the asset will accrue to the Group. Expenditures in respect of running maintenance and repairs are expensed in the period when they arise. In the case of large new constructions and reconstructions, interest expenses are activated up until the property is taken into use. Property acquisitions and property sales are reported on the day of taking possession, when risks and benefits are transferred.

The value of investment properties held on closing day is affected by changes in required rates of return, operating surplus and investment requirements. Project properties are valued on an ongoing basis at fair value. Estimated market values for new construction projects are charged initially with a risk supplement to the required rate of return of 0.5 percentage points compared to an investment property in the same location. This is done because of the uncertainty that exists in regard to budgeted expenditures for final production expenses and operation. After a period in operation when actual conditions are known the required rate of return is tested anew.

Properties contracted for sale with possession falling after the reporting date are valued at their sales price. Only when settlement is received following a sale can the value of a property be determined with certainty. When preparing the financial reports an estimation is made of the market value, which in accounting terms is known as fair value. The estimated fair value is determined based on a valuation according to a rate of return valuation. This means that the market's required rate of return is set in relation to the operating surplus of the property concerned. Such valuations require assumptions, estimations and assessments about future cash flows and the determination of required rates of return for each individual property. They are only forecasts and actual outcomes may differ from assessments made. In order to reflect the uncertainty of assumptions and estimations made, a so-called valuation range of plus/minus 5 to 10 per cent is specified. In-

NOTE 1. Accounting principles, cont.

formation on these uncertainties and estimations made during the internal valuation are described in note 17, as is the valuation model and sensitivity analysis.

Wind power and hydroelectric plants

Wind turbines and hydro stations are reported at cost less accumulated depreciation and any impairment charges. Depreciation is made according to plan at 4 per cent of cost over the equipment's useful life. The useful life of a wind turbine, the depreciation method and residual value are assessed on an ongoing basis according to the principles described above. Depreciation regarding wind power and hydroelectric plants are included in the income statement item Other operating expenses.

Equipment

Equipment is reported at cost less accumulated depreciation and any impairment losses. Depreciation of the cost is made according to plan over the equipment's useful life. Depreciation is 33 per cent for computers, 10 per cent for furniture and 20 per cent for other equipment. The useful life of equipment, the depreciation method and residual value are assessed on a continuous basis. Works of art reported as equipment are not depreciated. Depreciations are included in the income statement item Management costs and administration expenses.

Intangible assets

Expenditures for software developed and adapted for the Group, are reported as intangible assets if they provide probable economic benefits in coming years. Capitalized expenditures for acquired software are written down according to plan over the period of use by 20 per cent of cost. The useful life of an asset, the depreciation method and residual value are assessed on a continuous basis. Depreciations are included in the income statement item Management costs and administration expenses. Standard software and annual licences are carried as expenses.

FINANCIAL INSTRUMENTS

Classification depends on the purpose for which the financial asset or liability was acquired. Wallenstam organizes financial instruments into the following categories:

- Financial assets and liabilities valued at fair value in the income statement.
- Loans and accounts receivable.
- Investments held until maturity.
- Financial assets available for sale.
- Other financial liabilities.

A financial instrument is valued initially at fair value with supplements for transaction expenses with the exception of the categories financial asset or financial liabilities measured at fair value via the income statement, which are reported at fair value exclusive of transaction expenses. A financial asset or liability is shown in the balance sheet when the company becomes party to contractual conditions. Accounts receivable are entered in the balance sheet as invoices are sent. A liability is entered when the counterparty has performed and a contractual obligation to pay exists even if an invoice has not yet been received. A financial asset (or portion thereof) is removed from the balance sheet when the obligations of the agreement are fulfilled, lapse or the company transfers in all material respects the risks and benefits associated with ownership.

A financial liability (or part thereof) is removed from the balance sheet when the obligation in the agreement is fulfilled or is extinguished in any other way. Financial assets and financial liabilities are offset and reported as a net amount in the balance sheet only when there exists a legal right to offset the amounts and there is an intention to settle the items with a net amount or to simultaneously realize the asset and settle the liability. Wallenstam has not identified any embedded derivatives that can be separated from their host contracts and reported individually.

Financial assets and liabilities valued at fair value in the income statement

This category consists of two sub-groups: financial assets and financial liabilities that are held for trading purposes, i.e. whose main purpose is to be sold or repurchased in the short term, and other financial assets and liabilities which the company initially chose to include in the Fair Value Option category. Derivatives are classified as being held for trading purposes if they are not identified as hedges. Financial assets and liabilities in this category are valued on an ongoing basis at fair value with changes in value reported in the income statement. This category includes primarily interest derivatives, electricity derivatives and forward exchange rate contracts.

Derivative instruments are reported in the balance sheet on the date of

contract at fair value, both initially and at subsequent valuations. The Group uses derivative financial instruments in order to reduce interest rate risks. Borrowing at variable interest rates is switched to fixed rate loans through interest swap contracts. The Group reports interest derivatives as financial instruments at fair value via the income statement. Electricity derivatives, forward exchange rate contracts used for electricity trading and renewable energy certificates are reported in the same way. To a very limited extent, Wallenstam also works with forward exchange rate contracts, which are identified as hedgings according to IAS 39, to safeguard investments in wind turbines. The effective portion of changes in value in the forward exchange rate is reported in other comprehensive income and the ineffective portion in financial income and expenses.

Loans and accounts receivable

This category includes rents and accounts receivable, cash and cash equivalents, loan receivables and other receivables. These are valued at accrued cost. Accrued cost is determined based on the effective rate of interest calculated at the time of acquisition. The anticipated duration of accounts receivable is short, for which reason they are reported at nominal amounts without discounts. Accounts and loans receivable are reported in the amounts at which they are expected to flow in, i.e. less doubtful receivables. Cash and bank balances are reported at nominal value.

Investments held until maturity

Financial assets with fixed payment streams or payment streams that can be determined in advance with a fixed duration for which the company has an express intent and ability to hold until maturity are reported as investments held until maturity. Assets in this category are valued at accrued cost.

Financial assets available for sale

Financial assets available for sale comprise non-derivative assets that are available for sale. Valuation is initially fair value, i.e. normal cost. Changes in value are reported in the income statement. The value of investments in listed shares is calculated by using quoted market prices. Adjustment to the fair value of these instruments is reported in other comprehensive income and in the balance sheet as holdings of non-current securities.

Other financial liabilities

Loans from credit institutions and suppliers and other liabilities are measured at accrued cost. Wallenstam's liabilities consist primarily of liabilities to credit institutions and operating liabilities such as trade accounts payable. Liabilities with a duration of more than 12 months are reported as non-current, others as current. The majority of Wallenstam's liabilities have shorter capital tied up times than 12 months and are reported as non-current. Overdraft facilities refer to loans under current liabilities. Loans are entered in Swedish kronor and reported in the balance sheet on settlement day at cost. Where applicable, liabilities in foreign currencies consist primarily of payments to wind turbine suppliers. Currency risk in these payments is eliminated through forward exchange agreements; refer to 'Financial assets and liabilities valued at fair value in the income statement' above.

Impairment of financial instruments

The Group assesses on an ongoing basis whether there are objective grounds for recognizing an impairment. When there is a requirement to recognize an impairment the size of the reserve consists of the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted with the original effective interest rate.

CURRENT ASSETS

Assets whose remaining holding period is less than 12 months are reported as current assets.

Current intangible assets

Intangible current assets consist of renewable energy certificates, which according to IAS 38, are initially reported at cost. Following an intangible current asset's initial recognition it must be reported on an ongoing basis at a revalued amount equivalent to the fair value at the time of revaluation.

Wallenstam is covered by the renewable energy certificate system as a producer of electricity from renewable energy sources. Renewable energy certificates are obtained free of charge from Svenska Kraftnät (Swedish national grid) as eligible electricity is generated. Certificates created are measured at fair value at the time of acquisition and are then revalued at market value at the closing day spot price. The price is set through bids from market players via Svensk Kraftmäklare (Swedish Energy Broking). Wallenstam's power generation produces a surplus of renewable energy certificates. Re-

NOTE 1. Accounting principles, cont.

renewable energy certificates created are reported as income under Other income. There is an obligation to deliver renewable energy certificates to the competent authority in the country concerned in connection with electricity sales. This commitment is reported as an expense and a liability. The expense represents the latest reported value as determined by the revaluation method for intellectual property rights. Purchased certificates are initially reported at cost and are then revalued quarterly.

Accounts receivable and other receivables

Accounts receivable consist chiefly of rent receivables and accounts receivable in respect of the sale of electricity while other receivables consist chiefly of promissory notes related to property transactions. For further information, refer to Financial instruments above.

Participations

Reported participations consist of shares in housing cooperatives. These have been valued according to the lowest value principle, i.e. cost or fair value, whichever is the lower. Fair value comprises estimated sales value less deductions for calculated selling expenses. When housing cooperative units are sold the income is reported as other income and the sold unit's book value under other expenses.

Cash and cash equivalents

Wallenstam's liquid assets consist of cash and bank balances and current investments with durations shorter than three months. These assets are considered to be immediately negotiable with negligible risk of changes in value which means the carrying amount corresponds to fair value. Where appropriate, utilized overdraft facilities are reported as borrowing under current liabilities.

Equity

Equity in the Group is distributed as follows: Share capital is equivalent to the parent company's share capital. Other capital contributed comprises all capital contributed by shareholders in addition to share capital. This includes the reported statutory reserve contributed by the shareholders to the parent company.

Other reserves consist of amounts that must be reported in other comprehensive income as a result of IFRS regulations.

Profit brought forward consists of accumulated profits from the Group's operations plus earnings for the year, less dividends to shareholders. This category includes the amount carried forward from the profit for the year in the parent company's reported statutory reserve.

Repurchased shares, including related expenses, are reported as a reduction in retained earnings. Dividends paid to the parent company's shareholders are reported as a reduction in equity once adopted by the AGM.

Liabilities and financial liabilities

A liability is entered when the counterparty has performed and a contractual obligation to pay exists even if an invoice has not been received. A liability is removed from the balance sheet when the agreement has been fulfilled or extinguished in some other way. The classification determines the valuation of the liability, i.e. of the liability is measured at fair value or at accrued cost. Financial liabilities are classified as follows:

- **Financial liabilities measured at fair value or loans.**

Group derivatives with negative fair value for which hedge accounting is not applied are reported here. Changes to fair value are reported in earnings for the year.

- **Other financial liabilities, loans from credit institutions and suppliers and other liabilities are measured at accrued cost.**

The majority of Wallenstam's liabilities have shorter capital tied up times than 12 months and are reported as non-current.

For further information, refer to Financial instruments above

PROVISIONS

Provisions are reported when the Group has an existing legal or informal obligation as a result of prior events where it is more probable than not that an outflow of resources to settle the commitment will be required and a reliable estimate of the amount can be made. The amount that is anticipated as necessary to settle the obligation is reported as a provision. Reported provisions consist of those for pensions, severance pay, warranty commitments in connection with reconstructions in sold properties and where appropriate estimated amounts for risks in disputes.

Provision for deferred tax

Tax expense for the period comprises income tax and deferred tax. Tax is reported in the income statement except where it refers to items that are reported in other comprehensive income or directly in equity. In such cases the tax is also reported in other comprehensive income or equity respectively.

A provision for deferred tax is calculated in accordance with the balance sheet method on all temporary differences that occur between the reported and taxable values of assets and liabilities. Deferred tax assets and deferred tax liabilities are valued at their nominal amounts in the balance sheet in accordance with the prevailing tax regulations and tax rates. This means that a tax liability exists that will fall due for payment on the day the asset or liability is realized. Deferred tax liabilities in the Group refer principally to the difference between fair value and taxable value of properties and the difference between fair value and the cost of financial instruments.

Other than that entered by the acquired company, deferred tax liabilities are not reported at the time of acquisition for properties classified as asset acquisitions which were acquired indirectly via companies. Thus for asset acquisition no deferred tax attributable to surplus value of the property is reported at the time of acquisition. Instead, any tax reduction reduces the property's reported fair value. This means that even in subsequent valuations and accounts the fair value of the investment property will be reduced by the deferred tax calculated at the time of acquisition. Properties disposed of through the sale of shares in subsidiaries do not give rise to tax.

Deferred tax assets concerning deductible temporary differences and tax-loss carryforwards are reported to the extent that it is probable they may be used against future profits and thus lead to lower tax expenditures.

Remuneration to employees

Remuneration to employees is reported as and when said employees have performed services in exchange for the remuneration.

Pension provision

Pensions are normally financed through payments to insurance companies where payments have been determined based on periodic actuarial calculations. The Group has both defined-benefits pension plans and defined contribution pension plans. A defined contribution pension plan is one where the company pays fixed premiums to an insurance company. A defined-benefits pension plan is one that does not have fixed premiums but which is instead based on the size of the pension benefit an employee receives after retirement, usually based on one or more factors such as age, length of service and salary.

Plans in which the company's obligations are limited to the premiums the company has undertaken to pay are classified as defined contribution pension plans. In such cases the size of an employee's pension depends on the premiums the company pays to an insurance company and the return on capital the premiums provide. Consequently it is the employee who bears the actuarial risk (that the benefit will be lower than expected) and the investment risk (that the invested assets will be insufficient to provide the benefits expected). The company's obligations in respect of premiums to defined contribution plans are reported as a consolidated expense as they are earned.

Wallenstam's pension commitments for retirement and family pensions in respect of white-collar staff are, in accordance with the national pension scheme, secured through insurance with Alecta. According to the Swedish Financial Reporting Board, UFR 3, this is a defined-benefits plan covering several employers. Alecta has not had access to information to enable Wallenstam to report this plan as a defined-benefit plan for the 2012 financial year. The ITP pension plan, which is secured through an insurance policy from Alecta, is therefore reported as a defined benefit plan in accordance with UFR 3. The contributions are recognized as personnel expenses as they are earned.

Share-related remuneration

Share-related remuneration is reported according to IFRS 2. Synthetic options to employees are valued according to Black & Scholes's valuation model on the closing date. Important input data to the model includes: share price per closing date SEK 79.35, exercise price SEK 50 with a ceiling of SEK 100, anticipated share price volatility 25 per cent, option duration midnight 30/06/2013, anticipated dividend SEK 1.25 and an annual risk-free interest rate of 0.89 per cent. Volatility is calculated as the estimated future volatility for the remainder of the options' duration. Changes in value are reported under management costs and administration expenses. The above conditions have been recalculated since the 3:1 share split implemented during 2011. See also note 8.

NOTE 1. Accounting principles, cont.

PLEGGED ASSETS

Securities primarily in the form of mortgage deeds for properties. The financing of wind farms is secured through the transfer of leases and the pledging of shares in wind-power companies.

CONTINGENT LIABILITIES

A contingent liability refers to a possible commitment stemming from past events and whose existence is confirmed only when one or more uncertain future events occur or when there is a commitment that is not reported as a liability or provision because it is unlikely that an outflow of resources will be required.

CHANGES TO ACCOUNTING PRINCIPLES AND DISCLOSURES

New and changed standards applied by the Group

None of the IFRS or IFRIC interpretations that are obligatory for the financial year that commenced on January 1, 2012 has had any significant impact on the Group's profit/loss and position.

A minor change has been made to IFRS 7 Financial Instruments regarding further quantitative and qualitative disclosures concerning the removal of financial instruments from the balance sheet.

An addition to IAS 12 Income Taxes makes clear that investment properties valued at fair value must be presumed recovered in full through divestment if it cannot be shown that the asset will be recovered through consumption. This will have no impact as the tax rate in Sweden is the same for a sale as for consumption.

New Standards

Future standards, changes and interpretations of existing standards that have not yet come into force have not been applied in advance by the Group. The following changes are considered to affect Wallenstam Group accounts: According to the update made to IAS 1, the presentation of other comprehensive income will be split into two categories (for the financial year beginning after July 1, 2012).

- Items that will not be transferred to earnings for the year.
- Items that will be transferred to the earnings for the year.

The EU has decided on a number of new standards that must be applied at the latest by the financial year beginning January 1, 2013.

A minor change to IFRS 7 Financial Instruments where new disclosure requirements are introduced regarding offsetting financial assets and financial liabilities.

Reporting of defined benefits pensions; IAS 19 has changed but this will have no significant impact on the financial statements as the defined-benefits ITP policies at Wallenstam are reported as defined contribution policies owing to insufficient information from Alecta.

IFRS 13 Fair Value Measurement is a new framework for items that are measured at fair value. Because the Group measures both investment properties and derivatives at fair value the recommendation does not have any effect on valuations. The new standard entails a somewhat more extensive disclosure requirement.

The EU has decided on a number of new standards that must be applied at the latest by the financial year beginning January 1, 2014.

- IFRS 10 Consolidated Financial Statements replaces the parts of IAS 27 that concern rules for consolidated financial statements.
- IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures.
- IFRS 12 Disclosure of Interests in Other Entities formulates new disclosure requirements, regardless of whether the company is consolidated or not.

As a result of these recommendation adjustments have been made to IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates. Additionally, there are changes to IAS 32 Financial Instruments as regards classification where a clarification is made in the 'Guidance to Application' section regarding the offsetting of financial assets and financial liabilities.

None of the IFRS or IFRIC interpretations that are obligatory for the financial year that commence on January 1, 2013 and January 1, 2014 are expected to have any significant impact on the Group's profit/loss and position. The introduction of these new standards will entail a somewhat more extensive disclosure requirement.

NOTE 2. Financial risks

Financial risk factors

In addition to operational and surrounding world (external) risks, Wallenstam is exposed to financial risks such as interest, currency, liquidity and refinancing risks in the course of its operations. These risks occur in the Group's reported financial instruments such as cash and cash equivalents, interest-bearing receivables, accounts receivable, accounts payable, borrowing and derivatives.

Financial risk management

Wallenstam employs active risk management to minimize these risks. Risk management is handled by the finance department in accordance with annually-reviewed finance policy laid down by the Board of Directors. The policy describes the purpose of the financing operation, its organization and distribution of responsibilities and risk management regulations. The finance policy's overall objectives are based on its assignment to:

- secure the Group's short and long-term supply of capital
- adapt the financial strategy to the Group's operations to achieve an optimal capital structure
- work actively to achieve low refinancing risk and high flexibility in regard to fixed-term loans and assets
- achieve the best possible net financial income/expense within a given risk framework.

Wallenstam's financial operations are centralized to the parent company's finance department and acts as an internal bank with responsibility for borrowing, cash management and financial component risk management. Wallenstam strives to achieve balance between good return on equity and an acceptable level of risk. Our finance policy is laid down by the Board of Directors and reviewed annually. It seeks to limit the company's financial risks, which consist chiefly of interest, refinancing and liquidity risks. The finance department has instructions, systems and a division of duties that seek to achieve good internal control and follow-up of operations. Major financing solutions must be approved by the Board of Directors; the Board is informed about financial matters at every Board meeting.

Liquidity risk

A liquidity risk involves a situation where cash and cash equivalents for payment of commitments cannot be secured. We have prioritized a high level of liquidity to the company with great freedom of action for its new construction projects, major conversions and the construction of wind farms, which may not commence until financing is ensured. Wallenstam's liquidity reserve must therefore provide the freedom to implement approved investments and fulfil payment obligations. Liquidity forecasts are updated on an ongoing basis. Cash and cash equivalents are defined as non-current investments and unutilized credits. The Group's liquidity risk is limited by holding liquidity corresponding to at least three months of known net payments, including interest payments and renewals of loans, at any given time.

Financing risk

Financing risk corresponds to difficulties in obtaining financing for operations at a given time. Wallenstam works actively to achieve low refinancing risk and high flexibility with regard to fixed-term loans in relation to market pricing, i.e. the best possible financial income/expense within a given risk framework. The Group has a long-term collaboration with the major Swedish commercial banks. The goal is to have financing from at least three of the major Swedish commercial banks and a loan portfolio with a spread of maturities and long durations. The Group must limit refinancing risk by always planning refinancing negotiations in advance. Individual lenders may not have more than 50 per cent of the total loan volumes. Wallenstam holds loan commitments for all major investments in order to minimize financing risk.

The Board of Directors sets the level of capital tied up in the loan portfolio on a continuous basis. Management makes forecasts on an ongoing basis regarding Group liquidity based on anticipated cash flows. The Group strives to achieve a loan portfolio with a spread of loan maturities that enable amortization. Because no borrowing takes place in foreign currency the Group is not exposed to any significant currency risk.

The interest-bearing liabilities, which consist of conventional bank loans combined with interest derivatives, amount to SEK 16,042 million (15,293) of which SEK 1,490 million (3,766) is long term. In order to optimize loan portfolio conditions, the Group's borrowing is made chiefly with sureties from the parent company. We have mainly conventional loans and mortgages secured against property. The financing of wind farms is secured through the transfer of leases and the pledging of shares in wind-power companies. The average remaining fixed-interest term is 34 months (33) and the av-

NOTE 2. Financial risks, cont.

verage remaining term for capital tied up is 10 months (11). As of December 31, 2012 the average effective interest rate was 3.51 per cent (3.91). The loan-to-value ratio is 52 per cent (53).

The Group had long-term unutilized loan commitments of SEK 495 million in the form of credit for construction and similarly unutilized overdraft facilities totalling SEK 400 million (349).

Loan agreement maturity profiles

	31/12/12		31/12/11	
	Amount, SEK mil-lion	Particip. %	Amount, SEK mil-lion	Particip. %
0–3 mo.	3,165	20	4,642	30
3 mo–1 yr	11,387	71	6,885	45
1–2 yrs	817	5	2,356	15
2–3 yrs	157	1	829	5
3–4 yrs	185	1	200	1
4–5 yrs	-	-	139	1
5–6 yrs	-	-	-	-
6–7 yrs	112	1	-	-
> 7 yrs	219	1	242	2
	16,042	100%	15,293	100%

In addition to the above there are other liabilities that also include trade accounts payable, which usually have a maturity of 30 days, and interest derivatives with a negative value of SEK 481 million.

Interest rate risk

Interest rate risks refer to how changes in interest rates will affect the Group's net financial income/expense and the value of financial instruments as market rates change. Wallenstam's loan portfolio consists of loans of different durations from different creditors. A good balance between a long fixed-interest term providing stability and a short fixed-interest term that normally provides the lowest interest expense is important in achieving a stable interest expense development. Based on its finance policy, Wallenstam works proactively with fixed-interest terms to achieve good average interest rates and good yields on its loan portfolio.

The Group's average fixed-term loans must be within the 24–48 month range. The fixed portion of the loan portfolio covers a ten-year period with a well-balanced, even distribution. The Board of Directors may decide on longer time periods. The Group aims for an even distribution of loan conversions during the year.

Interest derivatives are used to spread risk and with the aim of protecting the underlying portfolio. Financial instruments, chiefly interest rate swaps, are used in order to limit interest risks in the loan portfolio and to enable flexible influence over the average duration of fixed term loans in the loan portfolio. Borrowing usually takes place with short fixed-interest terms, and interest rate swaps are used to achieve the desired fixed-interest structure. Thus derivative instruments are only used for the purposes of reducing risk and must be associated with an underlying exposure. The Group currently has derivative instruments reported in the category financial assets and liabilities valued at fair value in the income statement. Accordingly, hedge accounting according to IAS 39 is not applied.

The average duration of fixed-term loans is 34 months (33). With the distribution of fixed-term loans existing at the beginning of 2012 a change in the interest rate of one percentage point at the beginning of the year would affect Wallenstam's interest costs by SEK 57 million. This is equivalent to around 15 per cent of Wallenstam's cash flow from operating activities before changes in working capital.

Interest maturity profile

	31/12/12		31/12/11	
	Amount, SEK mil-lion	Average interest, %	Amount, SEK mil-lion	Average interest, %
0–3 mo.	6,235	4.25	6,121	4.55
3 mo–1 yr	2,385	2.70	997	4.15
1–2 yrs	1,372	3.32	2,358	3.48
2–3 yrs	550	3.69	896	3.52
3–4 yrs	950	3.58	520	3.72
4–5 yrs	620	3.03	950	3.58
5–6 yrs	400	2.98	520	3.54
6–7 yrs	530	3.05	500	3.68
7–8 yrs	700	3.08	530	3.05
8–9 yrs	1,000	3.26	700	3.08
> 9 yrs	1,300	2.48	1,200	3.14
	16,042	3.51%	15,293	3.92%

* Loans with an interest maturity within three months have an average interest of 2.61% (3.57). 4.25% (4.55) includes the effect of swap agreements and fixed rate loans that fall due within a three month period.

Weighted average effective interest rates on loans taking into account derivatives accounted for as hedging instruments

SEK million	31/12/12	31/12/11
Weighted average effective interest rates on loans taking into account derivatives accounted for as hedging instruments.	3.79%	3.98%
Loans, overdraft facilities	3.00%	3.17%

Interest on liabilities to credit institutions is calculated to be in the region of SEK 560 million for 2013.

Credit risk

Wallenstam's credit risks concern primarily rental receivables and reverse receivables. Credit risk is the risk of loss if the Group's counterparties do not fulfil their contractual obligations, and any securities do not cover the Group's receivables. The goal is to minimize credit risk through rents in advance and by making credit transactions primarily with major financing institutions. Credit risk can mainly be attributed to outstanding rent and accounts receivable, promissory notes, cash and cash equivalents and financial derivative agreements.

Losses from rents receivable, accounts receivable and promissory notes occur when customers are declared bankrupt or are unable to fulfil their payment obligations for other reasons. The risks are limited in that Wallenstam works chiefly with established customers who enjoy documented abilities to pay and competitive operations. To limit risks, Group customers and their financial positions are subjected to credit checks e.g. through the collection of information from credit reporting agencies.

In cases where a counterparty's ability to pay is considered uncertain, Wallenstam, in accordance with its credit policy, will demand a bank guarantee, a surety or in the case of a new lease for commercial premises, rent in advance.

The Group's exposure to credit risk from individual customers is limited considering the duration of rental agreements and the relative importance of customers. Wallenstam's ten biggest commercial property tenants represent approximately 8 per cent of Wallenstam's assessed full-year value. The table below shows rental agreement durations and the size of commercial tenancy contracts together with housing as a proportion total contracts, and the significance of revenue.

NOTE 2. Financial risks, cont.

Rental cont. duration

	Number of contracts	SEK million, assessed full-year value	Total, %
2013	672	98,775	6
2014	507	209,301	13
2015	340	148,023	9
2016	233	158,405	10
2017–	98	156,026	9
Total commercial premises	1,850	770,530	47
Vacant objects	423	58,403	4
Residential and parking	16,231	821,097	50
Total	18,504	1,650,030	100%

Rental contract sizes

	Number of contracts	SEK million, assessed full-year value.	Total, %
above SEK 5 million	17	146,026	9
SEK 4.0–5.0 million	13	58,774	4
SEK 3.0–4.0 million	17	58,488	4
SEK 2.0–3.0 million	33	82,046	5
SEK 1.0–2.0 million	109	151,165	9
SEK 0.5–1.0 million	178	123,460	7
under SEK 0.5 million	1,483	150,570	9
Total commercial premises	1,850	770,530	47
Vacant objects	423	58,403	4
Residential and parking	16,231	821,097	50
Total	18,504	1,650,030	100%

OTHER FINANCIAL RISKS

Electricity price risk

Electricity prices also have an impact on the operation's earnings. Because Wallenstam is a net electricity producer a drop in electricity prices entails a negative impact on earnings. Electricity prices are influenced by a number of different factors such as the economic cycle, the weather and fuel prices. Changes in electricity prices influence the value of both current and new agreements. In order to protect the business and reduce the impact of market fluctuations the Group makes use of forward financial agreements in order to hedge income from future electricity sales and electricity production in accordance with the energy policy adopted by the Board of Directors. The policy means that purchasing may be carried out for a period of maximum five years ahead. Renewable energy certificates sales are also hedged by means of forward agreements in accordance with this policy.

Currency risk

The Group holds no loans in foreign currency and is therefore not exposed to any currency risk in connection with borrowing.

Currency risk refers to the risk of an impact on the Group's earnings and financial position as a result of changed foreign exchange rates. Wallenstam is exposed to currency risks both through changes in foreign exchange rates in future payment flows (transaction exposure) and in respect of revaluations of net assets in foreign subsidiaries (translation exposure).

Transaction-related currency exposure

The Group's transaction-related currency exposure arises partly when purchasing wind turbines, and partly through trade on the Nord Pool Spot and through Nasdaq OMX as these transactions take place in EUR. In order to minimize the economic impact of currency market fluctuations on its earnings, the Group makes use of forward exchange rate contracts to hedge these flows in accordance with the foreign currency policy adopted by the Board of Directors.

Translation exposure

The Wallenstam Group is exposed to limited translation exposure when consolidating its Norwegian subsidiaries who report their financial position in local currency whose translation into Swedish kronor gives rise to translation

differences. Assets and liabilities are translated at the closing day exchange rate while items belonging to the income statement are translated at the average exchange rate for the year.

Financial derivative instruments are reported under the provisions of IAS 39.

	31/12/12		31/12/11	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative instruments				
Interest swap contracts – cash flow hedges	2	490	3	421
Current derivative instruments				
Interest swap contracts – cash flow hedges	-	7	-	13
Electricity derivatives & forward exchange rate contracts – cash flow hedges	-	4	1	3
Total derivative instruments	2	501	4	437

Maturity profile, financial derivative instruments

	31/12/12		31/12/11	
	Cash flow hedge		Cash flow hedge	
0–3 mo.		-2		-
3 mo.–1 yr		-9		-16
1–5 yrs		-170		-147
> 5 yrs		-318		-271
Total		-499		-434

Financial derivative instruments

The total change in cash flow hedge value during the year amounted to SEK –72 million (–339). All cash flow hedges in respect of interest swap contracts and electricity derivatives are measured at fair value and reported in the income statement. The effective portion of forward exchange rate contracts totalling SEK 2 million (3) treated as hedge accounting in accordance with IAS 39 is reported in other comprehensive income, which amounted to SEK 161 million for hedges for investments in wind turbines as of December 31, 2012.

Interest swaps

The nominal amount referring to the Group's outstanding interest swaps as per December 31, 2012, amounted to SEK 8,015 million (7,015). On December 31, the fixed swap interest rates payable to banks varied from 0.7150–4.9600 (1.855–5.2050). The variable swap interest rates obtained from the banks correspond to STIBOR 3 M.

The interest derivatives portfolio includes interest derivatives with option features amounting to SEK 1,000 million. Upon maturity these may, on the initiative of the lender, be converted to interest rate swaps in the interest rate range 1.49%–2.25 per cent.

NOTE 3. Classification of financial instruments

SEK million	Financial assets and liabilities valued at fair value in the income statement				Investments held until maturity		Loan receivables and trade receivables		Financial assets available for sale		Total	
	Fair value		Derivatives used for hedging account		2012	2011	2012	2011	2012	2011	2012	2011
	2012	2011	2012	2011								
Financial assets												
Promissory notes					473	509					473	509
Participations									188	52	188	52
Other marketable security holdings	14	26			175	175			182	48	371	249
Interest derivatives	2	3									2	3
Electricity derivatives		1									-	1
Forward exchange rate contracts											-	-
Trade receivables							17	18			17	18
Other current receivables							156	65			156	65
Cash and bank balances							194	86			194	86
Total financial assets	16	29	0	0	648	684	367	169	370	100	1,401	983
Financial liabilities												
Other non-current liabilities										32	-	32
Interest derivatives	497	421									497	428
Electricity derivatives	2	13									2	6
Forward exchange rate contracts			2	3							2	3
Liabilities to credit institutions							16,042	15,293			16,042	15,293
Accounts payable							182	144			182	144
Accrued expenses							170				170	-
Other current liabilities							180	42			218	42
Total financial liabilities	499	434	2	3			16,574	15,511			17,113	15,948

According to all financial instruments measured at fair value IFRS 7 item 27a states how fair value is assessed and how this value is classified in relation to three other value categories. The three different valuation levels are defined according to:

- Quoted prices (unadjusted) on active markets for identical assets or liabilities (Level 1).
- Data for the assets or liabilities other than prices quoted included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2).
- Data for the assets or liabilities that is not based on observable market data (non-observable input data) (Level 3).

All derivative instruments measured at fair value in the balance sheet are attributable to Level 1 in IFRS 7, i.e. the value is based on official market quotations. Holdings in unlisted companies are measured at cost. Loans from credit institutions, suppliers and other liabilities are measured at accrued cost.

NOTE 4. Distribution of profit

The summary below shows budget follow-up from an operational point of view.

SEK million	2012	2011
Rental income	1,576	1,532
Operating expenses	-503	-529
Operating surplus	1,073	1003
Management costs and administration expenses	-189	-175
Net financial items	-509	-486
Property management earnings	375	343
Profit from sales	226	80
Administration expenses	-28	-23
Profit from transactions	198	57
Other income and expenses	33	28
Realized profit	606	427
Impairment losses on fixed assets	-100	-
Unrealized changes in value, investment properties	1,198	849
Unrealized changes in value, derivative instruments*	-103	-354
Profit from changes in value	995	496
Profit before tax	1,601	923
Taxes	326	-187
Profit after tax	1,927	736

* This includes a change in value in a synthetic options programme to personnel of SEK -20 million (-3).

NOTE 5. Segment information

Wallenstam properties are owned and managed by wholly owned subsidiaries in Gothenburg, Helsingborg and Stockholm. Wallenstam is also a producer and supplier of renewable energy through Wallenstam NaturEnergi.

Operations are conducted in the business areas Region Gothenburg/Helsingborg, Region Stockholm and NaturEnergi. Administrative support function operations are reported in the segment Other and internal Group transactions are eliminated in the Elimination column.

Operational segments are reported in a manner that corresponds to the internal reporting to the highest executive decision maker, Wallenstam's MD.

SEK million	2012						2011				
	Region Gothenburg/ Helsingborg	Region Stockholm	Natur- Energi	Other	Elim- ination	Total	Region Gothenburg/ Helsingborg	Region Stockholm	Other	Elimina- tion	Total
Income statement											
Rental income	1,082	487	-	15	-8	1,576	1,022	505	13	-8	1,532
Operating expenses	-314	-178	-	-11	-	-503	-300	-219	-11	-	-529
Electricity income	-	-	133	-	-133	-	-	-	-	-	-
Electricity expenses	-	-	-100	-	100	-	-	-	-	-	-
Operating surplus	768	309	33	4	-41	1,073	722	287	2	-8	1,003
Management costs and administration expenses	-117	-73	-17	-131	149	-189	-107	-73	-131	136	-175
Net financial items	-300	-66	-62	-82	1	-509	-280	-62	-144	-	-486
Property management earnings	351	170	-46	-209	109	375	335	152	-273	129	343
Profit from sales, properties, housing, wind turbines	143	73	10	-	-	226	21	59	-	-	80
Administration expenses	-16	-12	-	-	-	-28	-11	-11	-	-	-23
Profit from transactions	127	62	10	-	-	198	10	48	-	-	57
Other income and expenses	-	-	-	142	-108	33	-	1	156	-129	28
Realized profit	478	231	-36	-67	-	606	345	200	-116	-	427
Impairment losses on fixed assets	-	-	-100	-	-	-100	-	-	-	-	-
Unrealized change in value, properties	712	492	-	-6	-	1,198	396	462	-9	-	849
Unrealized changes in value of renewable energy certificates and derivative instruments*	-	-	11	-114	-	-103	-	-	-354	-	-354
Profit/loss from changes in value and revaluations	712	492	-89	-120	-	995	396	462	-363	-	496
Profit before tax	1,190	723	-125	-189	-	1,601	740	662	-479	-	923
Balance sheet											
Properties	17,393	9,723	-	564	-	27,680	16,846	8,909	541	-	26,296
Wind turbines	-	-	1,906	-	-	1,906	-	-	-	-	-
Unapportioned assets	-	-	-	-	-	1,627	-	-	-	-	2,671
Total assets						31,213					28,967
Equity	-	-	-	-	-	11,893	-	-	-	-	10,295
Loans	8,177	2,366	957	4,542	-	16,042	8,326	2,268	4,699	-	15,293
Unapportioned liabilities and equity	-	-	-	-	-	3,278	-	-	-	-	3,380
Total equity and liabilities						31,213					28,968
Investments	1,082	728	615	-	-	2,425	2,348	685	414	-	3,447

*This includes revaluation of a synthetic options programme to personnel of -20 (-3).

As of January 2012 Wallenstam NaturEnergi comprises a separate business segment in Wallenstam's financial statements. Because NaturEnergi was previously integrated with other operations full comparative figures are lacking, comparative figures are omitted in this report.

NOTE 6. Rental income

SEK million	2012	2011
Residential, parking	778	772
Commercial premises	798	760
Total rental income	1,576	1,532

Change in rental income from 2011 to 2012

Rental income according to income statement, 2011	1,532	1,450
Change in rental income, existing properties	43	68
New production	42	15
Properties acquired	88	60
Properties sold	-129	-62
Rental income according to income statement, 2012	1,576	1,532

Adjustment to current full-year value

Vacancies	57	56
Rental value, December 31	1,633	1,588

Also refer to note 2 for further information about rental agreements.

NOTE 7. Operating, management and administration expenses

Operating expenses include expenses for e.g. electricity, water, heating, property maintenance, cleaning, repairs, site leasehold rents and property tax.

Part of the operating expenses are passed to tenants in the form of rent supplements.

SEK million	2012	2011
Operating expenses		
Fuel expenses	102	109
Other operating expenses	185	201
Maintenance costs	134	138
Site leasehold/rent	15	16
Property tax	67	65
Total	503	529
Operating expense, SEK/sq m		
Fuel expenses	85	88
Other operating expenses	155	162
Maintenance costs	112	112
Site leasehold/rent	13	13
Property tax	56	53
Total	421	428
Management costs and administration expenses		
Depreciation, fixtures & fittings and activated software expenses	9	8
Marketing expenses	19	18
Personnel expenses	195	169
Other expenses	14	6
Total	237	201

NOTE 8. Wages, other remunerations and social security costs

SEK million	2012					2011				
	Basic salary	Benefits	Variable pay	Social costs	Pension costs	Basic salary	Benefits	Variable pay	Social costs	Pension costs
Chairman of the Board	0.6	-	-	0.2	-	0.6	-	-	0.2	-
Board members	0.6	-	-	0.2	-	0.6	-	-	0.2	-
Total directors' remunerations	1.2	-	-	0.4	-	1.2	-	-	0.4	-
MD, parent company	3.5	0.5	-	1.9	1.4	3.1	0.6	-	3.6	1.3
Other senior executives 5 persons (5)	13.9	0.4	-	6.7	4.1	10.1	0.8	-	5.8	4.2
Other employees	86.0	3.9	-	28.4	10.3	82.0	4.5	-	27.8	9.5
Total	104.6	4.8	-	37.4	15.8	96.4	5.9	-	37.6	15.0

Remunerations

The MD received a salary, the use of a car and a residence totalling SEK 4.0 million (3.7). No (SEK 0.00) variable remuneration or share-related remunerations were paid during the 2012 financial year.

Senior management was offered fixed salaries at prevailing market levels. In addition to fixed salaries, variable remunerations may be offered. The principles for these were approved by the AGM. The MD's and Deputy MD's salaries are determined by a remuneration committee, which consists of the Board's executive leadership (Chairman and Vice Chairman). Remunerations to other senior executives have been determined according to the Board's guidelines.

In accordance with the decision of the AGM, the Board of Directors is paid a fee of SEK 1,200 thousand (1,200) for the period April, 2012, until the AGM in 2013, of which sum SEK 600 thousand (600) is to the Chairman of the Board Christer Villard, SEK 225 thousand (225) to Deputy Chairman Ulrica Janson Messing and SEK 125 thousand (125) to each of the other board members (Anders Berntsson, Agneta Wallenstam and Erik Åsbrink). No remuneration additional to the fee decided on by the AGM was paid to the Board.

Pensions and severance pay

The company has taken out a pension insurance policy with an annual premium amounting to 35 per cent of the MD's gross salary, including benefits and a life insurance policy equivalent to 50 per cent of gross salary. If the MD resigns his position, six months' notice must be given. Termination of employment of the MD on the part of the company is subject to a period of notice of six months. If the MD is given notice because of illness, the company must, up until the MD reaches 65 years of age, meet its obligations regarding pension insurance by paying an annual premium equivalent to 50 per cent of his gross salary including the benefits that applied at the time notice was given. On leaving the company the MD has the right to purchase his tied accommodation for 1.33 times the taxable value at the time of sale.

Other senior executives comprise three Deputy MDs, the Public Relations Director and the Finance Director. Pensions for other senior management are provided in accordance with the remuneration policy mainly by defined contribution pensions. To fulfil pension benefits for other senior management the company has taken out pension policies equivalent to 35 per cent of gross salary. The period of notice for senior management is six months. In regard to Deputy MDs, 18 months' severance pay will apply in the case of termination of employment on the part of the company. Deputy MDs with tied accommodation have the right to purchase said accommodation at market value current at the time of sale.

NOTE 8. Wages, other remunerations and social security costs, cont.

Pensionable age for the MD and other senior management is 65 years unless separate agreements are concluded.

Share-related remuneration to Group senior management and other employees

In May 2008 personnel employed indefinitely were offered synthetic options free of charge. 147 employees accepted the offer and each received 9,000-45,000 synthetic options (recalculated for the share split). The MD received 45,000 synthetic options and other senior management a total of 180,000. The options are valued according to the Black & Schole's model. Important input data to the model includes: share price per closing date SEK 79.35, exercise price SEK 50 with a ceiling of SEK 100, anticipated share price volatility 25 per cent, option duration midnight 30/06/2013, anticipated dividend SEK 1.25 and an annual risk-free interest rate of 1.0 per cent. Volatility is calculated as the estimated future volatility for the remainder of the options' duration.

The option programme runs until 2013 and means that company employees are able to share in the value growth created. In the event of a maximum outcome, which will be reached at a price of SEK 100 per share, the cost of the option program will be SEK 69 million. Closing liabilities amounted to SEK 39 million of which expenses for the year were SEK 20 million.

Cost of option program

SEK million	2012	2011
MD	0.8	0.0
Other senior management 5 persons (5)	2.6	0.1
Other employees	16.6	2.8
Total	20.0	2.9

Pension insurance with Alecta

Pension insurance contributions for the year in Alecta total SEK 7.4 million (6.7). Alecta's surplus may be distributed among the policy holders and/or the insured. At the end of 2012, Alecta's surplus in the form of the collective consolidation level was 130 per cent (113).

NOTE 9. Average number of employees

	2012		2011	
	Average no. employees	Of whom women	Average no. employees	Of whom women
	189	105	184	103
	2012		2011	
	Number of	Of whom women	Number of	Of whom women
Board members and senior management				
Board members	5	2	5	2
MD and senior management	6	1	6	1

NOTE 10. Related Party Disclosures

Related Party Disclosures refers to both legal entities and natural persons as defined by IAS 24.

Wallenstam has adopted procedures for defining related parties, for managing transactions and monitoring related party agreements.

Related parties are defined as:

- all companies within the Wallenstam Group
- board members and company management
- close families of board members and company management
- companies controlled by board members or company management
- shareholders who control more than 10 per cent of the shares or voting rights in the company.

As with all transactions, those with related parties must be carried out under businesslike conditions. Special attention must be paid to the guidelines pertaining to conflicts of interest during such transactions. In order to ensure that no irrelevant consideration is taken when entering related-party agreements, two people must always take decisions regarding the agreement on behalf of Wallenstam. Moreover, authorized individuals may not authorize expenditures that apply to themselves.

Prior to the preparation of the annual accounts individual members of Wallenstam's Board of Directors and company management provide their assurance regarding whether or not they or their close family have entered into any transactions during the financial year that can be considered related-party transactions with Wallenstam Group companies.

Transactions with related parties

The parent company performs administrative services for the other Group companies. Income in respect of these services are reported as other management revenue. See parent company, note 2. The parent company has expenses from other Group companies in respect of electricity and the rent of floor space totalling around SEK 20 million (20).

The parent company manages loan procurements and interest derivatives on behalf of the subsidiaries.

In addition to transactions with Group companies, companies related to Wallenstam board members rent premises on prevailing market terms. All in all these do not amount to significant sums for Wallenstam or its counter-parties.

During January 2012 a related-party transaction took place when Wallenstam sold a detached house in Gothenburg to the Deputy MD in charge of the Gothenburg/Helsingborg regions and member of company management, at market price.

At the end of the year a construction contract was signed in which a member of Wallenstam's Board is an indirect owner and where a related party is a board member. The contract was agreed on prevailing market terms

NOTE 11. Management costs and administration expenses

Management costs and administration expenses amounted to SEK 237 million (201). This includes the Group's administrative expenses such as personnel, office, premises and marketing expenses and the depreciation of fixtures and fittings.

Management costs and administration expenses also include expenses of SEK 20 million (3) for the personnel option programme.

Wallenstam has engaged Ernst & Young as auditors.

SEK million	2012	2011
Audit assignment	1.3	2.0
Audit-related advice	0.3	0.4
Tax advice	0.1	0.4
Other assignments	0.2	0.6
	1.9	3.4

NOTE 12. Other operating income and expenses

Other operating income	2012	2011
Income from the sale of participations	27	68
Income from contract work	101	-
Income from the sale of wind farm projects	55	-
Electricity sales	138	90
Unrealized change in value, certificates	10	-
Other	-	3
Total other operating income	331	161

Other operating expenses	2012	2011
Acquisition cost of participations	19	46
Expenses, contract work	98	-
Acquisition cost, wind farm project	45	-
Electricity sales	47	24
Realized changes in value, electricity contracts	3	7
Unrealized change in value, electricity contracts	2	23
Depreciations	50	32
Impairment loss	100	-
Other	4	2
Total other operating expenses	368	134

NOTE 13. Change in value of investment properties

Changes in value are reported in the consolidated financial statements based on internal quarterly valuations, and also through sales. For further information on the valuation of investment properties, refer to note 17.

SEK million	2012	2011
Income from sales	1,926	1,298
Opening reported value, properties sold	-1,624	-1,198
Investments in properties sold	-94	-42
Unrealized change in value, investment properties	1,198	849
Total change in value, investment properties	1,406	907
Unrealized change in value		
Change in rate of return value	479	-
Capitalization of change in operating surplus	524	704
Future investment requirements	-98	-16
Completed projects	293	162
Unrealized change in value, investment properties	1,198	849

NOTE 14. Financial income and expenses

SEK million

Financial income	2012	2011
Interest income, current assets	40	35
Interest subsidies	-	1
Dividends	1	-
Other income from financial items	-	1
Total interest income	41	37

Financial expenses	2012	2011
Interest expenses	-547	-524
Impairment of financial instrument	-22	-
Other financial expenses	-4	-3
Total interest expenses	-573	-526

During the year SEK 55 million (54) in interest in respect of investments in projects was activated. The average interest rate was used on activation, which amounts to 3.5 per cent (3.9).

Changes in value, financial derivative instruments	2012	2011
Realized	-	3
Unrealized	-72	-327
Total changes in value	-72	-324

The change in value refers principally to financial derivatives measured at market value.

Net financial income/expense including changes in value amounted to SEK -604 million (-813).

NOTE 15. Income tax expense/income

The applicable tax rate for limited liability companies in Sweden is 26.3% up until 2012. The tax in the income statement is split across two items, income tax and deferred tax. Income tax is calculated based on the company's taxable earnings, which differs from the reported profit/loss. This depends primarily on the possibility of utilizing:

- tax-related depreciations
- tax deductions for certain conversions on properties activated for accounting purposes
- the Group's existing tax-related loss carryforwards.

Actual tax, i.e. tax paid, that arises is due to the fact that some subsidiaries do not have opportunities for tax-related Group contributions. Deferred tax is calculated in accordance with the balance sheet method on the basis of all temporary differences that occur between the reported and taxable values of assets and liabilities. The deferred tax asset refers to the value of loss carryforwards in Group companies. The deferred tax liability refers mainly to differences between reported values and fiscal residual values in Group properties. Deferred tax assets and deferred tax liabilities are valued at their nominal amounts in the balance sheet in accordance with the prevailing tax regulations and tax rates. As of closing day revaluation of deferred tax took place at the newly adopted 22 per cent corporation tax. The total tax reported in the income statement may deviate from the nominal tax in cases where there are reported income and expenses that are not taxable or deductible or it may deviate due to other tax-related adjustments, which is primarily because the disposal of subsidiaries is not taxable.

NOTE 15. Income tax expense/income, cont.

Tax reported in the income statement

SEK million	2012	2011
Current tax	-1	-1
Deferred tax	327	-186
Total tax	326	-187

Difference between the the Group's reported tax and tax based on the applicable tax rate of 26.3 per cent.

SEK million	2012	2011
Reported profit/loss before tax	1,601	923
Tax according to applicable rate	-421	-243
Tax effect of:		
Expenses, non-deductible	-9	-14
Impairment charges, non-deductible	-33	-
Adjustment of tax, previous year	122	-67
Reversed impairment charges	10	-
Non-taxable profit on properties sold	253	120
Acquisition of companies	11	8
Pension commitment assured via endowment insurance	1	6
Other items	-	3
Revaluation to 22 %	392	-
Tax on profit for the year in the income statement	326	-187

Tax items reported under other comprehensive income

SEK million	2012	2011
Deferred tax attributable to:		
Change in value, cash flow hedges	-1	-1
Translation difference	-	-1
	-1	-2

Allocation of deferred and current tax

SEK million	2012		2011	
	Basis current tax	Basis deferred tax	Basis current tax	Basis deferred tax
Profit before tax	1,601		923	
Tax deductible:				
Property conversions	-188	188	-196	196
Depreciations	-219	219	-218	218
Accelerated depreciations	-504	504	-	-
Impairment charges and reverses	129	-38	-42	62
Sale of properties	-154	-811	-21	-435
Unrealized change in value, properties	-1,198	1,198	-849	849
Unrealized change in value, financial derivative instruments	64	-64	342	-342
Realized change in value, financial derivative instruments	12	-12	-	-
Revaluation, renewable energy certificates	-17	17	14	-14
Other non-deductible costs	32	-4	21	-23
Other Group related adjustments	3	-3	-	-
Acquisition of companies	-	-41	-	-29
Adjustment of tax, earlier years	-	-462	-	255
Current tax-related profit	-439	691	-26	737
Changes to tax-loss carryforwards for the year	443	-443	31	-31
Taxable profit	4	248	5	706
Tax for the year	-1	-65	-1	-186
Revaluation to 22 %		392		-
Tax on profit for the year in the income statement	-1	327	-1	-186

NOTE 16. Intangible assets

Intangible assets refer to activated expenses for computer software.

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	33	35
Investments for the year	3	5
Sales/retirements for the year	-	-7
Accumulated cost carried forward	36	33
Depreciation brought forward	-24	-29
Depreciations for the year	-4	-3
Sales/retirements for the year	-	7
Accumulated depreciation carried forward	-28	-24
Book value at year end	8	9

NOTE 17. Properties

SEK million	31/12/12	31/12/11
Reported value at beginning of year	26,296	23,637
Acquisitions during the year	617	1,908
Construction during the year	1,193	1,125
Sales during the year	-1,624	-1,224
Unrealized changes in value	1,198	849
Reported value at year end	27,680	26,296

Activated interest during the year amounted to SEK 43 million (38). The average interest rate was around 3.5 per cent (3.9).

Distribution of changes in value, investment properties

SEK million	31/12/12	31/12/11
Change in yield	479	-
Capitalization of change in operating surplus	524	704
Future investment requirements	-98	-16
Completed projects	293	162
Unrealized changes in value	1,198	849
Realized changes in value	208	58
Change in value of investment properties	1406	907

During 2012 Wallenstam sold properties at values that were on average, after taking into account investments for the year, 13 per cent above valuation (5).

SEK million	31/12/12	31/12/11
Tax assessment value		
Buildings	7,215	7,341
Land	3,175	3,129
Land leasehold rights	2,828	2,683
Total tax assessment value	13,218	13,153

Investment commitments

Future expenditure for contracted investments as of the accounting date which have not been recognized in the financial reports relating to properties:

SEK million	31/12/12	31/12/11
Investments	482	273

NOTE 17. Properties, cont.

Valuation model

Wallenstam reports investment properties at estimated market values. Wallenstam has estimated its property holding internally. A complete valuation of each individual building is made in connection with interim and annual accounts. Valuations are performed according as rate of return valuations, which means that the operating surplus of each individual property is divided by the required rate of return for the property concerned. Different required rates of return have been used for different types of property.

On the occasion of each valuation it is adjusted in cases where significant changes in the underlying factors have taken place, such as the required rate of return, rental level, occupancy rate, effects of contracted sales and completed conversions. Revaluation of new production projects are made successively in relation to how large a part of a property has been transferred to property management. Wallenstam participates in a significant number of property transactions every year, which provides for a good feel for the market. When a transaction is completed a cross-check is made of the evaluations concerned. Wallenstam also follows completed property transactions in relevant business areas on an ongoing basis.

Wallenstam's valuation model

+ Rental value*
- General vacancies of three per cent in the commercial holding.
- Operating costs including property tax, excluding administration
= Operating surplus
÷ Required rate of return for the property
= The property's gross rate of return
- Two years' rent for vacant floor space
- Planned investments and significant repairs
+/- Current value of temporary additions/deductions
+ Location premium
= Estimated market value of property

* The rental value is calculated on the basis of the budgeted 2013 rent less current vacancies.

Operating surplus

The improvement in operating surplus is partly attributable to higher rents and partly to lower operating expenses. Wallenstam's residential property holding is fully let and rent negotiations for 2012 resulted in an average rise of 2.79 per cent in Gothenburg, 2.20 per cent in Helsingborg and 2.93 per cent in Stockholm. Rent levels for Wallenstam's commercial premises rose by around 2 per cent compared to the previous year.

Basis for determining anticipated required rate of return

Required rates of return differ between properties depending on markets and various types of property. Rate of return valuations are made based on living area and commercial premises' floor space, with different rates of return required for the respective lettable. Analyses and comparisons are made with current price statistics for similar objects. Wallenstam carries out a significant number of property transactions every year which provides for a good feel for the market. When a transaction is completed a cross-check is made of the evaluations concerned. Wallenstam also follows completed property transactions in relevant business areas on an ongoing basis.

Properties that undergo comprehensive reconstruction are measured initially at the value prior to construction, and then with consideration given to expenses accrued by the reconstruction. Valuation to market value is carried out when the property is finished or when deciding factors such as rent levels and operating surplus can be determined with reasonable certainty.

Estimated market values for new construction projects are charged initially with a risk supplement to the required rate of return of 0.5 percentage points compared to an investment property in the same location. This is done because of the uncertainty that exists in regard to budgeted expenditures e.g. for final production expenses and initial operations in these properties. After a period in operation when actual conditions are known the required rate of return is tested anew.

Deductions from the rate of return are made for estimated future investment requirements.

Land rights and development rights for land with planning permission is valued at market value.

NOTE 17. Properties, cont.

Property type	Location	Required yield, %	Property value, %	MSEK
Residential	Gothenburg	3.25-6.50	19	5,293
Residential	Stockholm	3.25-6.00	33	9,038
Residential	Helsingborg	3.25-6.25	4	1,176
Commercial properties		5.00-8.50	44	12,173
			100	27,680
Average return, housing			3.8	
Average return, commercial holding			5.8	

Sensitivity analysis

Fair value is an estimation of a probable sales price on the market at a given valuation date. However, the actual price can only be determined when a transaction is completed and paid for. To illustrate the uncertainty surrounding estimations of market value a value range is often specified, usually plus/minus 5 to 10 per cent. However, this may vary depending on such things as the market situation, the standard of the property and investment requirements. As of December 31, 2012 Wallenstam had investment properties valued at SEK 27,680 million; their estimated fair value varies by plus/minus SEK 1.4 billion to SEK 2.8 billion at plus/minus five and ten per cent respectively.

Furthermore, changes to the required rates of return can have significant effects on valuation. A 0.25 per cent adjustment in required rates of return changes property values by around SEK 1.3 – 1.5 billion, which is equivalent to a net asset value of around SEK 9.00 per share in the case of an increase, and SEK -8.00 per share in the case of a reduction (8 and -7 respectively). Refer to the table below for comparisons.

Property values with other required rates of return

SEK million	2012	2011
0.5% point lower	30,896	29,155
0.25% point lower	29,186	27,621
Our estimate	27,680	26,296
0.25% point lower	26,342	25,056
0.5% point lower	25,146	23,970

NOTE 18. Wind power and hydroelectric plants

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	1,612	1,211
Reclassification	-62	-
Investments for the year	615	414
Sales during the year	-45	-13
Accumulated cost carried forward	2,120	1,612
Depreciation brought forward	-64	-32
Depreciations for the year	-50	-32
Accumulated depreciation carried forward	-114	-64
Impairment losses brought forward	-	-
Impairment losses for the year	-100	-
Accumulated impairment losses carried forward	-100	-
Book value at year end	1,906	1,548
Future investment commitments	415	560

An impairment test is based on a calculation of value in use. This value is based on cash flow forecasts for the coming five years and a terminal period. Cash flows are affected by commercial factors such as market growth, competitive strength, prices, margins, cost trends, investment levels and working capital tied up. When discounting, estimations of financial factors such as interest rates, borrowing costs, market risks, beta coefficients and tax rates are additional.

Assumptions made in the test are the Board's best estimation of the econo-

mic conditions that are expected to prevail during the forecast period. Current market conditions, i.e. primarily the prices of electricity and renewable energy certificates, make forecasts difficult. The first five years, 2013-2017, are based on internal Board forecasts while the subsequent period used an average growth rate of 2 to 3 per cent for the terminal period. Sensitivity analyses were carried out.

Valuation was made by identifying the recoverable value of wind farms as corresponding to value in use with required rates of return after tax equivalent to 9 per cent. The choice of required rates of return reflects the Group's initial intention of making these investments partly as a hedge against a significant property management cost component, i.e. electricity. Valuation took place per wind farm, which corresponds to the lowest cash-generating unit. Discounted cash flows are compared to the book value of the cash-generating unit.

Tests in 2012 showed a requirement for impairments. During the year investments in wind farms have been written down by a total of SEK 100 million, which is mainly the result of low electricity market prices. In all, four wind farms were affected by impairment charges.

NOTE 19. Equipment

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	74	78
Investments for the year	3	4
Sales/retirements for the year	-1	-8
Accumulated cost carried forward	76	74
Depreciation brought forward	-26	-28
Depreciations for the year	-5	-5
Sales/retirements for the year	-	7
Accumulated depreciation carried forward	-31	-26
Impairment losses brought forward	-2	-2
Impairment losses for the year	-	-
Accumulated impairment losses carried forward	-2	-2
Book value at year end	43	46

NOTE 20. Financial fixed assets

Other non-current securities holdings SEK million	31/12/12	31/12/11
Acquisition cost brought forward	249	218
Investments for the year	164	28
Value changes for the year	-19	2
Reclassification	8	-
Book value at year end	402	249

Other non-current securities consist of shares and participations in Platzer SEK 150 million, Solar SEK 10 million, Eolus Vind AB SEK 14 million, Triventus AB SEK 5 million and other participations SEK 17 million, SEK 175 million in special borrowing and SEK 23 million i K-insurance pledged for future obligations. Receivables of SEK 8 million in associated companies are included.

Non-current receivables SEK million	31/12/12	31/12/11
Acquisition cost brought forward	354	161
New receivables	63	591
Reclassification to current	-6	-156
Amortizations	-13	-242
Book value at year end	398	354

Non-current receivables consist mainly of promissory notes. Weighted average effective interest rates on interest-bearing non-current receivables amounted to 2.88 per cent (2.07). All non-current receivables follow payment plans. No impairment requirements are considered necessary for non-current receivables. There are no non-current receivables past due.

NOTE 21. Current intangible assets

Renewable energy certificates	2012	2011
Reported value at beginning of year	23	14
Production during the year	31	21
Cancellations during the year	-3	-4
Acquisitions during the year	-	1
Sales for the year	-12	-6
Unrealized changes in value	10	-4
Book value at year end	49	23

NOTE 22. Trade receivables

SEK million	31/12/12	31/12/11
Trade receivables	26	26
Less provision for depreciation of receivables	-9	-7
Book value at year end	17	18

Provision for doubtful receivables

SEK million	31/12/12	31/12/11
Provisions at beginning of year	-7	-8
Verified losses	2	2
Provision for probable losses	-5	-2
Reversed unutilized amount	1	1
Provisions at year end	-9	-7

Trade receivables past due by more than two months are SEK 9 million (7).

NOTE 23. Other receivables

SEK million	31/12/12	31/12/11
Receivables relating to property transactions	123	-
Other receivables	17	64
Promissory notes	91	156
Book value at year end	231	220

In addition to a receivable for a real estate sale to a housing cooperative, other receivables consist mainly of receivables for reconstruction supplements. The receivable from the housing cooperative will be settled in connection with completion of construction. There are no other receivables past due.

NOTE 27. Equity

A specification of the change in equity can be found in the Consolidated statement of changes in equity, immediately after the balance sheet.

Number of shares	A shares	B shares	Total number	Of which shares in own purch.	Outstanding shares	Quota value, SEK
Number, 31/12/2011	17,250,000	154,750,000	172,000,000	200,000	171,800,000	
Repurchase				1,800,000	-1,800,000	
Withdrawn	-					
Number, 31/12/2012	17,250,000	154,750,000	172,000,000	2,000,000	170,000,000	1.00

Share capital in Wallenstam AB consists of 17,250,000 A shares each with ten votes, and 154,750,000 B shares with one vote each. On the closing date the number of repurchased shares amounted to 2,000,000. During 2012, 1,800,000 shares were bought back at an average price of SEK 69.83.

The proposed dividend for the 2012 financial year is SEK 1.25 per share (1.20).

Earnings per share

Reported earnings per share have been calculated by dividing net earnings for the year with the average number of outstanding shares during the year. The Group uses the net income attributable to the parent company's shareholders when calculating earnings per share.

Specification of parameters used

	2012	2011
Earnings for the year excl. share attributable to holdings without controlling influence, SEK million	1,927	736
Average number of shares as per closing date, thousands	171,084	171,908
Earnings per share, SEK	11.3	4.3

No dilution has occurred

NOTE 24. Prepaid expenses and accrued income

SEK million	31/12/12	31/12/11
Prepaid insurance premiums	2	1
Prepaid operating expenses	20	15
Prepaid administration expenses	20	16
Prepaid expenses relating to transactions	31	5
Prepaid rental expenses	7	-
Accrued interest income	15	26
Book value at year end	95	62

NOTE 25. Participations

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	52	35
Investments for the year	282	61
Sales during the year	-146	-44
Book value at year end	188	52

The participations consist of holdings in housing cooperatives.

NOTE 26. Cash and bank balances/Overdraft facilities

SEK million	31/12/12	31/12/11
Cash and bank balances	194	86
Approved amount	400	400
Utilized amount	-	-51
Available amount, overdraft facilities	400	349
Available liquid assets	594	435

NOTE 28. Deferred tax

SEK million	31/12/12		31/12/11	
	Basis	Tax 26.3 %	Basis	Tax 26.3 %
Deferred tax asset				
At beginning of year	4,131	1,086	3,872	1,017
Changes to loss carryforwards for the year	443	117	31	8
Divested losses	-1	-	-	-
Acquired losses	-	-	24	6
Adjustment of tax, earlier years	483	127	-245	-64
Pension commitments assured via endowment insurance	4	1	23	6
Temporary differences, derivatives	70	18	-	-
Reclassification	15	4	425	112
At year end	5,145	1,353	4,131	1,086
Revaluation to 22%		-222		-
At year end as per balance sheet	5,145	1,131	4,131	1,086
Deferred tax liability				
Properties				
At beginning of year	12,770	3,358	11,856	3,118
Property conversions during the year	188	49	196	52
Depreciations for the year	221	58	220	58
Impairment charges and reverses	-38	-10	62	16
Value changes for the year	1,198	315	849	223
Add-backs for the year due to sales	-811	-213	-440	-116
Adjustment of tax, earlier years	38	10	4	1
Acquisitions during year	323	85	599	157
At year end	13,889	3,652	13,346	3,510
Deducted, attrib. to asset acquis.	-364	-96	-576	-151
At year end	13,525	3,557	12,770	3,358
Revaluation to 22%		-582		-
At year end as per balance sheet	13,525	2,975	12,770	3,358
Financial instruments and hares				
At beginning of year	7	2	-90	-24
Value changes for the year	-7	-2	-328	-86
Reclassification	-	-	425	112
At year end	-	-	7	2
Wind turbines				
At beginning of year	203	53	224	59
Accelerated depreciations for the year	504	133	-	-
Value changes for the year	17	4	-31	-9
Acquisitions during year	-	-	15	4
Revaluation of participations in foreign subsidiaries	2	1	-	-
Other adjustments	-2	-1	-5	-2
Reclassification	15	4	-	-
At year end	739	194	203	53
Revaluation to 22%		-32		-
At year end as per balance sheet	739	162	203	53
Total deferred tax liability		3,137		3,413
Net deferred tax				
At beginning of year	8,850	2,327	8,119	2,135
Change during year	270	71	731	192
At year end	9,120	2,398	8,850	2,327
Revaluation to 22%		-392		-
At year end as per balance sheet	9,120	2,006	8,850	2,327

NOTE 29. Other provisions

	31/12/12	31/12/11
Capital value of pension commitments	23	17
Other	5	1
Book value at year end	28	18

NOTE 30. Accrued expenses and prepaid income

SEK million	31/12/12	31/12/11
Accrued salary costs	25	23
Accrued interest expenses	63	73
Accrued operating expenses	68	67
Accrued administration expenses	8	5
Prepaid rental income	148	185
Accrued expenses relating to property transactions	6	-
Book value at year end	318	354

NOTE 31. Pledged assets

	31/12/12	31/12/11
Property mortgages in respect of property-based credits	15,407	15,502
Pension commitments	23	18
Wind turbines	1,556	1,173
Blocked bank funds	-	30
Total pledged assets	16,986	16,723

NOTE 32. Contingent liabilities

There is responsibility for the reversal of VAT on investments in commercial premises relating to tenants liable to VAT when the premises are leased to a tenant not liable to VAT. It is not possible to determine the amount.

Other contingent liabilities refer to responsibility as a joint owner for tenants' associations' liabilities of SEK 4 million (4) and an SEK 2 million (-) loan guarantee to Fastigo.

NOTE 33. Statement of cash flows

The statement of cash flows has been adjusted for items not affecting liquidity in order to show receipts and disbursements in operating activities. Operating activities have been adjusted to reflect changes in temporary entries, deferred tax and depreciation. Adjustments have also been made for changes in value to investment properties as these do not affect liquidity.

Investment activities have been adjusted for investments not yet paid.

Financing activities have been adjusted to reflect seller's notes in property transactions and changes in temporary entries.

	2012	2011
Adjustment items not affecting cash flow		
Change in value of investment properties	-1,406	-885
Realized earnings from the sale of other assets	-18	-22
Depreciations and impairment losses	159	40
Other adjustments	3	1
	-1,262	-866
Interest payments and interest subsidies received		
Interest income received	48	30
Interest subsidies received	-	1
Realized financial derivatives	2	3
	50	34
Acquisition of properties and investments in buildings		
Investments for the year	-1,710	-3,033
	-1,710	-3,033
Sale of properties and property, plant and equipment		
Sale of properties and participations	1,989	1,298
Sale of wind turbines	-	13
Overhead expenses	-186	-16
	1,803	1,294
Liquid assets		
Cash and bank balances	194	86
Unutilized credit at year end	400	349
	594	435
Total bank overdraft facilities	400	400

NOTE 34. Company acquisition and sale

During the year Wallenstam acquired a number of properties converted into companies. All transactions for the year were assessed as being asset acquisitions. A number of properties were divested in a similar manner. Disclosures regarding asset acquisitions and property sales are shown in note 17.

PARENT COMPANY INCOME STATEMENT

SEK million	Note	2012	2011
Management revenue	2	271	255
Management costs and administration expenses	3, 4, 5, 6	-305	-264
Rental income		76	77
Operating expenses	7	-28	-25
Profit before depreciations		14	43
Depreciation, properties	12	-6	-6
Operating profit, property management		8	37
Operating profit		8	37
Profit/loss from participations in Group companies	8	3,201	16
Interest income and similar profit/loss items	9	861	904
Interest expenses and similar profit/loss items	9	-867	-846
Realized changes in value, derivative instruments		-	3
Unrealized changes in value, derivative instruments		-70	-425
Net financial items		3,125	-348
Profit before tax		3,133	-311
Group contributions		-247	-41
Tax on profit for the year	10	168	-64
Profit for the year		3,054	-416
Comprehensive income		3,054	-416

PARENT COMPANY BALANCE SHEET

SEK million	Note	31/12/12	31/12/11
ASSETS			
FIXED ASSETS			
Intangible assets			
Activated expenses, computer software	11	8	9
		8	9
Property, plant and equipment			
Investment properties	12	845	833
Equipment	12	14	16
		859	849
Financial fixed assets			
Participations, subsidiaries	13, 14	6,842	4,705
Participations, other Group companies	15	-	-
Receivables from other Group companies	13	9,502	10,507
Financial derivative instruments	16	2	3
Other non-current holdings of securities	13	212	207
Deferred tax asset	20	374	213
		16,932	15,635
Total fixed assets		17,799	16,493
CURRENT ASSETS			
Other receivables		2	1
Prepaid expenses and accrued income	17	61	64
Cash and bank balances	18	166	11
Total current assets		229	76
Total assets		18,028	16,569
EQUITY AND LIABILITIES			
RESTRICTED EQUITY			
Share capital	19	172	115
Statutory reserve		120	120
Total restricted equity		292	235
NON-RESTRICTED EQUITY			
Profit brought forward		2,112	2,917
Profit for the year		3,054	-416
Total non-restricted equity		5,166	2,501
Total equity		5,457	2,735
NON-CURRENT LIABILITIES			
Loans	21	627	1,831
Liabilities to other Group companies		6,015	6,132
Pension provision		23	18
Financial derivative instruments	16	490	421
Other liabilities		42	21
Total non-current liabilities		7,197	8,423
CURRENT LIABILITIES			
Loans	21	5,249	5,286
Financial derivative instruments	16	7	7
Accounts payable		26	22
Other liabilities		15	10
Accrued expenses prepaid income	22	77	85
Total current liabilities		5,374	5,411
Total equity and liabilities		18,028	16,569
PLEGGED ASSETS	23	3,239	5,764
CONTINGENT LIABILITIES	24	10,249	7,886

PARENT COMPANY CHANGE IN EQUITY

SEK million	Restricted equity			Total equity
	Share capital	Statutory reserve	Non-restricted equity	
Change in equity 2011				
Opening balance on 01/01/2009	118	117	3,147	3,381
Profit for the year	-	-	-416	-416
Transactions with shareholders				
Reduction of share capital	-3	3	-	-
Dividends	-	-	-200	-200
Repurchase/sale of own shares (including expenses)	-	-	-29	-29
Closing balance on 31/12/2008	115	120	2,501	2,735
Change in equity 2012				
Opening balance on 01/01/2009	115	120	2,501	2,735
Profit for the year	-	-	3,054	3,054
Transactions with shareholders				
Bonus issue	57	-	-57	-
Dividends	-	-	-206	-206
Repurchase/sale of own shares (including expenses)	-	-	-126	-126
Closing balance on 31/12/2008	172	120	5,166	5,457

PARENT COMPANY STATEMENT OF CASH FLOWS

SEK million	Note	2012	2011
Current operations			
Operating profit, property management		8	37
Adjustment items not affecting cash flow	25	47	4
Dividend from subsidiary company		3,349	83
Interest payments and interest subsidies received		861	908
Interest paid		-877	-845
Cash flow from operating activities before change in working capital		3,388	186
Change in working capital			
Current receivables		-6	-2
Current liabilities		-42	50
Cash flow from operating activities		3,340	235
Investing activities			
Acquisition of properties		-4	-
Acquired participations		-1,475	-5,030
Withdrawal/deposited shares		-811	2,216
Investments, buildings		-15	-14
Sale of properties/equipment/intangible assets		-	-
Investments in properties/equipment/intangible assets		-6	-9
Cash flow from investing activities		-2,311	-2,837
Financing operations			
Repurchase of own shares		-126	-29
Group contributions		-247	-315
Dividends		-206	-200
Non-current liabilities raised		1,609	409
Amortization, loans		-2,799	-553
Change in non-current receivables		-	-6
Change in Group company liabilities		-117	2,365
Change in Group company receivables		1,012	627
Cash flow from financing activities		-874	2,298
Change in cash and cash equivalents		155	-304
Cash and bank balances at beginning of year		11	315
Change during year		155	-304
Cash and bank balances at year end		166	11
Unutilized credit at year end		400	349
Available liquid assets		566	360

ACCOUNTING PRINCIPLES AND NOTES, PARENT COMPANY ACCOUNTS.

NOTE 1. Accounting principles

The parent company has prepared the annual accounts in accordance with the Swedish Annual Accounts Act (1995:1554) and Swedish Financial Reporting Board recommendation RFR 2 Reporting for legal entities. RFR 2 implies that the parent company must apply as far as possible all the IFRS and interpretations adopted by the EU in the legal entity's annual report within the framework of the Swedish Annual Accounts Act, Swedish Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation. The recommendation states the exceptions from and additions to IFRS that must be made.

Differences between the consolidated and parent company accounting principles

The accounting principles applied are described in note 1 on page 62 in the Consolidated Accounting Principles with the following additions for the parent company. The accounting principles subsequently described for the parent company have been applied consistently throughout the periods presented in the parent company's financial statements.

Changed accounting principles

Wallenstam AB applies the rules for reporting Group companies in accordance with the alternative rule in RFR 2; for further information refer to Group contributions, below. These were reported in the previous year as Financial income and expenses. Comparative information in the income statement for 2011 has been changed correspondingly. No other changes have had a significant effect on the parent company's financial statements.

Classification and presentation

The parent company's income statement and balance sheet are presented as described by the Swedish Annual Accounts Act. The difference to IAS 1 Presentation of Financial Statements applied in the presentation of the consolidated financial statements is chiefly the reporting of financial income and expenses, fixed assets (chiefly investment properties), equity and the occurrence of provisions under their own heading in the balance sheet.

Income

Parent company net sales consists mainly of payments for administrative and project management services performed for other Group companies, and rental revenues. All income is reported in the period it concerns.

Anticipated dividends

Anticipated dividends from subsidiaries are reported in cases where the parent company has sole right to decide on the size of dividends, and where it decided on the size of a dividend before it published its annual report.

Intangible assets

Expenses for software developed for the Group, are capitalized as intangible assets if they provide probable economic benefits in coming years. Capitalized expenses for acquired software are written down according to plan by 20 per cent of cost over the software's economic life. The useful life of an asset, the depreciation method and residual value are assessed on a continuous basis. Depreciations are included in the income statement item Management costs and administration expenses. Standard software and annual licences are carried as expenses.

Investment properties

The parent company's investment properties are measured at cost less accumulated depreciations according to plan over useful life and with necessary impairment charges. Depreciation according to plan is made at 1 per cent on buildings.

Cost consists of the acquisition price, land registration costs and improvements that increase value. Interest which arises during the production period of large new constructions or conversions is activated. The activated interest is calculated on the basis of the average weighted borrowing cost. Only expenses that generate lasting increases in the value of properties are activated. Expenses for reconstructions of a maintenance nature are expensed on an ongoing basis and charged to earnings.

Equipment

Equipment is reported at cost less accumulated depreciation and any impairment losses. Depreciation of the cost is made according to plan over the equipment's useful life. Depreciation is 33 per cent for computers, 10

per cent for furniture and 20 per cent for other equipment. The useful life of equipment, the depreciation method and residual value are assessed on a continuous basis. Depreciations are reported under management costs and administration expenses.

Valuation of investment properties, fixtures and fittings

The carrying amount of Investment properties and Fixtures and fittings is tested for a possible need for impairment when events or changed circumstances indicate that the carrying amount may not be recoverable. If such indications exist and if the carrying amount exceeds the expected recoverable value, the assets are written down to the recoverable value.

Participations in subsidiaries

Participations in subsidiaries are reported in the parent company at cost.

Dividends received are reported as revenues on the condition that they derive from income earned after the acquisition. Dividends that exceed these earned incomes are considered to be a repayment of the investment and reduce the value of the participation.

In cases where the carrying amount of the participations exceeds the subsidiary's fair value, an impairment loss is charged to the income statement. In cases where a previous impairment is no longer motivated, it is reversed.

Value transfers between subsidiaries may arise in connection with intra-group restructuring whereupon an adjustment of book value of shares in subsidiaries may be necessary. These transactions are reported in the balance sheet in accordance with RR 1:00 p38.

During the year reporting for limited partnerships in which Wallenstam AB is a partner were reviewed with regard to what constitutes a participation in a limited partnership and what is a receivable/liability in these Group companies. Following the review transfers took place so that receivables and liabilities are reported as such and amounts in respect of purchase sums for the subsidiary together with equity transactions are reported as participations in the subsidiary. Comparative information in the balance sheet for 2011 has been changed correspondingly.

Financial instruments

According to RFR 2, parent companies that are covered by the consolidated financial statements must report certain financial instruments at fair value. Because Wallenstam does not apply hedge accounting in respect of interest derivatives, all changes in value are reported directly among financial income and expenses in the income statement.

Receivables

Receivables are carried in the amounts in which they are expected to be received.

Liabilities

Liabilities are reported in the balance sheet at nominal amounts.

Group contributions

Wallenstam AB reports Group contributions rendered and received as appropriations in the income statement.

Shareholder contributions

Shareholders' contributions in the parent company (donor) are reported by the contributor as an increase in the book value of shares and by the subsidiary (recipient) as an increase in non-restricted equity. The value of shareholder contributions rendered activated by the parent company are tested in accordance with the description above under Participations in subsidiaries.

Contingent liabilities

Contingent liabilities in favour of subsidiaries are financial guarantee agreements and are reported in accordance with RFR 2 Reporting for legal entities, i.e. they are not reported as provisions but instead disclosed.

NOTE 2. Management revenue

Parent company income consists mainly of payments for administrative and project management services performed for other Group companies. Income from Group companies amounted to SEK 271 million (255).

NOTE 3. Wages, other remunerations and social security costs

SEK million	Basic salary	Benefits	Variable remunerations	Social expenses	Pension expenses
2012					
Chairman of the Board	0.6	-	-	0.2	-
Board members	0.6	-	-	0.2	-
Total directors' remunerations	1.2	-	-	0.4	-
MD, parent company	3.5	0.5	-	1.9	1.4
Other senior management, 5 persons	13.9	0.4	-	6.7	4.1
Other employees	84.5	3.8	-	28.3	10.2
Total	103.1	4.7	-	37.3	15.7
2011					
Chairman of the Board	0.6	-	-	0.2	-
Board members	0.6	-	-	0.2	-
Total directors' remunerations	1.2	-	-	0.4	-
MD, parent company	3.1	0.6	-	3.6	1.3
Other senior management, 4 persons	10.1	0.8	-	5.8	4.2
Other employees	80.1	4.5	-	27.7	9.5
Total	94.5	5.9	-	37.5	15.0

Refer to the Group's note 8 for information on remunerations, pensions and severance pay for senior management.

NOTE 4. Average number of employees etc.

	2012		2011	
	Aver. number of employees	Of whom women	Aver. number of employees	Of whom women
Number of employees	187	105	183	103
	2012		2011	
	Number of	Of whom women	Number of	Of whom women
Board members	5	2	5	2
MD and senior management executives	6	1	6	1

NOTE 5. Transactions with related parties

Purchases and sales between Group companies

The parent company performs administrative services for the other Group companies. Income from these services is reported as management revenue; see note 2.

The parent company has expenses from other Group companies in respect of electricity and the rent of floor space of SEK 20 million (20).

The parent company manages loan procurements and interest derivatives on behalf of the subsidiaries.

In addition to transactions with Group companies, companies related to Wallenstam board members rent premises on prevailing market terms. All in all these do not amount to significant sums for Wallenstam or its counterparties.

A related-party transaction took place in January when Wallenstam sold previously tied accommodation in Gothenburg to a deputy MD and Board member. The sale took place at market price.

At the end of the year a construction contract was signed in which a member of Wallenstam's Board is an indirect owner and where a related party is a board member. The contract was agreed on prevailing market terms.

NOTE 6. Management costs and administration expenses

Management costs and administration expenses amounted to SEK 305 million (264).

Included in the management and Administration expenses are all of the Group's administrative expenses such as those for offices and commercial premises, personnel, marketing and auditing.

Expenses of SEK 20 million (3) for the personnel option programme were charged to management costs and administration expenses.

Wallenstam has engaged Ernst & Young for the audit and the Group's total expenses are handled by the parent company and subsequently distributed among the subsidiaries.

SEK million	2012	2011
Audit assignment	1.0	1.6
Audit-related advice	0.3	0.4
Tax advice	0.1	0.4
Other assignments	0.2	0.6
Total	1.6	3.0

NOTE 7. Operating expenses

SEK million	2012	2011
Heating expenses	3	3
Other operating expenses	6	8
Maintenance costs	12	8
Property tax	6	6
Total operating expenses	28	25

NOTE 8. Profit/loss from participations in Group companies

Refers to profit/loss from subsidiaries of SEK 199 million (-74). Impairment losses of SEK 161 million (-) in respect of subsidiary participations were incurred during the year. Reversed impairment of subsidiary participations SEK 12 million (7) Dividends from subsidiaries totalling SEK 3,150 million (83).

NOTE 9. Interest income/expenses and similar items

Financial income and expenses includes interest income from receivables from Group companies of SEK 841 million (884) and interest expenses from liabilities with Group companies of SEK 554 million (525).

NOTE 10. Tax on earnings for the year

Tax reported in the income statement	2012	2011
SEK million		
Current tax	-	-
Deferred tax	168	-64
Total tax	168	-64
Reported profit/loss before tax	2,886	-352
Tax according to the applicable rate, 26.3%	-759	93
Tax effect of:		
Expenses, non-deductible	-7	-118
Adjustment of tax, previous year	200	-15
Dividends	828	22
Deferred tax due to acquisition of a limited partnership	-22	-52
Pension commitments assured via endowment insurance	1	6
Tax on earnings for the year, 26.3%	241	-64
Revaluation of deferred tax, 22 per cent	-73	-
Tax on profit for the year in the income statement	168	-64

NOTE 10. Tax on earnings for the year, cont.

Distribution of deferred and current tax	2012		2011	
	Basis for curr. tax	Deferred tax	Basis for curr. tax	Deferred tax
SEK million				
Profit before tax	2,886	-	-352	-
Tax-deductible depreciations	-28	28	-11	11
Add-back of depreciation due to sold properties	20	-20	-	-
Expenses, non-deductible/tax-free revenues	98	-70	447	-
Dividends	-3,150	-	-83	-
Pension commitments assured via endowment insurance	-	-4	-	-23
Adjustment of tax, previous year	-335	-425	52	6
Deferred tax due to acquisition of a limited partnership	-	85	-	197
Current tax-related profit	-509	-406	53	191
The year's utilization of loss carryforwards	509	-509	-53	53
Taxable profit	-	-915	-	244
Tax on earnings for the year, 26.3 %	-	241	-	-64
Revaluation of deferred tax, 22 per cent	-	-73	-	-
Tax on profit for the year in the income statement		168		-64

NOTE 11. Intangible assets

Intangible assets refer to activated expenses for computer software.

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	33	35
Investments for the year	3	5
Sales/retirements for the year	-	-7
Accumulated cost carried forward	36	33
Depreciation brought forward	-24	-29
Sales/retirements for the year	-	7
Depreciations for the year	-4	-3
Accumulated depreciation carried forward	-28	-24
Book value at year end	8	9

NOTE 12. Property, plant and equipment

Investment properties

SEK million	31/12/12	31/12/11
Buildings		
Acquisition cost brought forward	646	632
Investments for the year	14	14
Sales during the year	-	-
Accumulated cost carried forward	660	646
Depreciation brought forward	-45	-39
Depreciations for the year	-7	-6
Sales during the year	-	-
Accumulated depreciation carried forward	-52	-45
Book value, building	608	601
Land		
Acquisition cost brought forward	232	232
Investments for the year	5	-
Sales during the year	-	-
Accumulated cost carried forward	237	232
Book value land	237	232
Book value, property, at year end	845	833
Tax assessment value		
Buildings	509	509
Land	330	330
Total tax assessment value	839	839
Equipment		
SEK million	31/12/12	31/12/11
Acquisition cost brought forward	41	45
Investments for the year	3	3
Sales/retirements for the year	-	-8
Accumulated cost carried forward	44	41
Depreciation brought forward	-25	-27
Depreciations for the year	-5	-5
Sales/retirements for the year	0	8
Accumulated depreciation carried forward	-30	-25
Book value at year end	14	16

NOTE 13. Financial fixed assets

Participations in subsidiaries

SEK million	31/12/12	31/12/11
Acquisition cost brought forward	6,123	3,309
Withdrawal/deposit, equity	-289	-2,216
Sales	-	-
Acquisitions	1,475	5,030
Liquidation	-227	-
Shareholders' contribution	1,100	-
Accumulated cost carried forward	8,182	6,123
Impairment losses brought forward	-1,418	-1,425
Sales for the year	-	-
Impairment losses for the year	-161	-
Liquidation	227	-
Reversed impairment loss for the year	12	7
Accumulated impairment losses carried forward	-1,340	-1,418
Closing book value	6,842	4,705
Receivables from other Group companies		
Receivables with other Group companies are non-current but are anticipated to continue in order to manage subsidiary liquidity flows.		
Weighted average interest rates on receivables amounted to:		
Per cent	2012	2011
Receivables from subsidiaries	3.51	3.81
Other non-current holdings of securities	31/12/12	31/12/11
Acquisition cost brought forward	207	183
Investments for the year	5	24
Sales for the year	-	-
Accumulated cost carried forward	212	207

NOTE 14. Participations in subsidiaries

The number of shares and the book values are specified for directly-owned companies, other Group companies are indirectly owned. (All shares that are directly or indirectly owned are included in Wallenstam's annual report, available at the Swedish Companies Registration Office.)

	Corporate reg. number	Dom.	Particip. %	Number of shares	Book value, SEK million
Wallenstam Investment AB	556089-7000	Gothenburg	100%	2,000	2
Wallenstam Förvaltning AB	556692-0251	Gothenburg	100%	1,000	1,234
W NaturEnergi AB	556618-8552	Gothenburg	100%	1,000	1,105
Wallenstam Stacken AB	556720-9910	Gothenburg	100%	100,000	15
KB Myran no. 193	916446-7905	Gothenburg	100%	1	0
KB Myran no. 510	969666-6818	Gothenburg	100%	1	0
KB Myran no. 347	969614-6381	Gothenburg	100%	1	0
KB Myran no. 325	916852-6961	Gothenburg	100%	1	14
KB Killingen 8 & 9	916447-4851	Gothenburg	100%	1	37
KB Myran no. 409	969637-6400	Gothenburg	100%	1	77
KB Myran no. 13	916442-2520	Gothenburg	100%	1	304
KB Myran no. 346	969614-7595	Gothenburg	100%	1	0
KB Myran no. 345	969614-9476	Gothenburg	100%	1	607
KB Myran no. 349	969614-9443	Gothenburg	100%	1	282
KB Myran no. 60	916443-3410	Gothenburg	100%	1	116
KB Myran no. 272	916775-5702	Gothenburg	100%	1	113
KB Myran no. 229	916774-6305	Gothenburg	100%	1	12
KB Myran no. 230	916774-6313	Gothenburg	100%	1	5
KB Myran no. 232	916774-6339	Gothenburg	100%	1	89
KB Myran no. 170	916550-0308	Gothenburg	100%	1	13
KB Myran no. 133	916563-7001	Gothenburg	100%	1	38
KB Myran no. 169	916550-0290	Gothenburg	100%	1	15
KB Myran no. 504	969667-0729	Gothenburg	100%	1	18
KB Myran no. 505	969667-0760	Gothenburg	100%	1	9
KB Myran no. 167	916550-0274	Gothenburg	100%	1	33
KB Myran no. 271	916775-5967	Gothenburg	100%	1	69
KB Myran no. 125	916444-2494	Gothenburg	100%	1	38
KB Myran no. 241	916849-0895	Gothenburg	100%	1	25
KB Myran no. 236	916774-6370	Gothenburg	100%	1	19
KB Myran no. 205	916764-0458	Gothenburg	100%	1	33
KB Myran no. 506	969667-0778	Gothenburg	100%	1	34
KB Myran no. 162	916550-0225	Gothenburg	100%	1	4
KB Myran no. 157	916550-0175	Gothenburg	100%	1	14
KB Myran no. 158	916550-0183	Gothenburg	100%	1	14
KB Myran no. 233	916774-6347	Gothenburg	100%	1	12
KB Myran no. 178	916614-5475	Gothenburg	100%	1	47
KB Myran no. 174	916614-5434	Gothenburg	100%	1	0
KB Myran no. 322	969678-0387	Gothenburg	100%	1	3
KB Myran no. 323	969678-0866	Gothenburg	100%	1	6
Helux Sibillegatan 9 KB	969690-1710	Gothenburg	100%	1	0
Xuleh Rådmansbacken KB	969690-0878	Gothenburg	100%	1	18
Xuleh New York 1 KB	969690-0761	Gothenburg	100%	1	61
Helux Storskärsgatan 4 KB	969687-2572	Gothenburg	100%	1	0
KB Myran no. 185	916564-2639	Gothenburg	100%	1	0
KB Myran no. 300	969605-7471	Gothenburg	100%	1	5
KB Myran no. 301	969605-7489	Gothenburg	100%	1	60
KB Myran no. 302	969605-7497	Gothenburg	100%	1	216
KB Myran no. 121	916444-2452	Gothenburg	100%	1	68
KB Myran no. 122	916444-2460	Gothenburg	100%	1	177
KB Myran no. 179	916614-5483	Gothenburg	100%	1	35
KB Myran no. 261	916644-2591	Gothenburg	100%	1	70
KB Myran no. 264	916644-2518	Gothenburg	100%	1	51
KB Myran no. 269	916644-2567	Gothenburg	100%	1	63
KB Myran no. 297	969605-7430	Gothenburg	100%	1	45
KB Myran no. 298	969605-7455	Gothenburg	100%	1	148
KB Myran no. 299	969605-7463	Gothenburg	100%	1	102
KB Myran no. 114	916444-2387	Gothenburg	100%	1	153
KB Myran no. 284	916775-5892	Gothenburg	100%	1	0
KB Myran no. 285	916775-5884	Gothenburg	100%	1	21
KB Myran no. 286	916775-5876	Gothenburg	100%	1	25
KB Myran no. 294	916775-5793	Gothenburg	100%	1	27
KB Myran no. 314	969605-7570	Gothenburg	100%	1	88
KB Ormingefast 11	969611-1336	Gothenburg	100%	1	215
KB Myran no. 262	916644-2575	Gothenburg	100%	1	268
KB Myran no. 265	916644-2526	Gothenburg	100%	1	135
KB Myran no. 266	916644-2534	Gothenburg	100%	1	149
KB Myran no. 318	916613-4750	Gothenburg	100%	1	34
KB Myran no. 367	969677-9181	Gothenburg	100%	1	11
KB Myran no. 280	916775-5942	Gothenburg	100%	1	40
KB Göteborg Lorensberg 53:5	969659-8755	Gothenburg	100%	1	45
KB Wallenstam Avenyn 1	969637-6681	Gothenburg	100%	1	57
					6,842

During the year Wallenstam AB acquired 23 KB internally, 21 from Wallenstam Region Gothenburg AB and two from Wallenstam Region Stockholm AB. The company acquired the limited partnership Gormette externally which was renamed KB Göteborg Lorensberg 53:5. During the year the following limited partnerships were liquidated KB Myran 174, KB Myran 346, Xuleh Storskärsgatan 4 KB. The company is a partner in the above limited partnership.

NOTE 15. Participations in other Group companies

The Parent Company's participations as a limited partner in indirectly owned limited partnership companies. (All shares that are directly or indirectly owned are included in Wallenstam's annual report, available at the Swedish Companies Registration Office).

NOTE 16. Financial derivative instruments

SEK million	31/12/12		31/12/11	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative instruments				
Interest swap contracts				
cash flow hedges	2	490	3	421
Current derivative instruments				
Interest swap contracts				
cash flow hedges	-	7	-	7
Total interest derivatives	2	497	3	428
Maturity profile, financial derivative instruments			31/12/12	31/12/11
0-3 mo.			1	-
3 mo.-1 yr			6	7
1-5 yrs			171	147
> 5 yrs			317	271
Total			495	425

NOTE 19. Equity

A specification of the change in equity can be found in the Consolidated statement of changes in equity, immediately after the balance sheet.

Number of shares	A shares	B shares	Total number	Of which shares in own		Quota value, SEK
				safekeeping	Outstanding shares	
Number, 31/12/2011	17,250,000	154,750,000	172,000,000	200,000	171,800,000	
Repurchase				1,800,000	-1,800,000	
Withdrawn						
Number, 31/12/2012	17,250,000	154,750,000	172,000,000	2,000,000	170,000,000	1.00

Share capital in Wallenstam AB consists of 17,250,000 A shares each with ten votes, and 154,750,000 B shares with one vote each. On the closing date the number of repurchased shares amounted to 2,000,000. During 2012, 1,800,000 shares were bought back at an average price of SEK 69.83. The proposed dividend for the 2012 financial year is SEK 1.25 per share (1.20).

NOTE 20. Deferred tax

SEK million	31/12/12	31/12/11
Deferred tax liability		
Difference booked/fiscal depreciation	81	72
Deferred tax asset		
Loss carryforwards	340	279
Pension commitments assured via endowment insurance	6	6
Temporary differences, derivatives	109	-
Net deferred tax asset/liability	374	213

All losses run for unlimited periods.

NOTE 17. Prepaid expenses and accrued income

SEK million	31/12/12	31/12/11
Prepaid insurance premiums	1	1
Prepaid interest expenses	16	16
Accrued income	44	47
Total prepaid expenses and accrued income	61	64

SEK 27 million (27) of the accrued income relates to receivables from Group companies.

NOTE 18. Cash and bank balances/Overdraft facilities

SEK million	31/12/12	31/12/11
Cash and bank balances	166	11
Approved amount	400	400
Utilized amount	-	-51
Available amount, overdraft facilities	400	349
Available liquid assets	566	360

NOTE 21. Liabilities to credit institutions

SEK million	31/12/12	31/12/11
Non-current loans		
Bank loans	627	1,831
Current loans		
Bank loans	5,249	5,286
Total	5,876	7,117

NOTE 21. Liabilities to credit institutions, cont.

	31/12/12	31/12/11
	Amount, SEK mil- lion	Amount, SEK million
Loan agreement maturity profiles		
0-3 mo.	1,658	3,388
3 mo.-1 yr	3,591	1,899
1-2 yrs	597	1,109
2-3 yrs	30	521
3-4 yrs	-	200
Total	5,876	7,117

Interest maturity profile	31/12/12		31/12/11	
	Amount, SEK mil- lion	Average interest, %	Amount, SEK million	Average interest, %
0-3 mo.	-3,217	-0.34	-790	-2.34
3 mo.-1 yr	1,671	2.53	830	4.06
1-2 yrs	1,372	3.32	1,261	3.57
2-3 yrs	550	3.69	896	3.52
3-4 yrs	950	3.58	520	3.72
4-5 yrs	620	3.03	950	3.58
5-6 yrs	400	2.98	520	3.54
6-7 yrs	530	3.05	500	3.68
7-8 yrs	700	3.08	530	3.05
8-9 yrs	1,000	3.26	700	3.08
> 9 yrs	1,300	2.48	1,200	3.14
Total	5,876	4.87	7,117	4.14

All of the Group's interest derivatives except those in respect of wind turbine financing are taken up through banks via the parent company. The volume of the parent company's interest derivatives exceeds the volume of loans held by the parent company. Wallenstam takes up interest derivatives in the parent company in order to hedge subsidiaries' interest maturity profiles.

%	2012	2011
Weighted average effective interest rates on loans amounted to:		
Loans	4.3	4.5
Overdraft facility	3.0	3.2

Recognized and fair values of other liabilities agree.

Liabilities to Group companies

Intercompany transactions are considered non-current when there is no intention or other requirement for them to be settled within a period of 12 months.

NOTE 22. Accrued expenses and prepaid income

SEK million	31/12/12	31/12/11
Accrued salary costs	25	23
Accrued interest expenses	34	45
Accrued operating expenses	1	1
Prepaid rental income	8	12
Accrued administration expenses	9	5
Total accrued expenses and prepaid income	77	85

NOTE 23. Pledged assets

SEK million	31/12/12	31/12/11
Property mortgages	797	709
Internal notes and property mortgages	2,419	5,037
Pledged endowment insurance	23	18
Total pledged assets	3,239	5,764

NOTE 24. Contingent liabilities

Warranty commitments for Group companies amounted to SEK 9,825 million (7,679). Other warranty commitments refer to supplementary responsibility for the external liabilities of limited partnership companies of SEK 424 million (207).

NOTE 25. Statement of cash flows

The statement of cash flows has been adjusted for items not affecting liquidity in order to show receipts and disbursements in operating activities. Operating activities have been adjusted to reflect changes in temporary entries, deferred tax and depreciation.

SEK million	2012	2011
Adjustment items not affecting cash flow		
Accrued unpaid rental income	-4	1
Accrued unpaid operating expenses	-	-1
Accrued unpaid management costs and administration expenses	36	-10
Depreciation	15	14
	47	4
Liquid assets		
Cash and bank balances	166	11
Unutilized credit at year end	400	349
	566	360
Total bank overdraft facilities	400	349

The Income Statements and Balance Sheets will be submitted to the Annual General Meeting on April 23, 2013.

We affirm that the annual accounts, to the best of our knowledge, have been prepared in accordance with generally accepted accounting principles for a publicly listed company. The information provided reflects the actual state of affairs, and nothing of material importance has been omitted which could affect the view of the Company presented by the annual accounts.

Gothenburg, February 20, 2013

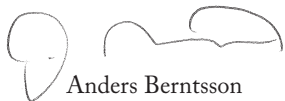
WALLENSTAM AB (publ)



Christer Villard
Chairman of the Board



Ulrica Jansson Messing
Vice Chairman



Anders Berntsson
Board member



Erik Åsbrink
Board member



Hans Wallenstam
Managing Director

My Audit Report concerning this annual report and the consolidated financial statements was issued on February 22, 2013.



Björn Grundvall
Authorized Public Accountant

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF WALLENSTAM AB (PUBL), COMPANY REG. NO. 556072-1523

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED FINANCIAL STATEMENTS

I have audited the annual accounts and consolidated financial statements of Wallenstam AB (publ) for 2012. The annual report and consolidated financial statements of the company are included in the printed version of this document on pages 52-92.

The Board of Directors and the Managing Director are responsible for

the annual accounts and consolidated financial statements

The Board of Directors and the Managing Director are responsible for preparing annual accounts that provide a fair presentation in accordance with the Swedish Annual Accounts Act and consolidated financial statements that provide a fair presentation in accordance with the Swedish Annual Accounts Act and International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors and Managing Director consider necessary for the preparation of annual accounts and consolidated financial statements that do not contain material misstatements, whether or not the latter are due to fraud or error.

Auditor's responsibility

My responsibility is to comment on the annual accounts and the consolidated financial statements based on my audit. I have conducted the audit in accordance with International Standards on Auditing and auditing standards generally accepted in Sweden. These standards require me to comply with professional ethical requirements and to plan and perform the audit to obtain reasonable assurance that the annual report and consolidated financial statements do not contain material misstatements.

An audit entails various procedures for obtaining audit evidence about amounts and other information in the annual report and consolidated financial statements. The auditor selects which procedures will be performed including the assessment of the risk of material misstatement in the annual accounts and consolidated financial statements whether or not such misstatements are due to fraud or error. In making such risk assessments, the auditor considers internal controls relevant to the company's method of preparation and fair presentation of the annual accounts and consolidated financial statements in order to draw up audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes an evaluation of the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as an evaluation of the overall presentation of the annual accounts and consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate as a basis for my opinions.

Opinion

In my opinion the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and in all material respects fairly present the parent company's financial position as of December 31, 2012 and its financial performance and cash flows for the year in accordance with the Swedish Annual Ac-

counts Act. In my opinion the consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and in all material respects fairly present the Group's financial position as of December 31, 2012 and its financial performance and cash flows for the year in accordance with International Financial Reporting Standards as adopted by the EU and the Swedish Annual Accounts Act. The directors' report is consistent with the other sections of the annual accounts and the consolidated accounts.

I therefore recommend that the AGM adopt the income statement and balance sheet for the parent company and the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to my audit of the annual report and consolidated financial statements I have also examined the proposed allocation of the company's profit or loss and the administration of the Board of Directors and Managing Director of Wallenstam AB (publ) for 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for allocating the company's profit or loss, and it is the Board of Directors and Managing Director who bear the responsibility for administration according to the Swedish Companies Act.

Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance regarding the proposed allocation of the company's profit or loss and on the administration based on my audit. I have conducted the audit in accordance with auditing standards generally accepted in Sweden.

As a basis for my opinion on the Board of Directors' proposed allocation of the company's profit or loss, I examined the Board of Directors' reasoned statement and a selection of its supporting information in order to assess whether the proposal is in accordance with the Swedish Companies Act.

As a basis for my opinion concerning discharge from liability I examined, in addition to my audit of the annual accounts and consolidated financial statements, significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the Managing Director. I also examined whether any board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

I believe that the audit evidence I have obtained is sufficient and appropriate as a basis for my opinions.

Opinion

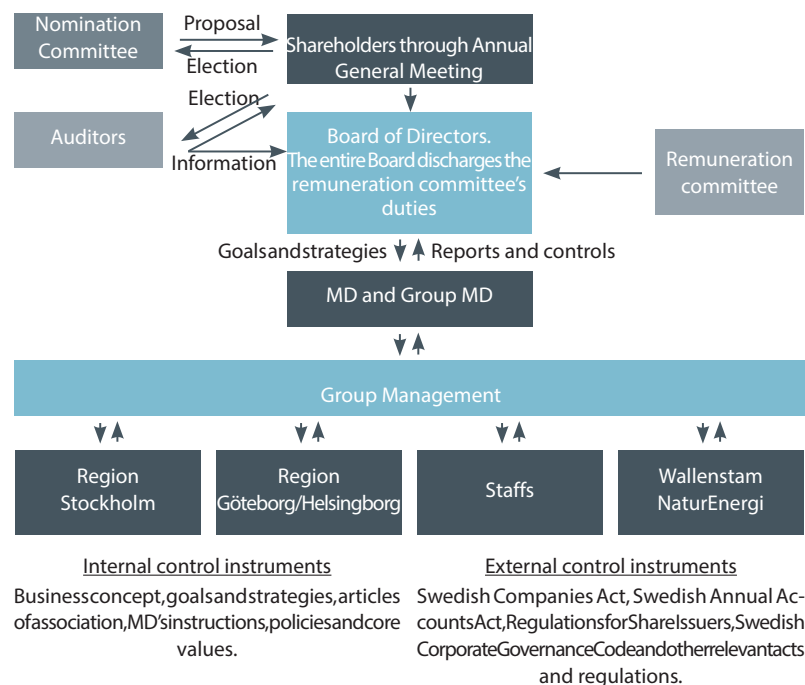
I recommend to the AGM that the profit be allocated in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Gothenburg, February 22, 2013

Björn Grundvall
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

WALLENSTAM'S CORPORATE GOVERNANCE STRUCTURE



PRINCIPLES OF CORPORATE GOVERNANCE

Wallenstam AB (publ) is a Swedish public company with its registered office in Gothenburg. The company is listed on the Nasdaq OMX Stockholm, Large Cap. Among other things, the articles of association, the Swedish Companies Act and other applicable legislation and enactments form the basis for control of the Group. Wallenstam also applies the Swedish corporate governance code (the Code). The Code is based on the comply or explain principle which means a company may deviate from one or more rules in the Code if there is a motive, it is explained and the chosen solution described. Wallenstam deviated from the Code during 2012 as follows:

2.3 Composition of the nomination committee – The code lays down that the Managing Director or other board member may not be a member of the nomination committee. Wallenstam does not follow this rule as the MD Hans Wallenstam is a member of the nomination committee. The reason for the deviation is that because the MD Hans Wallenstam is also the principal shareholder in the company he is a member of the nomination committee in that capacity.

SHARES AND OWNERS

The number of shareholders totalled 6,962 at year end. Wallenstam's principal shareholder is Hans Wallenstam who together with the company and family holds around 23 per cent of the capital and 59 per cent of the voting rights. Foreign share ownership makes up 10 per cent of equity and 5 per cent of the votes.

The ten largest shareholders together held the equivalent of

around 58 per cent of the equity and 78 per cent of the votes.

Wallenstam's share capital amounted to SEK 172 million on December 31, 2012, distributed across 17,250,000 A shares (ten votes per share) and 154,750,000 B shares (one vote per share). The shares all carry identical rights to the company's assets and profits. Repurchased shares have no dividend rights. There are no limits to how many votes each shareholder may cast at annual general meetings. Wallenstam's market capitalization at year end amounted to SEK 13,648 million.

The dividend policy adopted by the Board of Directors states that reported earnings should primarily be re-invested in the company for continued development of core activities for the purpose of creating growth in value. When determining the size of the dividend, consideration must be given to the company's investment requirements, its position in general and the ability of the Group to develop while maintaining its financial strength and freedom of action. However, the distributable amount must never exceed realized profit after tax.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Wallenstam's highest decision making body. The AGM is held within six months of the end of the financial year. In accordance with Swedish legislation and Wallenstam's articles of association, shareholders exercise their voting rights at the AGM in order to take decisions. The AGM elects the Board Chairman, other board members and the company auditor. It is also charged with adopting the company's balance sheets and income statements and deciding on the disposition of earnings as well as discharging the members of the Board and the Managing Director from liability for the financial year.

Notice to Attend the Annual General Meeting must be given through the Official Swedish Gazette (Post- och Inrikes Tidningar) and Wallenstam's website. Announcements in the daily press will also inform that notice is given. The notice to attend describes e.g. the agenda, nomination committee proposals for election to the Board of Directors, the auditor, and fees for these individuals. According to the Swedish Companies Act, shareholders have the right to have an issue taken up at the AGM if the Board is notified in time. Shareholders also have the opportunity to ask questions at the AGM. Wallenstam's AGM was held on April 25, 2012 in Gothenburg; 195 shareholders attended or were represented. They corresponded to about 51 per cent of the number of shares and about 74 per cent of the total number of votes in the company.

The MD, Group management and the Board of Directors were present. The company's auditor was also present. The AGM re-elected Christer Villard as Chairman and the members Agneta Wallenstam, Anders Berntsson, Erik Åsbrink and Ulrica Jansson Messing. The AGM determined that a fee of SEK 1,200,000 (1,200,000) would be paid to the Board of Directors, of which SEK 600,000 (600,000) would be to the Chairman of the Board, SEK 225,000 (225,000) to the Deputy Chairman and SEK 125,000 (125,000) each to the other members. The AGM adopted the parent company's and consolidated annual accounts for 2012 and discharged the MD and Board of Directors from liability. A dividend of SEK 1.20 per share as proposed by the Board was also approved. The AGM also agreed on a new model for appointing nomination committee members, the election of Björn Grundvall from Ernst & Young AB as auditor and an increase in share capital through a bonus issue. Additionally, the AGM agreed on guidelines for remunerations to senior executives. The Board was also given continued authority to repurchase or transfer Wallenstam shares.

Minutes of the meeting and a presentation of the AGM are available at wallenstam.se/bolagsstyrning.

NOMINATION COMMITTEE

The nomination committee is charged with preparing and making proposals for the election of the Chairman and other members of the Board, the choice of auditor, the chairman of the AGM, matters concerning fees and associated affairs. The nomination committee is elected annually at the AGM for the period up until the end of the next AGM. A new principle for appointment to the nomination committee was adopted at the 2012 AGM. In principle this means that the nomination committee includes the Chairman of the Board and one or two individuals representing the company's major shareholders. These individuals will jointly appoint a third person as Chairman of the nomination committee. In the event that a member should resign prematurely the remaining members must appoint a new member according to the above principles and who is to remain a member until a new nomination committee is appointed.

Christer Villard, Hans Wallenstam and Dick Brenner (chairman) were re-elected as members of the nomination committee until the end of the next AGM. Lars-Åke Bokenberger was elected to the committee as a representative for AMF, one of the company's biggest shareholders.

As support for its proposals to the AGM the nomination com-

mittee performed an assessment of whether the current Board of Directors was suitably constituted for its purpose and fulfils the demands placed on the Board of Directors arising from the company's position and future direction. As the basis for this assessment the nomination committee studied among such things as the results of the evaluation of the Board's work and the Board Chairman's report concerning board work for the past year. The nomination committee convenes as necessary.

BOARD OF DIRECTORS

According to the Swedish Companies Act, the Board of Directors has overall responsibility for the Group's organization and administration, and otherwise to ensure that the control of accounting, management of funds and economic conditions in general are satisfactory. It is therefore the responsibility of the Board to ensure the availability of a functioning reporting system and that the Board receives the necessary information regarding the company's position, profit/loss, financing and liquidity through periodical reporting. In addition to its responsibility for the company's organization and administration the board's most important task is to take decisions on strategic issues. In general the Board handles issues of significant importance for the Group such as:

- the approval of strategic plans
- the approval of policies
- decisions on major acquisitions and sales of property
- decisions on major investments in construction and wind power
- the approval of business and profitability targets

Board composition

According to the articles of association, Wallenstam's Board must comprise at least four and no more than eight members with a maximum of an equivalent number of deputies. There are no regulations in the articles of association concerning the appointment of board members or about changes to the articles of association. The members are elected annually at the AGM for the period up until the end of the next AGM.

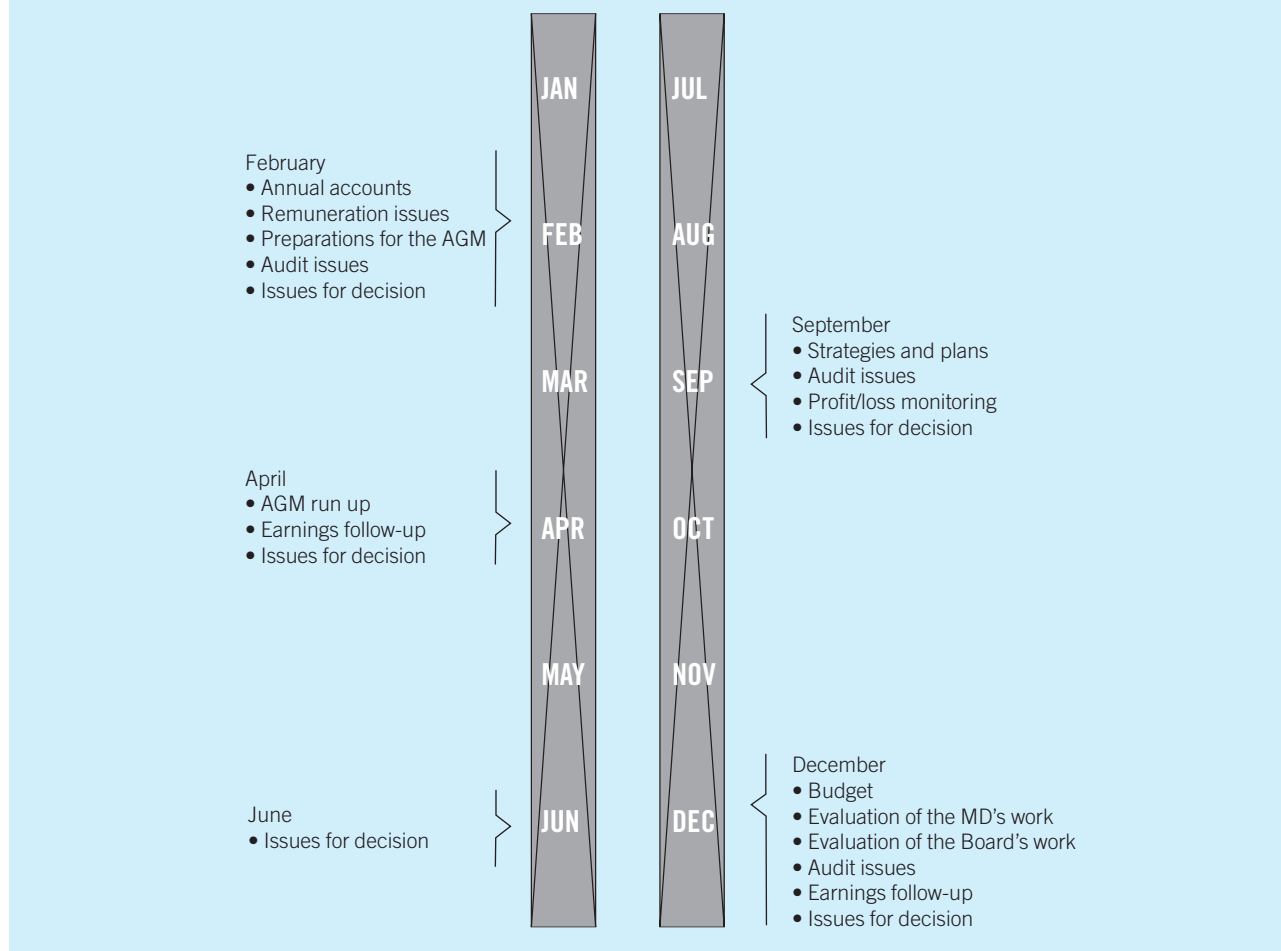
During 2012 Wallenstam's Board comprised five members elected at the AGM, and no deputies. Board members are presented on page 11 The MD does not sit on the Board. The Board elected its members on 25 April 2012 and elected Ulrica Jansson Messing as vice chairman until the next AGM.

The boards assignments

Name	Function	Elected	Committee	Atten- dance*	Indepen- dent**
Christer Villard	Chairman	1995	Com- pensa- tion	5	Yes
Ulrica Jansson Messing	Vice chair	2008	Com- pensa- tion	5	Yes
Anders Berntsson	Board mem- ber	1997		5	No
Erik Åsbrink	Board mem- ber	2000		4	Yes
Agneta Wallenstam	Board mem- ber	2010		5	No

THE BOARD'S ANNUAL PLANNING IN ADDITION TO THE ITEMS ABOVE

such as investment decisions, situation reports, projects in progress, administration, liquidity and financing.



* Of 5 meetings in total

** Independent means both independent in relation to the company, company management and to the company's major shareholders on the basis of the provisions of the Code.

The work of the Board

The work of the Board follows the rules of procedure set by it, which provides a framework for decisions regarding investments, financial reports and other matters for decision. The rules of procedure also govern the distribution of responsibilities between the Board of Directors and the MD. The rules of procedure are set annually at a statutory board meetings.

In the first instance it is the responsibility of the Chairman of the Board, and in the second that of the Deputy Chairman, to lead the Board's work in an efficient manner. The Chairman of the Board follows operations and is responsible for ensuring that other members receive the information necessary for board work to be carried out in accordance with Swedish Companies Act and the rules of procedure. In addition to leading the work of the Board the Chairman follows the Group's day-to-day development through continual contacts with the MD on strategic issues and represents the company on matters pertaining to its ownership structure.

During 2012 the Board held five minuted meetings in addition to day-to-day contacts. The Board constitutes a quorum if more than half of its members are present. The Chairman must ensure that the Board convenes whenever necessary, bearing in mind that Board meetings should be held regularly, usually four times per year. The following matters are considered at each of these meetings: the business situation, financial report, investment decisions and other matters of material importance for the company.

REMUNERATION COMMITTEE

Within the Board there is a committee that comprises the Board Chairman and Vice Chairman. The remunerations committee usually meets once a year or more often if necessary. The committee is tasked with preparing the Board's decisions on issues that involve remuneration principles, remunerations and other company management employment terms. In addition, the remunerations committee must monitor and evaluate the application of guidelines for remunerations to senior executives the AGM has to decide upon in accordance with the law, and current remuneration structures and levels within the company. Where appropriate the remunerations committee must monitor and evaluate ongoing programmes for variable remunerations for company management together with those concluded during the year.

AUDIT COMMITTEE

The Board of Directors discussed the establishment of an audit committee but chose not to establish one. Thereby the Board as a whole performs the tasks that are the duty of the audit committee in accordance with the Swedish Companies Act. In this way the Board's expertise can be put to use fully and board meetings are rendered more efficient. The Board's work with these issues does not replace the auditor's communications with the Board in overarching issues concerning audit work, audit observations or its view of the company's risks.

REMUNERATIONS TO THE MD AND GROUP MANAGEMENT

Guidelines for salaries, bonuses and other remunerations to senior company executives are decided by the AGM. The following guidelines were decided at the 2012 AGM:

- Senior management must be offered fixed salaries on prevailing market terms and which are based on the employee's area of responsibility and performance.
- Senior management must be offered pension benefits on prevailing market terms in the form of premium-based pension agreements.
- Senior management must be offered customary non-monetary benefits that among other things facilitate the performance of their work such as cars, mobile telephones and company health care. Additionally, benefits in the form of accommodation may also be offered in individual cases.
- In addition to fixed remuneration senior management may be offered variable remuneration that rewards clearly goal-oriented performance. Variable remunerations must seek to promote the long-term creation of value within the Group. Such variable remuneration must be paid in the form of salary and may not exceed the fixed remuneration for the position concerned for the period to which the remuneration pertains. Payments in respect of the above incentive program are not pensionable.
- Senior management may be offered incentives in the form of so-called synthetic options if such an offer is available to all personnel employed indefinitely in the company.
- A reciprocal period of notice of six months shall apply to senior management. Severance pay, including salary during the period of notice, should not exceed 24 monthly salary payments.

The Board retains the right to deviate from the guidelines if there are particular reasons for this in individual cases.

MD AND GROUP MANAGEMENT

Wallenstam's MD leads operations on the basis of instructions prepared and approved by the Board of Directors. The MD reports to the Board and is not a board member. It is the responsibility of the MD to prepare support documentation for Board meetings, present matters for discussion and to justify his proposals for actions and decisions. The MD also keeps the Chairman of the Board continuously informed of the development and financial positions of the company and the Group. Furthermore, the MD is responsible for the company's day-to-day administration and for ensuring that decisions taken by the Board are executed. An evaluation of the MD's work takes place regularly.

Wallenstam's MD Hans Wallenstam is the company's principal owner. It is a great advantage for Wallenstam to have an MD with a long term interest in the company. Apart from continuity,

it also means quick decisions, which has proved to be a competitive advantage on several occasions.

In his day-to-day work the MD leads Group management. Wallenstam's Group management is presented on page 10. Operations within the Wallenstam Group are run in three business areas; properties in the Gothenburg/Helsingborg region, properties in the Stockholm region and renewable energy through Wallenstam NaturEnergi. The MD and other members of Group management meet continuously in order to monitor developments and results in the business areas, update forecasts and plans, and to discuss strategic issues. Company management reports to the MD on a rolling monthly basis and also via quarterly in-depth reviews of the operations concerned. Investment reports are followed up on an ongoing basis.

EXTERNAL AUDITORS

Wallenstam's auditor is elected by the AGM. Björn Grundvall at Ernst & Young AB was elected auditor at the 2012 AGM with tenure until the close of the 2013 AGM.

The auditor examines the Board's and the MD's administration of the company and the quality of the company's accounting. The auditor reports the outcome of his examination to the shareholders through the audit report, which is presented at the AGM. Moreover, the auditor presents detailed statements to the Board several times per year. In addition to the audit, Ernst & Young AB carries out certain audit-related services for Wallenstam. These services refer chiefly to legal matters concerning accounting, tax and limited companies, and Wallenstam is of the opinion that the performance of these services does not jeopardize Ernst & Young AB's independence. Further information regarding remuneration to the auditors can be found in the Group's note 11.

INTERNAL CONTROLS IN RESPECT OF THE FINANCIAL STATEMENTS

The Board has overall responsibility for ensuring that Wallenstam has adequate internal controls. The system is set up through collaboration between the Board, Group management and company personnel. Wallenstam's system of internal controls seeks to ensure the achievement of the company's goals in the following areas:

- That the company has an efficient organization well suited for its purpose.
- That the company has reliable financial accounts.
- That the company complies with applicable legislation and enactments.

The company uses the established COSO framework (Internal Control – Integrated Framework) in its work.

Control environment

The control environment is the foundation for controls in respect of financial accounts. Wallenstam's control environment is based on a clear division and distribution of responsibilities and assignments between the Board and the MD, and also within the company's operational activities. The Board's rules of procedure and instructions for the MD seek to ensure such a distinct division of roles and responsibilities to benefit the effective management of operational risks. Policies adopted by the Board, such as those affecting finances, information and the company's ethical

rules are also important in the performance of work with internal controls. Group management reports regularly to the Board on the basis of established procedures. In addition, the auditor also reports to the Board on his examination of internal controls. There are also established guidelines for various managerial positions and other employees in order for them to understand and grasp their respective roles in the maintenance of good internal controls. All policy documents are accessible and have been made known to personnel concerned.

Risk assessment and control activities

Wallenstam's Group management carries out annual reviews and evaluations regarding the management of risks and accounting errors in financial reporting. Accordingly, the Board manages outcomes of this risk assessment and risk management process to ensure all significant areas are covered. The Board cross-checks risk evaluations with the company auditor and also decides on the direction, and where necessary actions, to be taken. Wallenstam's biggest risks have been identified in the following areas:

- Acquisitions and sales
- Valuation of properties
- Project
- Finance
- Taxes

Particular attention was paid to the design of controls that prevent and detect shortcomings in the above areas. Instructions, procedures and manuals are drawn up, updated and published to individuals concerned on an ongoing basis to ensure that their information is current. Employees undergo frequent training to ensure the necessary skills.

Information and communication

The communications policy adopted by the Board governs internal and external Wallenstam information alike. Company management is responsible for informing employees affected about their responsibilities for maintaining good internal controls. This takes place e.g. through regular information meetings in each respective business area. Employees are also kept informed via the Wallenstam intranet about adopted policies, guidelines, instructions and manuals.

The communications department is responsible for providing information externally. Work is carried out following the principle of current and correct information in accordance with the NASDAQ OMX Stockholm regulatory framework for issuers.

Follow-up

Group management continually evaluates internal controls. This takes place chiefly through internal analyses and by reviewing the finance department's work. The Board is then provided with quarterly reports detailing financial results including Group management's comments regarding operations and internal control. The Board's follow-up of the effectiveness of company management in this regard is therefore of particular importance for monitoring internal controls. Among other things, the work entails ensuring that action is taken concerning shortcomings and proposals for measures not only resulting from Group management reports but also from the management audit carried out by the company's auditor.

Internal audit

Wallenstam's Group management continually reviews procedures and documentation in respect of the internal control system. Nothing has occurred that indicates the control system will not work as intended. In the light of this the Board has decided not to set up any internal audit function. The decision will be reviewed annually.

NON-COMPLIANCE

During the financial year no breaches of regulations or etiquette at the stock exchange where Wallenstam's shares are traded have taken place according to resolutions by the exchange Disciplinary Committee or pronouncements by the Swedish Securities Council.

This report does not form part of the official annual report. The report was prepared in accordance with the Code, Swedish Companies Act and the Swedish Annual Accounts Act. This means that the report is limited to a description of how the internal controls are organized in respect of financial reporting.

Gothenburg, February 20, 2013



Christer Villard
Chairman of the Board



Anders Berntsson
Board member



Agneta Wallenstam Board member



Ulrica Jansson Messing
Vice Chairman



Erik Åsbrink
Board member

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

TO THE ANNUAL GENERAL MEETING OF WALLENSTAM AB (PUBL), CORPORATE ID NO. 556072-1523

It is the Board of Directors who is responsible for the corporate governance report for the year 2012 on pages 94-98 and that it has been prepared in accordance with the Swedish Annual Accounts Act.

I have read the corporate governance report and based on this and my knowledge of the company and the Group I believe that I have sufficient grounds for my opinion. This means that my statutory review has a different approach and is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden, RS, and other generally accepted auditing standards.

In my opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, February 22, 2013

Björn Grundvall
Authorized Public Accountant