

Financial instability leads to uncertainty and revised financial guidance for 2011

At an extraordinary board meeting held today, the Board of Directors of Sjælsø Gruppen discussed the potential short-term and long-term consequences for the property market and Sjælsø Gruppen of the financial instability. The Board of Directors of Sjælsø Gruppen resolved to take a number of measures in the anticipation of continued financial instability and uncertainty.

The financial guidance for 2011 is revised substantially as a consequence of the financial instability the renewed uncertainty in the property market and the measures resolved by the Board of Directors.

- Loss for H1 2011 of approx. DKK 116 million before write-downs and tax.
- After write-downs and provisions of DKK 691 million, Sjælsø is expected to report a loss before tax of approx. DKK 807 million for H1 2011.
- Equity thus amounted to approx. DKK 850 million at 30 June 2011, corresponding to approx. DKK 11 per share.
- Sjælsø now expects to report a full-year loss for 2011 of about DKK 200 million before write-downs and tax, against the previously announced expectation of a result of approx. DKK 0 for the year.
- Sjælsø's activities in Poland will be closed down. DKK 250 million was written down due to potential losses.
- Uncertainty about future activity levels, earnings and liquidity implies write-downs of DKK 441 million relating to projects in Denmark, receivables and goodwill.
- Sjælsø is concerned about the financial instability and the effects of the financial downturn in the property sector and hence the sale of projects in the short and medium term. The implications of the current instability are uncertain.
- The situation in the financial sector has caused a credit squeeze with difficult access to financing for project developers, property investors and home buyers alike.
- Ongoing refinancing of projects and loans, and a strengthening of liquidity, is crucial to Sjælsø.

CHANGED MARKET CONDITIONS RESULT IN UNCERTAINTY

Throughout 2010, Sjælsø saw a rising level of activity in the property market with an increase in property turnover and

renewed optimism. Progress was also reflected in new sales of projects: in 2010, Sjælsø concluded contracts for the sale of new projects worth more than DKK 1.3 billion.

This trend continued in early 2011 with good interest in new projects and a rising number of transactions in the market. The collapse of Amagerbanken was followed by a short period of uncertainty in the Danish property market, but the general optimism and expectations of financial growth persisted. The tendency towards growing investor interest persisted into the month of June and was reflected in, among other things, considerable foreign investor interest in investing in residential and other properties in Copenhagen. The continued population inflow witnessed in Copenhagen supported the expectation of continued positive growth in the housing market and a reasonable level of new project sales in 2011.

However, the Danish property market has persistently been weak due to, among other factors, the uncertainty in the financial sector, the risk of new bank collapses and, not least, the pressure on banks to reduce their exposure to the property sector. This has affected not just Sjælsø, but the property sector in general.

In addition, activities in the property sector have slowed down considerably during the summer, in step with the renewed international unrest due to the debt situation in southern Europe and in the United States. Investors have withdrawn from the market on a large scale, adopting a "wait and see" approach. At the same time, the market has come under pressure from banks, distressed investors and others looking to sell property.

The instability has escalated in August with the financial markets becoming shaky due to fears of mounting debt problems and the increased risk of weak growth and an economic downturn. Consequently, property buyers and the financial sector are showing signs of increased concern and restraint.

The previous periods of financial instability and economic downturn give cause for serious concerns that the slowdown of the economic recovery will be prolonged and will delay the recovery of the property markets to normal levels. Thus, there is a risk of renewed stagnation in the sale of new projects and resulting implications on earnings and the ability to free up liquidity tied up in projects.

Due to the weak economic prospects, there is a risk that commercial tenants will be more reluctant to establish new shops and office premises. Experience shows that it takes 6-12 months before a stabilisation of the general economic conditions will result in increased activity levels in the property sector.

Due to the risk of a new downturn in the economy, the financial sector and the property sector, in particular, the Board of Directors of Sjælsø today held an extraordinary meeting at which Sjælsø's expected performance in the near future was reassessed. It should be emphasised that any assessment of the long-term consequences of the current financial instability involves considerable uncertainty.

Both, the Board of Directors and the Management consider that Sjælsø has a sustainable business platform. Under the present unstable financial and market-related conditions it is essential that a completion of Sjælsø's projects is carried out in close cooperation with property investors and banks.

ACTIVITIES IN POLAND TO BE CLOSED DOWN

The Polish market continues to show signs of progress with increased demand for new projects. Up until now, investors have focused on existing properties with stable cash flows, but they are increasingly showing an interest in prime-location newbuild projects.

The capital requirements for investors in connection with completion of newbuild projects and investment in properties have generally become stricter. As a consequence of the general weakening of Sjælsø resulting from the financial crisis, it is not possible for Sjælsø to secure the completion of the projects in Poland on its own. Thus, for some time now, Sjælsø has been searching for partners for its Polish projects.

In connection with the renegotiation of Sjælsø's project financing in Poland, it was established that Sjælsø's lenders do not support the completion of the commercial projects by Sjælsø. Accordingly, the credit institutions have offered to extend the loans based on sales to be carried out at project level.

Consequently, because of the group's reduced financial strength and the renewed uncertainty about market trends going forward, Sjælsø is forced to focus on its activities in the Nordic countries. At the meeting held today, the Board of Directors of Sjælsø thus resolved to close down the group's activities in Poland, seeking a sale of the Polish projects at project level.

Since the projects are no longer expected to be completed, a significant loss should be expected when they are closed down. As a result, the Polish activities were written down by a total of DKK 250 million at 30 June 2011.

WEAKENED PROSPECTS FOR THE DANISH MARKET

Among Sjælsø's markets, the Danish property market has been hit the hardest by the recent year's financial crisis. The Danish market remains fragile and exposed to considerable risks in the form of renewed instability and restraint, and the financial sector continues to be heavily affected by the crisis and continually seeks to reduce the extent of loans to the property sector. Accordingly, it is generally very difficult for both project developers and property investors to obtain financing for property projects.

Sjælsø expects that the risk of a new economic downturn as well as the renewed financial instability will adversely affect conditions in the property sector in the short term and reduce the number of new projects during the remainder of 2011 and in 2012.

The risk of prolonged weak growth may cause companies to exercise more restraint in establishing new office facilities.

In the residential market, there is a risk that the renewed financial unrest and uncertainty relating to interest rate developments combined with the political uncertainty surrounding future property taxes will lead to reluctance in the market for owner-occupied housing. Demand for new housing in the major cities, however, remains stable due to a continued population inflow, leading to expectations of renewed strengthening of the rental market and the ensuing possibilities for building new residential rental properties targeted at capital-intensive investors.

The weak prospects for the Danish market entail a risk that part of Sjælsø's projects will be completed later than scheduled and at reduced earnings. As a result, Sjælsø's Danish projects were written down by DKK 171 million at 30 June 2011.

The expectations of lower future earnings also create a need for reassessing goodwill. The consequences of the financial instability in the longer term are difficult to assess, and goodwill impairment tests, therefore, currently involve greater uncertainty than usual.

Based on the expectation that the effects of the financial instability will be more pronounced in the Danish market, which is Sjælsø's principal market involving the most capital tied up in its pipeline etc., and based on impairment tests and sensitivity analyses of goodwill, goodwill was written down by DKK 170 million at 30 June 2011.

Impairment tests of goodwill relating to the other Nordic countries do not indicate any write-down of goodwill. Activities in the other Nordic countries are showing stable developments, and activities in Denmark West are also showing signs of significantly increasing activities and earnings.

It should be emphasised, however, that goodwill impairment tests currently are more uncertain than normally, since the long-term implications of the prevailing instability are difficult to assess.

WRITE-DOWN OF RECEIVABLE RELATING TO PREVIOUSLY SOLD PROJECTS

In 2007, Sjælsø sold a number of retail projects in Sweden, Norway and Finland for delivery on project completion in 2008 and 2009.

In connection with the delivery of the projects, the buyer encountered financing difficulties. In order to ensure delivery of the projects, and not having to resell the projects in a very difficult market in 2008, Sjælsø decided to co-finance the projects by converting part of the purchase price into loans. The possibilities of ensuring a controlled resale of the properties under more stable market conditions and hence repayment of the receivable to Sjælsø were thus improved.

With the prospects of a slowdown of activities in the near future and continued difficult access to refinancing assets, it has become increasingly important to Sjælsø that repayment of the receivable is wholly or partially commenced in order to release cash to finance the daily operations and new activities.

The need to accelerate repayment thus causes an increased risk that part of the receivable cannot be covered through a resale of the properties to which the receivable relates.

Accordingly, a write-down of DKK 100 million was made at 30 June 2011 on the receivable relating to previously sold properties.

EXTENSION OF CREDIT FACILITIES

In 2009, Sjælsø was able to stabilise the situation concerning the group's loans for a period until July 2011. Subsequently, in August 2010, more than half of the group's credit facilities were extended until 2014.

The remaining part of the financing with maturity in 2011 was extended during the past month through individual negotiations with the lending banks. With a few exceptions, the extension of loan facilities to enable the further development

of the projects in Sjælsø's pipeline received strong support. It is crucial to Sjælsø that credit facilities can be extended on an ongoing basis and that projects and other assets can be refinanced as the need arises; not least in a situation where there is a risk that the market may weaken further. Thus, the challenging conditions persisting in the financial sector are a cause for concern in relation to Sjælsø's potential for obtaining the necessary liquidity for the daily operations and refinancing of projects on an ongoing basis.

REVISED FINANCIAL GUIDANCE

On the basis of the above, Sjælsø expects to report a loss before tax for the first half of 2011 of approx. DKK 807 million, calculated as follows:

Expected loss before tax and write-downs	DKK 116 million
Write-downs relating to Polish activities	DKK 250 million
Write-downs relating to Danish projects	DKK 171 million
Write-down of goodwill	DKK 170 million
Write-down of receivables	<u>DKK 100 million</u>
Expected loss before tax for H1 2011	<u>DKK 807 million</u>

As a consequence of the expected reduced earnings for the coming years, deferred tax assets relating to Denmark and Poland were reversed at 30 June 2011 by DKK 77 million.

Accordingly, equity stood at approx. DKK 850 million at 30 June 2011, corresponding to approx. DKK 11 per share.

Available cash and cash equivalents amounted to approx. DKK 100 million at 30 June 2011.

The efforts to reduce the Sjælsø group's operating loss through continued reduction of capacity costs and costs relating to the project pipeline will continue.

Sjælsø now expects to report a full-year loss for 2011 of about DKK 200 million before write-downs and tax, against the previously announced expectation of a result of approx. DKK 0 for the year.

INTERIM REPORT

Sjælsø expects to publish its interim report for 2011 on Tuesday, 30 August 2011. The report will contain more detailed information about Sjælsø's financial results for the first half of 2011.

FOR FURTHER INFORMATION, PLEASE CONTACT

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