

RESIDENTIAL MARKETS IN THE MAJOR CITIES IMPROVING

MARKET SETTING

Population numbers and, with them, housing demand, are growing in Copenhagen, Aarhus and Stockholm, which are Sjælsø's high priority markets when it comes to residential projects.

The growing workforce also results in growing demand for corporate headquarters in Copenhagen and Aarhus.

Institutional and well-capitalised property companies, in particular, are exploiting the current market setting by making favourable transactions, now at increasing prices.

The challenges facing the financial sector and that sector's aim of reducing its exposure to the property sector make it more difficult for investors with limited equity resources to act in the current market. Private investors, however, appear to be returning to the market.

Sjælsø's cash resources continue to be at an unsatisfactorily low level as described in the Annual Report 2012. Sjælsø expects access to project financing to remain challenging for project developers, property investors and home buyers alike. Going forward, Sjælsø expects to finance most future new-build projects in direct collaboration with investors.

For further information about Sjælsø's assessment of the current market situation, see the extract of the Chairman's report from Sjælsø's Annual General Meeting overleaf.

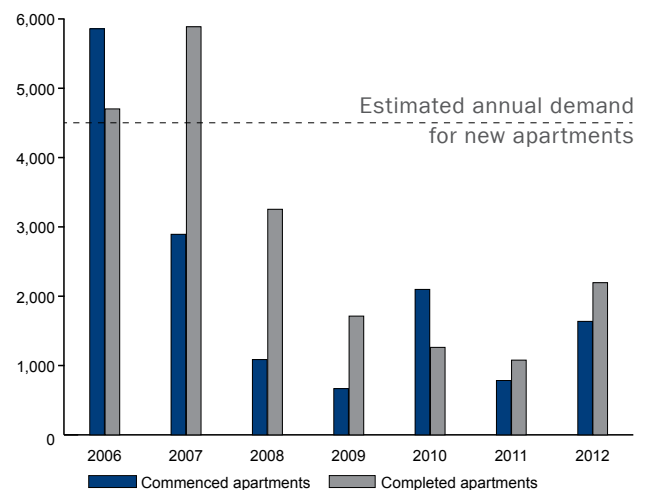
COPENHAGEN POPULATION AND WORKFORCE GROWING

There is a persistent need for building new residential properties in the major cities, especially in Copenhagen.

The population of the City of Copenhagen grew by some 12,000, or 2%, in 2012, against 9,500 in 2011, and it is expected to continue to grow by some 10,000 annually.

With about two persons per residential unit, some 5,000 new units are needed every year to accommodate the influx of new residents to Copenhagen.

Commenced/completed apartments, City of Copenhagen





This provides a healthy and stable basis for new residential construction in Copenhagen in the form of both rental and owner-occupied properties, as reflected in the rate of economic growth in the Capital Region of more than 5%.

The need for additional residential units caused the prices of apartments in the Capital Region to increase by 9.2% in the period from March 2012 to February 2013 according to statistical data from home, a Danish real estate agent chain. The number of residential units being constructed is still falling short of demand (see the above chart), and new projects are only commenced if reasonable margins can be expected.

In the Copenhagen market for corporate headquarters, the Ørestad district has a strong market position, but is now being challenged by the new Nordhavnen district currently being developed. Its proximity to the airport, the motorway grid and the metro train service give Ørestad a range of benefits, particularly to international businesses. The trend is still for businesses to move to the major cities.

AARHUS – A GROWING CITY

In 2012, the population of the City of Aarhus grew by 4,500, or 1.4%, and the trend witnessed in most countries of the major cities attracting the most population growth is also seen in Aarhus. The population of Aarhus is expected to grow by 3,500 annually over the next ten years, resulting in demand for about 1,700 new residential units per year. There are many examples of major businesses in Jutland moving their headquarters to Aarhus. Residential and office projects in the new development areas at Aarhus Havn are attracting particular investor interest.

STOCKHOLM – A METROPOLIS IN CONTINUED DEVELOPMENT

The Stockholm region has a population of 2.1 million, and it is growing by 30,000, or by 1.4%, every year resulting in continued demand for residential units. In Sweden, the population growth is expected to continue at the same rate. In recent years, Sjælsø has been involved in a number of major residential projects. These projects are expected to be completed over the next few years.

SALES OF PROJECTS

Investor demand is growing for newly constructed and let residential projects. In 2013, Sjælsø signed agreements for the sale of the residential rental properties at Solbærparken in Valby and Søborg Huse, both in Copenhagen.

A number of apartments and terraced houses in several of Sjælsø's current residential projects have also been sold.

Sjælsø is seeing growing demand, especially for prime-location residential rental property, and expects to close additional sales of this type of property in 2013. Demand in the retail and commercial property markets is also growing, and Sjælsø therefore expects the current market to offer letting and selling opportunities for such projects.

ANNUAL GENERAL MEETING

The Annual General Meeting of Sjælsø Gruppen A/S was held on 24 April 2013 at Hotel Scandic Eremitage in Lyngby, Copenhagen, with about 40 shareholders attending and just under 30% of the Company's capital represented.

EXTRACT FROM THE CHAIRMAN'S REPORT PRESENTED AT THE GENERAL MEETING

At the Annual General Meeting, the Chairman of the Board of Directors, John R. Frederiksen, reported on the Company's performance during the past year and the expectations for the future. Below is an extract of the Chairman's report:

The year 2012 was another poor year for Sjælsø. We reported a loss of DKK 495 million, heavily impacted by writedowns on goodwill, projects and receivables. Obviously, the Board of Directors considers the financial results for 2012 to be highly unsatisfactory.

In terms of principal items, the 2012 financial results consisted of a loss before writedowns and tax for continuing operations of DKK 144 million, writedowns on projects, receivables, joint ventures and a tax asset of DKK 114 million, a writedown of goodwill of DKK 120 million and a loss on discontinuing operations (primarily in Poland) of DKK 117 million. Several years of operating losses and major writedowns have reduced equity to DKK 205 million, equal to DKK 3 per share. The assessment of our equity should, of course, take into account that the carrying amount of goodwill is DKK 245 million.

As a result, our equity ratio is now at a very low level, and we are therefore working towards a long-term financial solution that includes debt conversion.

In 2012, we saw a strong increase in interest in residential properties from Danish institutional investors, international associations and property companies alike. This trend was to a great extent driven by population growth in the Danish capital region and in Aarhus, resulting in growing demand for attractive, newly constructed apartments.

Access to financing remains very limited, even to well-capitalised investors. However, access to mortgage financing has recently eased for completed residential projects being let.

We assess that project sales to individual buyers of new projects and the related construction financing will be very limited in the coming year because banks remain very reluctant to provide loans to the property sector.

In the summer of 2012, as a result of the continued focus on Sjælsø's principal market in Denmark, we sold our operations in Norway to a local player.

Sjælsø will focus its financial resources on completing the projects in its home market and in a few markets of the other Nordic countries.



Notwithstanding the decision made in 2011 to close down our operations in Poland, we have yet to find investors for our Polish projects. Furthermore, the situation in the international lending markets has made it difficult for prospective investors to raise the necessary capital for buying the land and to obtain construction financing to complete the projects. As a consequence, the process to sell the Polish projects is still ongoing.

Sjælsø remains highly focused on adjusting capacity to the current level of activity. As a result, capacity costs were reduced by an additional 20% in 2012.

In making these adjustments, Sjælsø remained highly focused on the importance of having the right expertise to operate in the property market of the future.

The renewed interest among institutional and private investors to invest in property projects led to growing sales in 2012, and we signed new sales agreements worth about DKK 1.8 billion.

However, our earnings margins came under pressure. In particular the projects at Margretheholm and Teglhølm in Copenhagen were sold at very low margins.

Consequently, and all other things being equal, our earnings margin for 2012 was not satisfactory. The agreements do, however, hold the potential of generating better margins in 2014 and 2015 on major residential projects - depending, of course, on rent levels and selling prices in the housing market by that time.

The reduced earnings margin was a result of various factors, including our focus – for obvious reasons - on selling projects in our pipeline in order to reduce our land portfolio, our debt liabilities and running costs.

The general expectation of an extended period of relatively low interest rates makes investing in real property attractive compared with many other asset classes; especially when considering the stable returns and the inflation protection.

Sjælsø expects investor interest in prime-location rental property to stay strong going forward and that Sjælsø's business platform will be able to turn a profit.

The biggest challenge currently faced by Sjælsø and the rest of the property sector is the difficult access to financing caused by the generally weakened financial sector whose main focus has for a long time been, and continues to be, bringing down the volume of lending, especially for real property.

The weakening of the financial sector not only affects Sjælsø. It also affects some of our prospective customers who are unable to obtain the required financing, which is, of course, a prerequisite for investing.

Consequently, we are dedicated to consistently ensuring the optimum financing structure given the current market conditions. In 2012 and in early 2013, we renegotiated most of our financing, resulting in an extension of loans, strengthening of our liquidity and access to new loans.

At the end of the first quarter of 2013, only 4% of Sjælsø's financing was scheduled for renegotiation in 2013, and we expect to repay loans relating to sold projects in progress and awaiting completion and settlement.

We appreciate the support we continue to receive from our group of bankers, and we will, of course, continue to be highly committed to a positive and open dialogue with our bankers.

Because we only sold a very limited number of new projects in 2010–2011, the level of cash released from newly constructed projects in 2012 and 2013 was also very limited.

As a result, Sjælsø's cash resources are at a weak and unsatisfactory level, and a sale of the property portfolio in PGSI (formerly Property Group) is essential to Sjælsø's liquidity, since the settlement in 2013 of the receivable from that portfolio is very important to Sjælsø's cash position.

Moreover, it is vital for us that we can continue to extend our bank loans and have access to financing and liquidity.

Going forward, we expect the challenges in the financial sector to continue to leave a mark on the property sector. Due to stricter capital requirements for banks and the continued aim of reducing exposure to the property sector, financing of new projects will remain a major challenge in the years ahead.

All players, and developers in particular, should expect increasing demands for equity financing in projects and a growing need for close collaboration between developers and well-capitalised investors on the completion of projects. This is precisely the model we used in the sale of the Margretheholm and Teglhølm projects.

We still believe that the developer sector is facing a transition in which project developers will carry a smaller proportion of the financing on the completion of property projects and increasingly be rewarded for the special capabilities that project developers, and Sjælsø not least, hold in the area of developing and completing complex development projects. An example is the initiation of phase 2 of Copenhagen Towers in which Sjælsø makes its skills as a consultant available to the employer, charging a fee for its services. The project also contains built-in bonus targets for Sjælsø and without our Company having to tie up any capital.

We are still committed to reducing capital tied up in projects, and we reduced our debt by some DKK 400 million by settling sold projects in 2012. We expect to continue to reduce our debt significantly in 2013 in connection with selling and settling projects.



We believe that 2013 will be a better year than 2012 was. We are still seeing growing interest in the Danish property market from both institutional and major international investors, and we expect to see a significant increase in transactions involving international players.

The other Nordic markets are also seeing growing optimism and renewed focus on property investments.

We have a number of advanced-stage projects, and we are currently negotiating the sale of several projects. Demand in the market for owner-occupied property continues to be relatively weak. However, our owner-occupied properties are selling on a regular basis; primarily terraced housing projects that allow for a quick transfer of ownership. We expect this trend to continue in 2013.

Due to the events of recent years, with positive trends suddenly reversing due to external factors, we will be cautious of providing a specific financial guidance for 2013 for the time being. However, as previously mentioned, we are seeing progress in the market, which is supported by several ongoing negotiations.

A conversion of our land portfolio in the Nordic countries, worth about DKK 1.2 billion, into new profitable residential and commercial properties that can be sold to investors is crucial for Sjælsø's success in 2013 and onwards. Only through the successful development of our land portfolio will we be able to reduce our debt and running costs. It goes without saying that this is a great priority for our Management Board and Board of Directors.

We will of course remain committed to optimising operations and will be strongly committed to finding new solutions for our projects.

Maintaining a strong and recognised brand is very important to us. We believe that investors continue to perceive us as a competent business with skilled and reliable employees. That is, after all, a key prerequisite for selling our products.

ELECTION OF BOARD MEMBERS AND APPOINTMENT OF AUDITORS

All members of the Company's Board of Directors were up for election, and all members offered themselves for re-election. There were no other candidates for the Board of Directors, and all members were re-elected.

The Company's auditors, Deloitte, Statsautoriseret Revisionspartnerselskab and AP Statsautoriserede Revisorer P/S, were also up for re-appointment. Deloitte was re-appointed, and AP Statsautoriserede Revisorer P/S resigned as auditors due to the rotation scheme under section 25 of the Danish Financial Statements Act.

FINANCIAL CALENDAR

Interim report for 2013 27 August 2013
Quarterly Update - third quarter of 2013 31 October 2013

GUIDANCE UNCHANGED

Sjælsø continues to expect its results from continuing operations before tax and any writedowns for 2013 to improve on the loss before tax and write-downs reported for 2012.

FOR FURTHER INFORMATION, PLEASE CONTACT

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