

**PRESS RELEASE****2017 10 25****STRONG FINANCIAL POSITION AND BA1-RATING**

THE REPORT IN BRIEF

**Interim period in brief**

- Profit from property management was SEK 742 (755) million. The decrease is attributable to loss of operating net of SEK 75 million from vacated properties. This has to a large extent been compensated by an improved financial net, additional operating net from accessed properties and improvements in the like-for-like property portfolio.
- Gross leasing increased to SEK 153 million (149) and net leasing to SEK 61 million (49).
- Unrealised changes in value in the property portfolio amounted to SEK 1,034 (1,183) million, mainly attributable to improved operating net.
- Net profit (loss) for the period increased to SEK 1,423 (1,169) million, which is equal to SEK 6.82 (6.26) per share.

**Important events during and after the third quarter**

- Kungsleden received an official credit rating. Moody's gave Kungsleden a credit rating of Ba1 with "Positive Outlook".
- Kungsleden established a Medium Term Note bond program of SEK 5 billion for the issuance of senior unsecured bonds in the capital markets. The first issue of SEK 1.35 billion was completed in early October.
- In the third quarter, Kungsleden entered into an agreement to outsource financial administration services with a planned implementation by year end 2017. Related restructuring costs affected the results for quarter with SEK 11 million.

**CEO Biljana Pehrsson comments**

*Kungsleden has in recent years had a pronounced ambition to create long-term financial stability, an attractive and geographically concentrated property portfolio and an efficient customer-focused organization. At the end of the third quarter, we received new fine confirmation that we are well on track when the rating agency Moody's gave Kungsleden the credit rating Ba1 with "Positive Outlook".*

**The LTV ratio decreased from 70 to 50 per cent**

Creating financial stability is a priority in our business plan for 2020. Since 2012, we have decreased the Loan-to-Value (LTV) ratio from 70 to 50 per cent and extended the average debt maturity from 2 to 4 years. At the same time, the average cost of debt has come down from nearly 7 to 2.4 per cent.

The Ba1 rating that we received from Moody's during the quarter is evidence that Kungsleden today is a company with quality assets and a strong financial position.

According to the Moody's statement, Kungsleden's rating may be upgraded to an Investment Grade rating provided that the Loan-to-Value ratio in the long run does not exceed 50 per cent and that the ratio of secured borrowings is reduced.

The improved financial position and the new rating will allow Kungsleden to increase the share of capital market financing through the issuance of bonds without having to pledge security. Through this, we can diversify our borrowings further and reduce our reliance on traditional secured bank borrowings. During the quarter, we have established an MTN program which significantly improves our access to the capital markets. The financial pre-conditions for implementing our investment program and make selective acquisitions of strategic properties is good.

### **The property holdings – modern offices in growth markets**

During the third quarter, we finalized the process of selling properties which do not fit Kungsleden's strategy, when the last non-strategic properties were vacated. Since 2012, we have in total divested and acquired properties for more than SEK 20 billion. We have achieved a geographical concentration in accordance with our business plan for 2020. More than 80 per cent of our property holdings are located in the four priority growth markets: Stockholm, Gothenburg, Malmö and Västerås. The holdings in Stockholm account for close to half the value of the total property portfolio.

The property book value has increased since 2012, from SEK 6,500 per square meter to SEK 13,800 and the average rental income from SEK 845 to SEK 1,233 per square meter.

### **Efficient organisation and lower costs**

Our vision is to create attractive places that enrich people's working day. Over the last four years, we have created a strong property management organisation which operates locally and close to our customers.

We have also formed a highly qualified project development team which adds value to our properties and thus contributes to improved operating net and value uplifts. In order to achieve higher efficiency in our financial administration operations and at the same time reduce cost, we have decided to outsource corporate accounting, the management of customer and supplier ledgers and payroll administration from year-end 2017.

Additional initiatives are under way to further streamline administration processes. The annual cost for Kungsleden's staff and administration is estimated to drop to approximately SEK 200 million by 2019 thanks to these actions. This is to be compared to the current level of SEK 235 million (per rolling 12 months).

### **Harvest time in sight**

We have, over the last four years, worked with determination to become a long-term and customer-oriented real estate company with high quality properties concentrated in growth markets. All the steps taken during these years have been in that direction, and I am extremely pleased that we now have finalized the transformation. We have grinned and plowed, found effective ways to work and planted all the seeds that will allow us to harvest.

The demand for premises in our properties is still very good and we benefit from both the strong urbanization trend and the overall growth of the Swedish economy. We have

the right properties located in the right places and this, in combination with a strong financial position, gives us the right prerequisites to implement our value-creating investment program and thus increase rental revenue and operating net.

The concerns I have about the future have to do with how the market may react as a consequence of the proposals for new tax legislation and that the emerging issues on the Swedish housing market may spread and affect the market for commercial properties. We monitor the market developments carefully and we are well prepared for different market scenarios. All forecasts for the Swedish economy are still showing good GDP growth also for 2018 and not until 2019 is growth expected to be less than 2 per cent. Based on the conditions and information that we have today, Kungsleden's profit from property management should reach SEK 1,200 million in 2020, which is an increase by more than 20 per cent compared to the expected profit for 2017.

**For more information, please contact**

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Kungsleden is a long-term property-owner that provides attractive, functional premises that enrich people's working days. We create value by owning, managing and developing offices and other commercial properties in Stockholm and Sweden's other growth regions. A large portion of our properties belong to attractively located clusters where we also engage in the development of the whole area. Kungsleden's goal is to deliver an attractive total return on our properties and for our shareholders. Kungsleden is listed on NASDAQ Nordic Large Cap.

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